



## Education Report: **Approval to exceed the Borrowing Threshold - Takapuna Grammar School and Waterview School Boards of Trustees**

<b>To:</b>	Hon Chris Hipkins, Minister of Education Hon Grant Robertson, Minister of Finance		
<b>Date:</b>	31 July 2020	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1235779
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	Yes

### Purpose of Report

The purpose of this paper is for the Minister of Education and Minister of Finance to:

**Grant** approval under Section 160(1)(b) of the Crown Entities Act 2004 for Takapuna Grammar School and Waterview School Boards of Trustees (the Boards) to enter into contracts for finance leases for Information and Communication Technology (ICT) equipment with total debt servicing commitments that exceed the 10% borrowing threshold allowed.

### Summary

- 1 Regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 limits School Boards of Trustees' authority to borrow by requiring that annual repayments (including both principal and interest repayments) are less than or equal to 10% of their annual operations grants.
- 2 Under section 160(1)(b) of the Crown Entities Act 2004, the Ministers of Education and Finance may jointly approve borrowing by individual Boards of Trustees that exceeds the limits set by this regulation.
- 3 The Boards have applied to seek approval to enter into finance lease contracts for ICT equipment with a total debt servicing commitment that exceeds the 10% borrowing threshold.

- 4 The following table shows the proposed annual percentage of total debt servicing commitments against the Boards operations grant;

School	Annual Repayments	Percentage of annual operations grant
Takapuna Grammar School	\$302,339	11.5%
Waterview School	\$49,166	10.2%

- 5 The Boards are adopting a digital curriculum and require appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 6 Forecasts show that both Boards will be able to meet their loan obligations with sustained positive working capital balances without putting student achievement at risk.
- 7 Ministry of Education and Treasury officials agree that, for these two schools, increased debt servicing will have no material impact on the financial performance or position of these schools, and that finance leases are the most cost effective means of acquiring ICT.
- 8 The Boards are in strong financial position with adequate cash reserves to support the additional debt repayments.

### Recommended Actions

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The Ministry of Education recommends you:

- a. **note** that Regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 limits School Boards of Trustees' authority to borrow by requiring that annual repayments (including both principal and interest repayments) are less than or equal to 10% of their annual operations grants;

**Noted**

- b. **note** that under section 160(1)(b) of the Crown Entities Act 2004, the Ministers of Education and Finance may jointly approve borrowing by individual Boards of Trustees that exceeds the limits set by this regulation;

**Noted**

- c. **note** that the Boards of Takapuna Grammar School and Waterview School are seeking joint ministerial approval to enter into contracts for finance leases for ICT equipment with total debt servicing commitments that exceed the 10% borrowing threshold allowed;

**Noted**

- d. **note** that if you approve the Boards entering into debt servicing obligations, they will be subject to the condition that the total cost of repaying all outstanding debt (principal and interest) in any year during the term of this approval does not exceed 12% of the Board's annual operations grant for that year, inclusive of the 10% restriction specified in regulation 12(1) of the Crown Entities (Financial Powers);

**Noted**

- e. **approve** Takapuna Grammar School Board of Trustees entering into debt servicing obligations of up to \$315,000 per year (including both principle and interest) until 31 December 2021 under section 160(1)(b) of the Crown Entities Act;

**Approve/Not approve**

- f. **approve** Waterview School Board of Trustees entering into debt servicing obligations of up to \$50,000 per year (including both principle and interest) until 31 December 2020 under section 160(1)(b) of the Crown Entities Act;

**Approve/Not approve**

- g. **note** that in preparing this report, the Ministry of Education has consulted with The Treasury, and The Treasury concurs with the actions recommended above;

**Noted**

- h. **note** that following Ministers' approval of recommendations (e) and (f), the Secretary to The Treasury will notify this approval in the *Gazette* as required by section 160(3) of the Crown Entities Act 2004, in terms of the delegation given by the Minister of Finance on 21 June 2006; and

**Noted**

- i. **agree** that this Education Report is proactively released as part of the Ministry's next publication.

**Agree/Disagree**

  
Katrina Casey  
Deputy Secretary  
Sector Enablement and Support

31/7/2020

  
Hon Chris Hipkins  
Minister of Education

12/9/2020

  
Hon Grant Robertson  
Minister of Finance

20/09/2020



## Power to approve borrowing

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### Power to approve borrowing above 10% restriction

1. Schedule 6 Section 29 of the Education Act 1989 makes School Boards of Trustees subject to sections 160 and 162 of the Crown Entities Act 2004 with reference to restrictions on borrowing. In terms of section 160(1)(a) of the Crown Entities Act 2004, regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 authorises a school board of trustees to:

*“in any calendar year, borrow any amount it thinks fit from any source it thinks fit provided that the total annual cost to the board of trustees in repaying all outstanding debt (including both principal and interest repayments) is equal to or less than one-tenth of the value of the grants determined by the Minister of Education to be paid to the board for operational activities for that year<sup>1</sup>”.*

2. Regulation 12(2) provides for additional borrowing with the consent of the Ministers of Education and Finance under section 160(1)(b) of the Crown Entities Act 2004<sup>2</sup>.

## Applications from Takapuna Grammar School and Waterview School

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### Takapuna Grammar School

3. Takapuna Grammar School is a decile 10, large state secondary school located on the North Shore of Auckland. The school has 1,814 learners as per the March 2020 roll return.
4. The Board has decided as part of their strategic plan to enter into a number of finance lease agreements to support the school's goals:
  - a. to unify the approach to professional learning and how to use technology in classrooms,
  - b. to boost technology use and innovation in classes,
  - c. to participate in Community of Learning,
  - d. to build links with parents and
  - e. to improve communication and connection between all sectors within the school community.
5. The Board believes the increase to its maximum allowable annual repayments on debt will have a negligible impact on its finances and is in the best interests of the school and its students.
6. The Board believe that the additional teacher laptops and photocopiers leases are necessary to their digital platform, and that the cost to the school will be considerable if it had to break the current lease arrangements in place.
7. This decision placed the School in breach of Schedule 6 Section 29 of the Education Act 1989, for the 2019 financial year as the 10.0% borrowing threshold was exceeded. The lease arrangements have meant that the school's annual borrowing repayments for 2019 amount to 11.5% of their operations grant entitlement.

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<sup>1</sup> Operational funding is the money a board of trustees receives from the government for the general running costs of the school. It does not include the salaries of teachers, property, large capital items, or contestable funds.

<sup>2</sup> Replicated in Schedule 6 Section 29 of the Education Act 1989.

8. The Board is in a strong financial position and is not considered to be at financial risk. *Refer to Annex 1 for details of the school's financial situation.*

#### **Waterview School**

9. Waterview School is a decile 3 urban primary school. It is located in Waterview, Auckland (Central), with 311 learners as per the March 2020 roll return.
10. The school has currently entered into a number of finance lease agreements for ipads and chromebooks, due to the school's educational focus on delivering core skills in information technology.
11. Prior to 2016, these leases were categorised as operating lease, and would not have been included as part of the school's borrowing calculations.
12. At the end of Term 4, 2018 the finance lease on several of the aforementioned ipads expired, and the Board chose to roll the agreement rather than enter into a new lease agreement. This decision was based on a desire to synchronize all three of the lease agreements which were due to expire at the end of the 2020 financial year.
13. This decision placed the School in breach of Schedule 6 Section 29 of the Education Act 1989, for the 2018 financial year as the 10% borrowing threshold was exceeded. The lease arrangements have meant that the school's annual borrowing repayments for 2019 amount to 10.20% of their operations grant entitlement.
14. The school will remain in breach until new lease arrangements are entered into at the start of the 2021 financial year.
15. The Board is in a strong financial position and is not considered to be at financial risk. *Refer to Annex 1 for details on the school's financial situation.*

#### **Boards are financially strong**

16. Ministry of Education officials agree that, for the Boards, increased debt servicing will have no material impact on the financial performance or position of these schools and that finance leases are the most cost effective means of acquiring ICT.
17. The Boards are in a strong financial position with adequate cash reserves to support the additional debt repayments.

#### **Proactive Release**

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18. It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

#### **Annexes**

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- Annex 1: Financial Commentary for Takapuna Grammar School and Waterview School



## Annex 1: Financial Commentary for Takapuna Grammar School and Waterview School

### Takapuna Grammar School

- As at the March 2020 roll return, Takapuna Grammar School had 1,814 learners. This has increased from 1,648 learners in 2014, a roll increase of 9.2% over the last 5 years. The roll represents a low risk to the school as operational funding levels are increasing.
- Key financial indicators are displayed in the table below:

	2017	2018	2019
Operating Surplus	\$947,355	\$844,478	\$654,992
Working Capital	\$1,851,385	\$2,269,123	\$2,670,622
Net Assets	\$4,752,985	\$5,661,887	\$6,316,879

- Takapuna Grammar School operated at a surplus of \$654,992 for the 2019 financial year, and showed a positive working capital of \$2,670,622. The school has consistently operated at a surplus for the last five years, enabling the Board to build their available cash to \$2,368,100.
- During the 2019 financial year, Takapuna Grammar School made the following annual debt repayments:

	2019	2020 (forecast)
Total debt servicing	\$302,339	\$343,547
Operational funding	\$2,627,736	\$3,360,148
Debt serving as % of	11.5%	10.03%

- The Board has prepared a three year forecast (2020-2022). One of the key assumptions in this forecast is that income and operations grants will not vary significantly from past trends.

Indicators	2020 (budget)	2021 (projected)	2022 (projected)	2023 (projected)
Revenue	\$9,142,789	\$9,325,645	\$9,512,158	\$9,702,401
Expenditure	\$8,491,129	\$8,672,557	\$8,858,560	\$9,049,259
Surplus (Deficit)	\$651,661	\$653,089	\$653,598	\$653,142
Working Capital	\$3,322,283	\$3,975,371	\$4,628,969	\$5,282,111
Total Net Assets	\$6,968,541	\$7,621,629	\$8,275,227	\$8,929,369

6. The Board has sufficient working capital and cash reserves to fund their loan obligations whilst maintaining a positive working capital balance, continuing to meet their current financial obligations, and without putting student achievement at risk.

### Waterview School

7. As at the March 2020 roll return, Waterview School had 311 learners. This has increased from 165 learners in 2014, a roll increase of 188% over the last 5 years. The roll represents a low risk to the school as operational funding levels are increasing.
8. Key financial indicators are displayed in the table below:

	2017	2018	2019
Operating Surplus	(\$88,401)	\$717,765	(\$86,655)
Working Capital	\$385,820	\$973,176	\$929,551
Net Assets	\$718,533	\$1,436,296	\$1364,570

9. Waterview School operated at a deficit of \$86,655 for the 2019 financial year, and showed a positive working capital of \$929,551. The deficit was planned for the 2019 financial year due to a property project that the school undertook. The project provided a swimming pool for the school and was funded by community grants that were awarded to the school over a number of years for this express purpose.
10. The school has operated at a surplus for three of the last five years, enabling the Board to build their available cash to \$866,975. The school is in a strong financial position and is not considered to be at financial risk.
11. As at 31 December 2018, the school's annual financial lease repayments amounted to 13.0% of the school's annual operations grant, and therefore breached clause 29, schedule 6 of the Education Act 1989. This application is for the 2019 and 2020 financial year at the conclusion of which the current lease contracts expire.
12. During the 2019 financial year, Waterview School made the following annual debt repayments:

	2019
Total debt servicing	\$49,166
Operational funding	\$483,956
Debt serving as % of operational	10.2%

13. The Board has prepared a three year forecast (2020-2022). One of the key assumptions in this forecast is that income, operations grants, and local funds will not vary significantly from past trends.

Indicators	2020 (budget)	2021 (projected)	2022 (projected)	2023 (projected)
Revenue	\$691,608	\$705,440	\$719,549	\$733,940
Expenditure	\$659,865	\$706,513	\$717,767	\$761,036
Surplus (Deficit)	\$31,743	(\$1,072)	\$1,781	(\$27,096)
Working Capital	\$1,368,518	\$1,367,446	\$1,369,227	\$1,342,131
Total Net Assets	\$1,803,537	\$1,802,465	\$1,804,246	\$1,777,150

14. The Board has sufficient working capital and cash reserves to fund their loan obligations whilst maintaining a positive working capital balance, continuing to meet their current financial obligations and without putting student achievement at risk. The projected deficit in 2023 is due to planned property maintenance which includes interior and exterior repaint of an existing block of classrooms.