

# **INFORMED PERSON REPORT**

# 1 - INFORMED PERSON REPORT – PIP

- Written by Anthony Moore (SH New Parent) following 2<sup>nd</sup> PMSA Principal issue and SH data theft.
- Issued to Moderator's on 27 Nov 17 – other parties when requested
- Basis – “Don't get mad – get informed”
- Robust data/methodology based on PMSA's own public information / industry data
- Identifies the PMSA information that so many people seem to be asking for.
- 8 Key issues identified
  - (1) Education business or Religious Business?
  - (2) No Money No Mission – what happens when money starts drying up?
  - (3) CC issues spread throughout PMSA in 2015, 2016 and 2017.
  - (4) Repeating the past– what the future holds
  - (5) Breadth and Depth of the PMSA self created issues.
  - (6) Property Matters
  - (7) Attempted attachments
  - (8) Non public records - the Business Managers up to PMSA Council.

## 1.1 - Who should be an informed person?

- Church Moderator's - its their "mission" delegated too PMSA
- PMSA – its their business.
- School Councils – its their schools.
- Councillors – need to be informed to do job.
- Principal's – the CEO of each business unit.
- Auditor's – independently check the business
- School Business Managers – they have the task to obtain, report and interpret information
- Consultants – need the information to complete tasks successfully.
- Financiers and other lenders – understand the business for security over loans etc.
- Parents (existing/prospective) – purchase the products and services
- Church members – the PMSA does it in their name

## 2 – THE PMSA BUSINESS

### Public Information

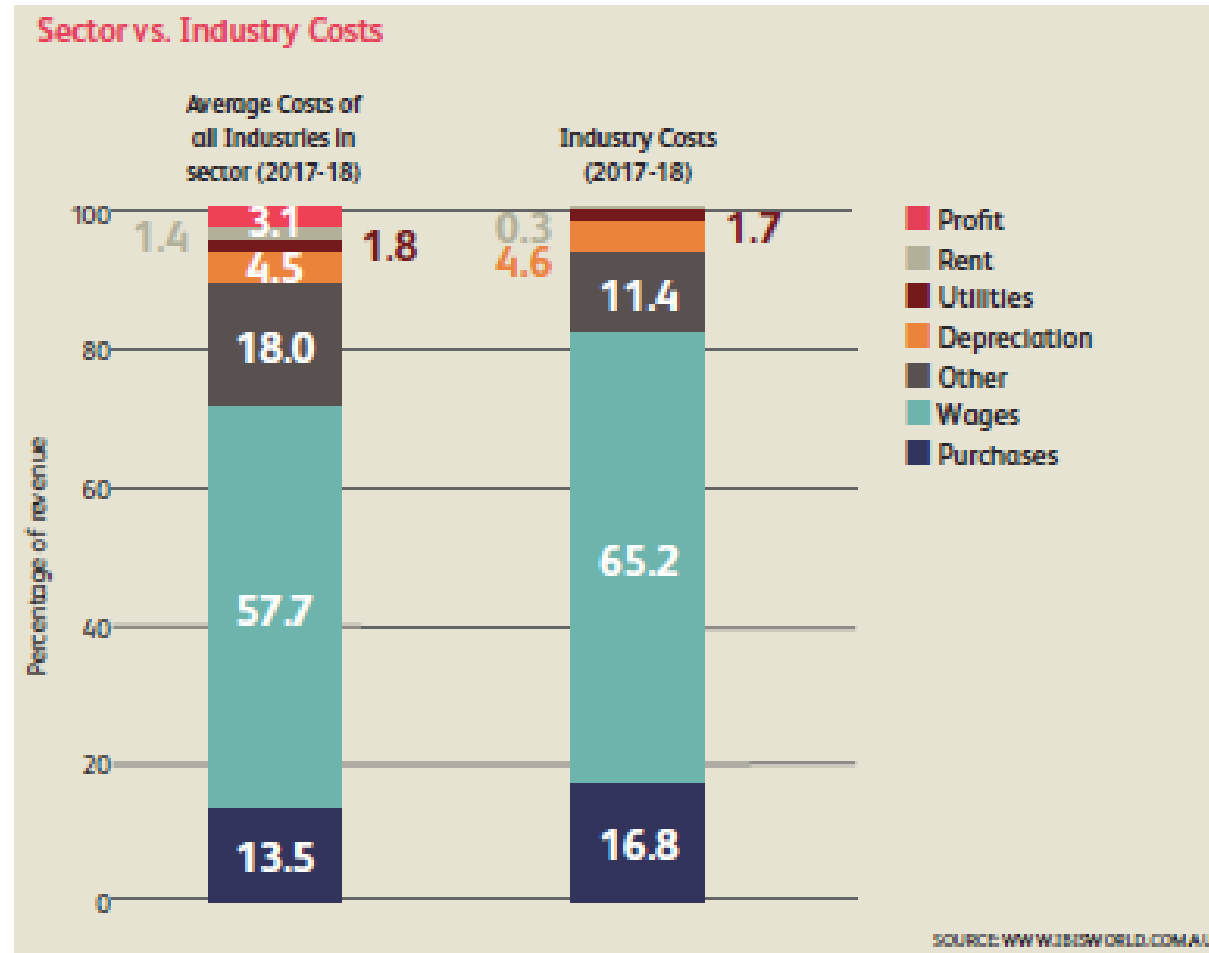
- \$120.880M Income from services
- **76% Tuition fees and levies**” being \$91.460M or of service income.
  
- Total assets of \$475.403M
- **95% “Property, plant and equipment”**. (\$434.290M of \$455.441M non current assets)

*“PMSA 2016 Signed Annual Report”*

- No direct cost information supplied in public documents
- \$5.3M (2015) & \$6.4M (2014) in “other” revenue

## 2 – THE PMSA BUSINESS

### Public Information – Revenue & Cost relationship



(Source: Page 21 - IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017)

## 2 – THE PMSA BUSINESS

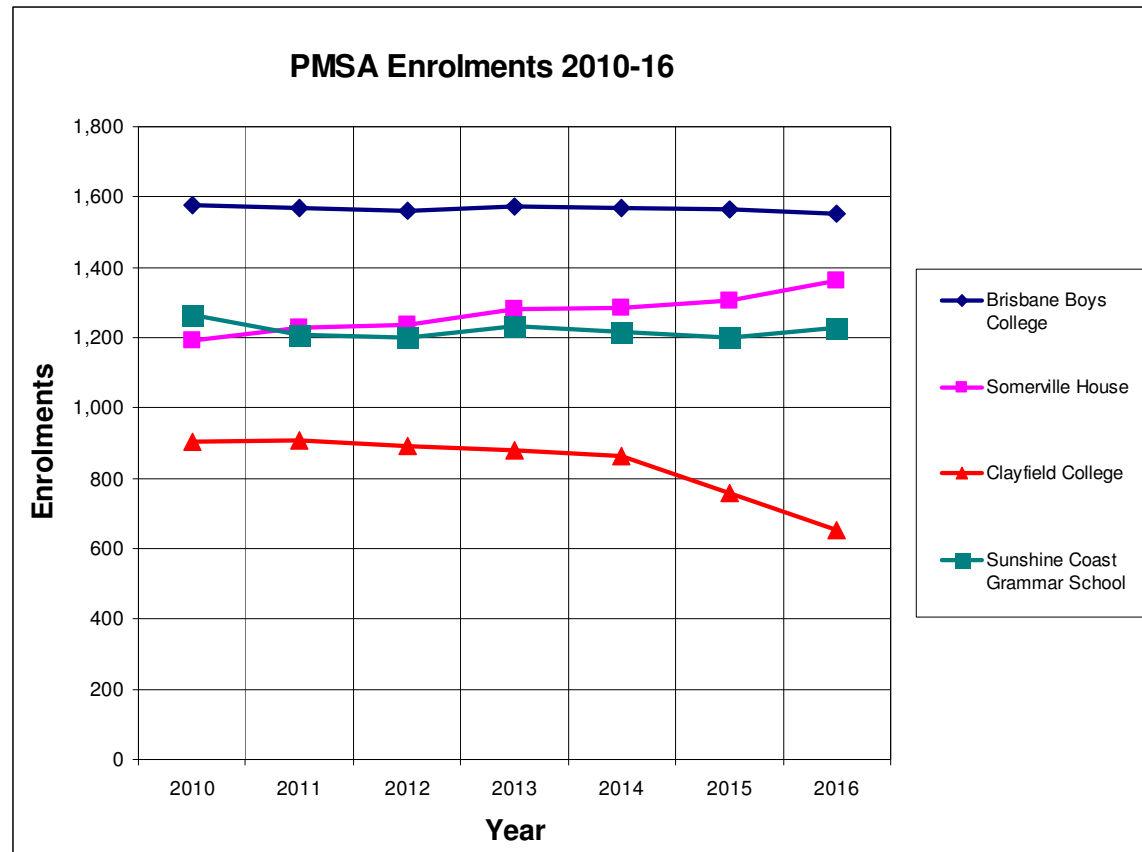
### Points to Note

- Enrolments drive PMSA Revenue - 76% of revenue
- Wages drive PMSA Costs - Approx 60% of revenue
- Low industry profitability % – critical to manage both enrolments and wages together.
- Cash flow critical – PMSA documents show inability to access property assets quickly. (Similar to risk carried by a property developer)
- Low profitability reflects low business risk – name a business that has:
  - Long term customer planning
  - Provide services over long term
  - Low churn / switching to competitors
  - Ability to control / increase fees.

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Revenue – the numbers

PMSA Enrolments drive revenue – Changes have a material impact.



PIP - Figure 3.1.4A PMSA Enrolments 2010-16

(Information sourced from Australian Curriculum, Assessment and Reporting Authority: <https://www.myschool.edu.au/> - 28 Oct 2017)

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Revenue – the numbers

##### (a) Significant % Change in PMSA Enrolments 2010 to 2016

	Brisbane Boys College	Somerville House	Clayfield College	Sunshine Coast Grammar School
% Change in enrolments 2010-2016	-2%	+14%	-28%	-3%

PIP - Table 3.1.4A – Seven year change in Enrolments

(Information sourced from Australian Curriculum, Assessment and Reporting Authority: <https://www.myschool.edu.au/> - 28 Oct 2017)



### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Revenue – the numbers

##### Clayfield College

Year	No of Students	Change in No of students from prev year	% Change of school population
2010	905	-	-
2011	910	5	1%
2012	892	-18	-2%
2013	880	-12	-1%
2014	863	-17	-2%
2015	758	-105	-12%
2016	652	-106	-14%

PIP - Table 3.2.3B – Year on Year Drop in Enrolment Analysis.

(Information sourced from Australian Curriculum, Assessment and Reporting Authority: <https://www.myschool.edu.au/> - 28 Oct 2017)

#### (b) PMSA's own documents show major shift from 2015 continuing into 2017

Enrolments for 2016 were 4,859 against a budget of 4,852. Further work is required by the Association in terms of improving Clayfield College enrolments which over the last three years has seen a reduction from 794 in 2015 to 602 in 2017 caused by the general decrease in demand and the location of Clayfield in an area with strong competition.

PRESBYTERIAN AND METHODIST SCHOOLS ASSOCIATION

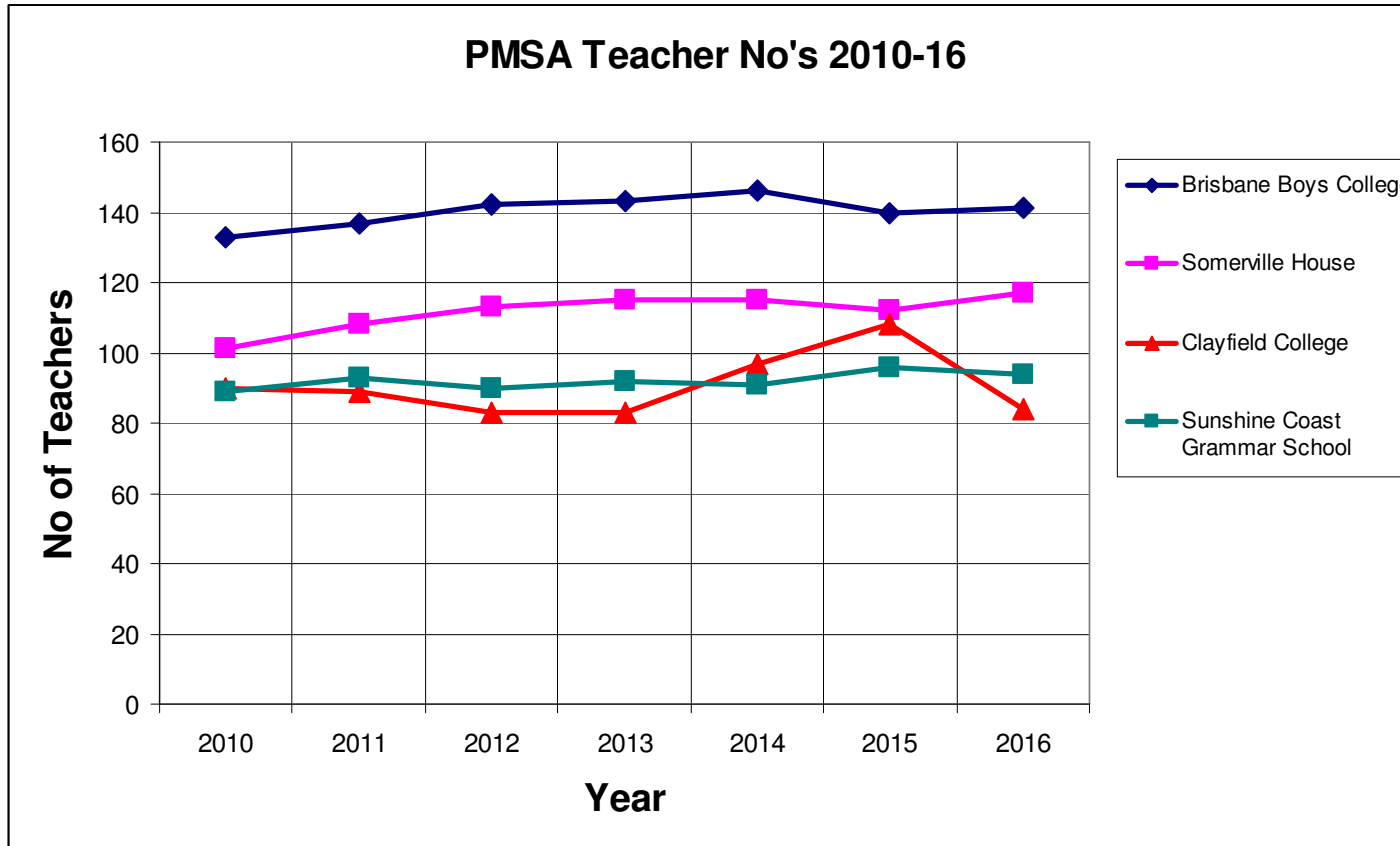
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CHAIRMAN'S REPORT ON THE 2016 CONSOLIDATED FINANCIAL REPORT

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Costs – the numbers

Wages drive PMSA Costs – Change has a material impact.



PIP - Figure 3.1.5A PMSA Teacher No's 2010-16

(Information sourced from Australian Curriculum, Assessment and Reporting Authority:

<https://www.myschool.edu.au/> - 28 Oct 2017)

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Costs and revenue compared over 2010-16

	Brisbane Boys College	Somerville House	Clayfield College	Sunshine Coast Grammar School
% Change in No of Teachers 2010-2016	6%	16%	-7%	6%
% Change in Total No of Staff 2010-2016	4%	30%	-5%	-4%
% Change in Equiv No of Teachers 2010-2016	5%	13%	-12%	10%
% Change in Equiv Total No of Staff 2010-2016	3%	28%	-9%	-4%

**Enrolments**

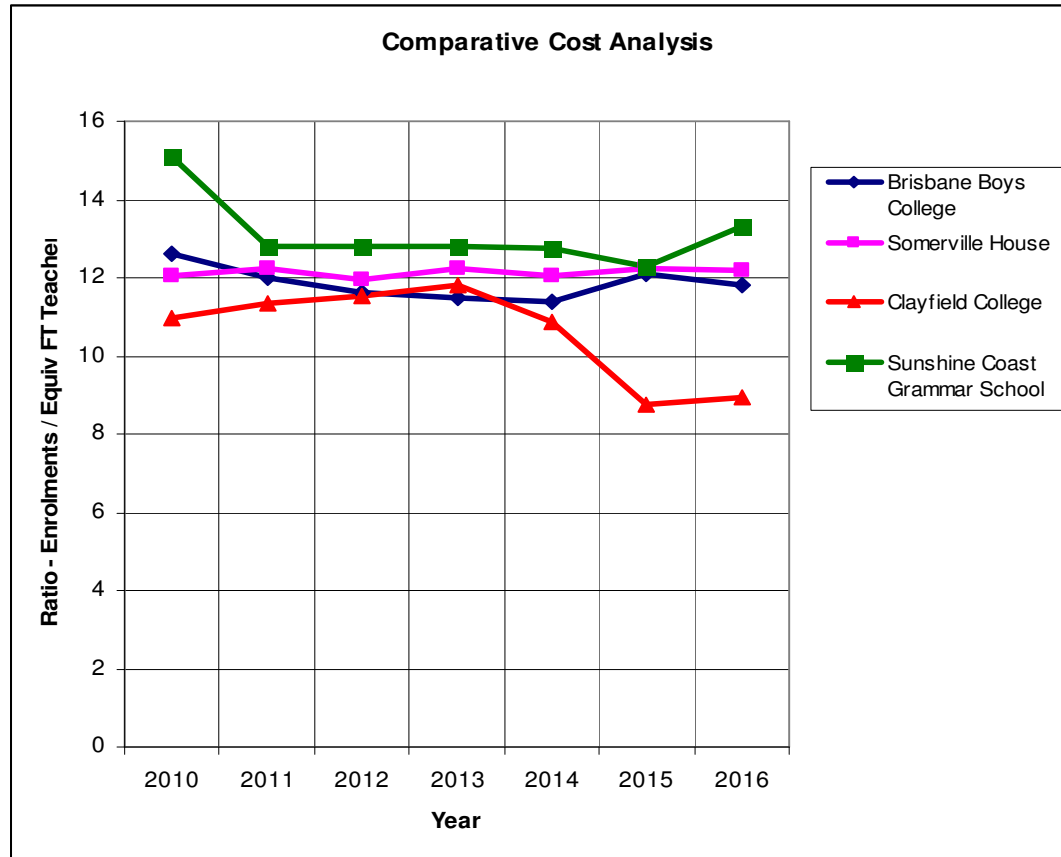
+14%

-28%

Table 3.1.5A PMSA Teacher No's 2010-16  
 (Information sourced from Australian Curriculum, Assessment and Reporting Authority:  
<https://www.myschool.edu.au/> - 28 Oct 2017)

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Management Control – Revenue / Cost stability 2010-16



PIP - Figure 3.1.5B Comparative Cost Analysis – Ratio of Enrolments per Equivalent Full Time Teachers  
PMSA Enrolment and Teacher No's 2010-16  
(Information sourced from Australian Curriculum, Assessment and Reporting Authority:  
<https://www.myschool.edu.au/> - 28 Oct 2017)

### 3 - ANALYSIS OF PMSA REVENUE AND COSTS

#### Key Points

- Somerville “Jewel in the Crown” –growing enrolments, controlled costs “shouts” efficiency and profit - Cash Cow supplying SH & PMSA Head Office
- Somerville long term performance - Principal management reflected in KPI’s?
- Clayfield College – Severely damaged, no sign of effective damage control at any level for over 3 years – “bleeding” PMSA with major impacts to group.
- Looks like the start of a classic MBA Case Study
  - 2015 enrolments drop 105 students (-12%) but teacher numbers increase by +11.3%?
  - 2014 to 16 period – Revenue drops 24.4% but costs only drop 8% - indicates Clayfield has been running at a loss since 2015. (Dying calf?)
  - 2015 to 17 documents ongoing systemic failure in “Child” (CC) and “Parent” (PMSA)
  - SH Cash Cow critical to sustain PMSA impacts of \$6-7M per annum CC + PMSA systemic impacts. (Expected CC Teacher losses alone of 12.5 to 18.6)

**But - Why did it happen and what other impacts are occurring?**

## 4 – WHY DID IT HAPPEN AND WHAT OTHER IMPACTS ARE OCCURRING?

PMSA represent (1) external factors at fault over numerous years and (2) all schools in sound financial position.

### 2015

#### Enrolments

Like many independent schools in South East Queensland, PMSA schools faced particularly strong competitive pressures as general economic conditions remained uncertain during 2015. It is therefore pleasing to see that overall, enrolments in PMSA schools have remained steady in 2015.

and

In 2015, all schools have maintained a sound financial position, generating sufficient surpluses to service their capital works and the borrowings required to undertake current and future land and building commitments.

*Page 1 and Page 3 of the Chairman's Report on the 2015 Consolidate Financial Report*

### 2016

Enrolments for 2016 were 4,859 against a budget of 4,852. Further work is required by the Association in terms of improving Clayfield College enrolments which over the last three years has seen a reduction from 794 in 2015 to 602 in 2017 caused by the general decrease in demand and the location of Clayfield in an area with strong competition.

*Page 1 of the Chairman's Report on the 2016 Consolidate Financial Report*

### 2017

ABC – Are the schools financially viable, all of them?  
PMSA Chairman – The schools all are financially viable

## 4 – Why did it happen and what other impacts are occurring?

PMSA represent (1) external factors at fault over numerous years and (2) all schools in sound financial position.

PMSA Representations fundamentally flawed by PMSA own documentation, Market comparison / Marketing 5P Analysis etc

### 4.1 - PMSA own documentation

- SH growing enrolments, CC falling so not market but school issue.
- Market did not change by 14% in any year at SH, SCG, BBC as it did at CC
- PMSA breached loan agreement in 2015 with the financier having the ability to call for repayment of the total amount owing.
- Both PMSA auditors express “Going Concern” issues in Audits of 2014, 2015 and 2016.

## 4 – Why did it happen and what other impacts are occurring?

### 4.2 Market comparison analysis

- Both schools followed trend from 2010 to 2015
- CC experienced drastic internal issue to impact 2015 figs. (1<sup>st</sup> Prin Appt Issue)

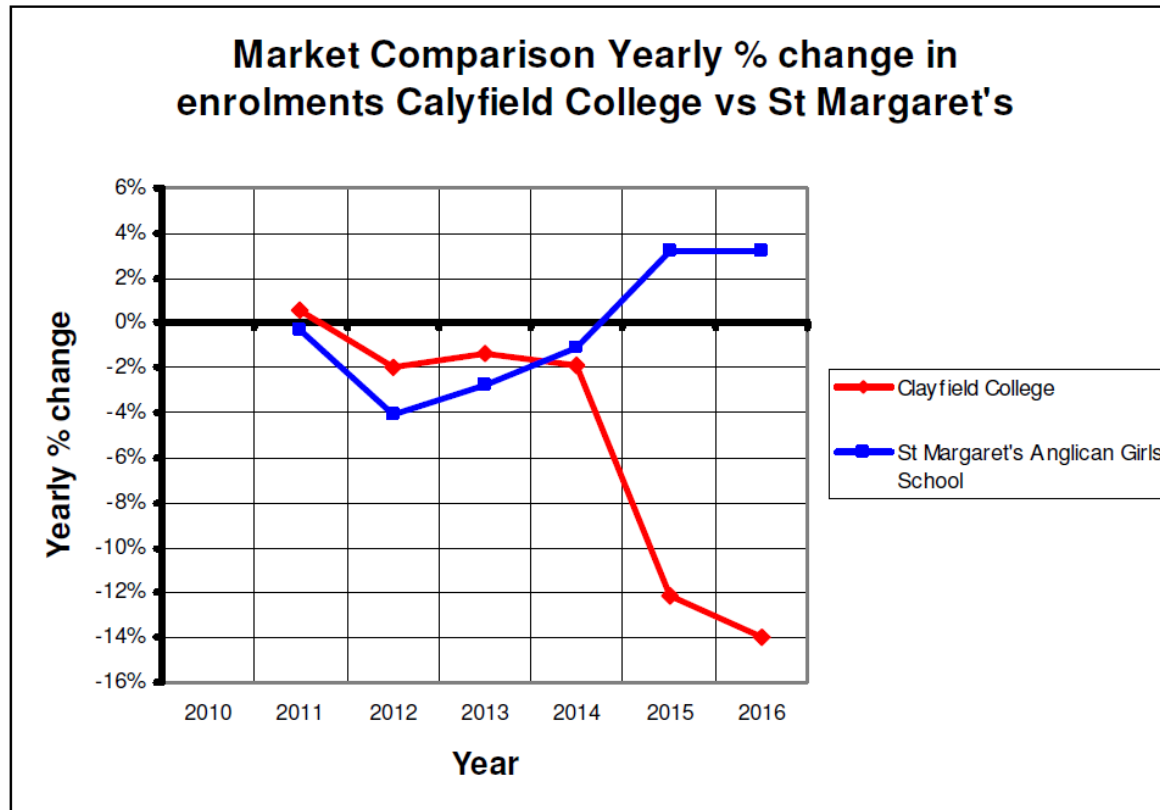


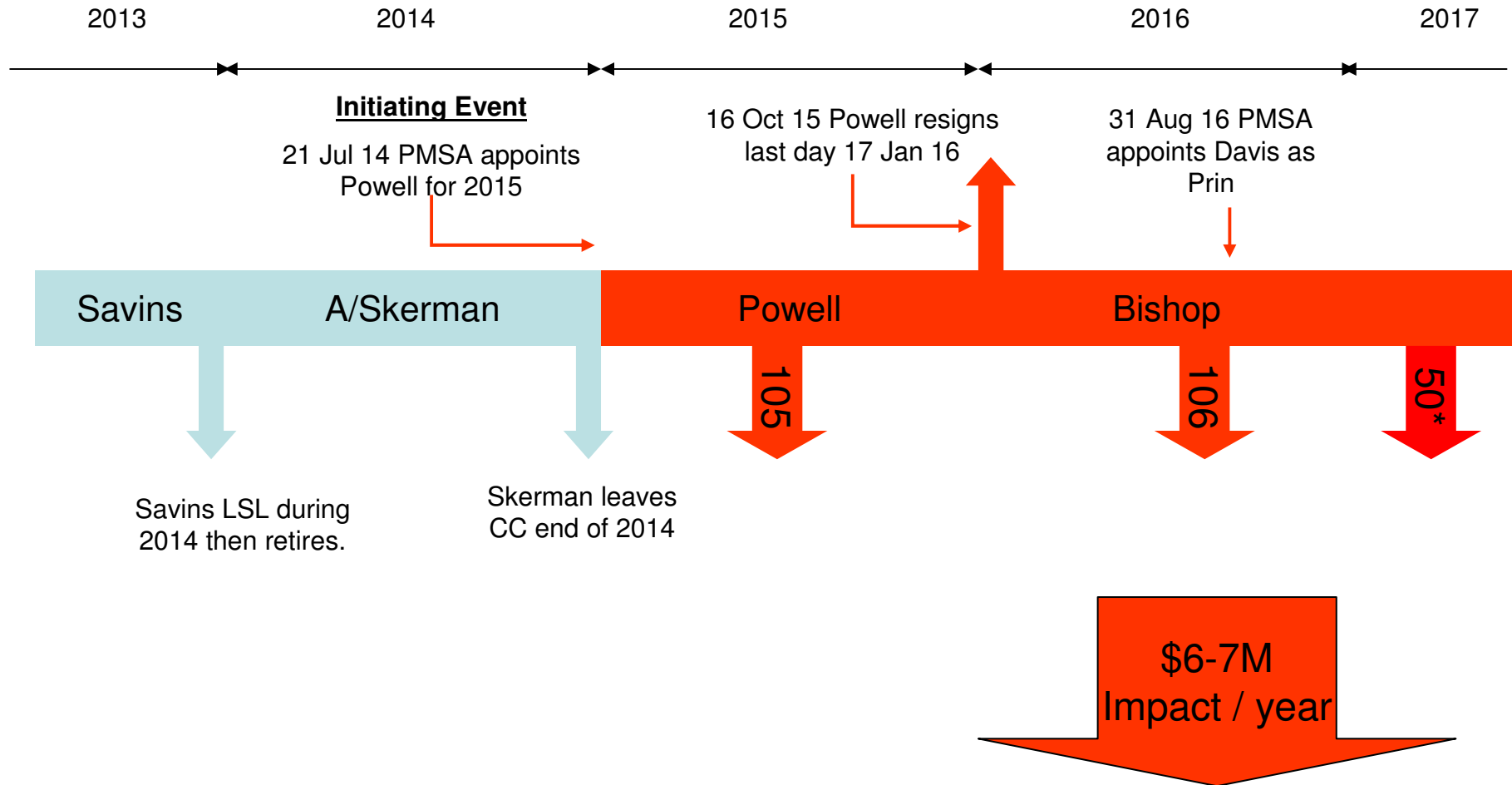
Figure 3.2.2B – % Change in Enrolments  
Clayfield College and St Margaret's 2010 to 2016

Year	No of Students	
	Clayfield College	St Margaret's Anglican Girls School
2010	905	861
2011	910	858
2012	892	823
2013	880	800
2014	863	791
2015	758	816
2016	652	842



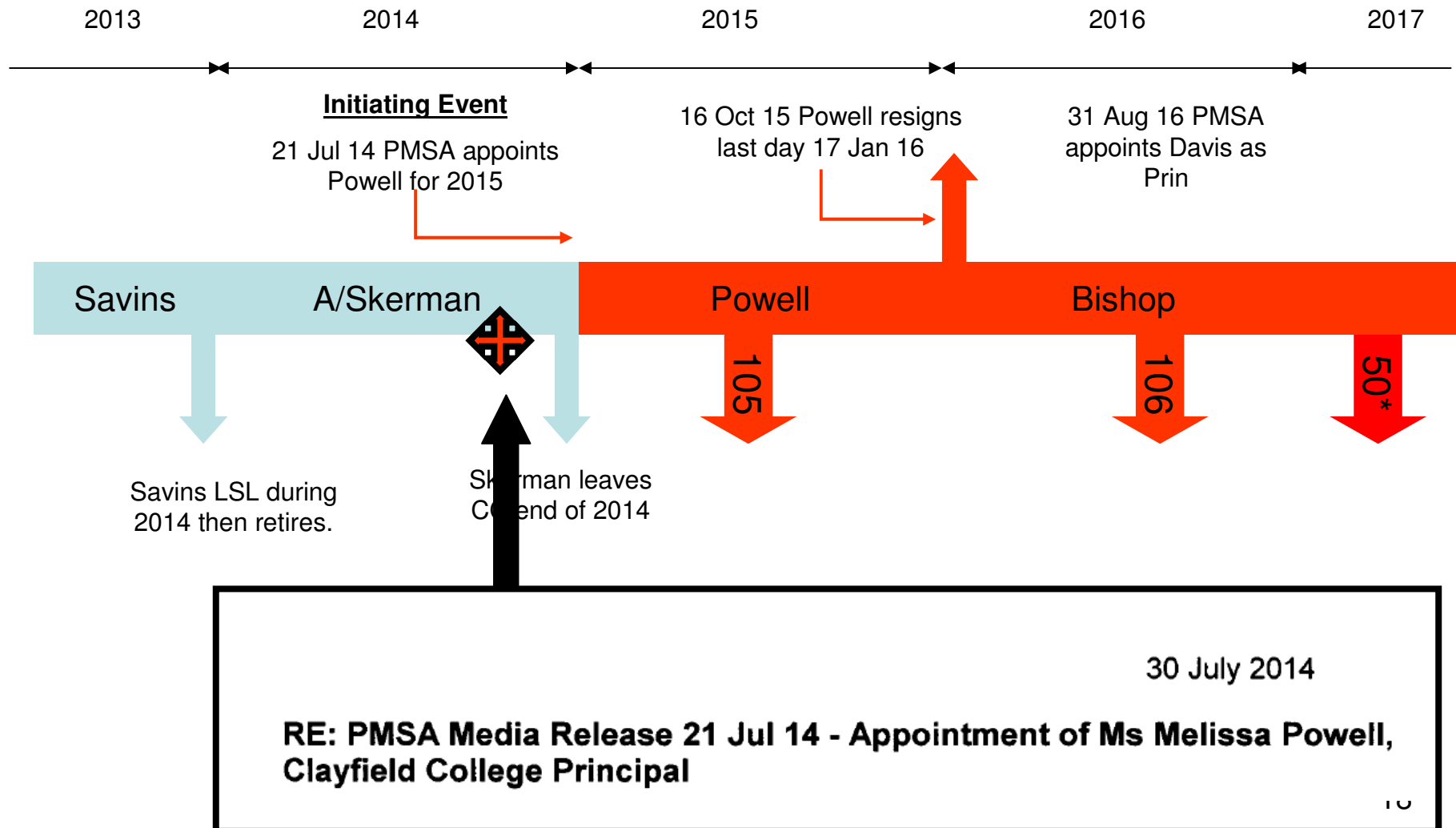
## 4 – Why did it happen and what other impacts are occurring?

### 4.3 - Major internal impact – 1<sup>st</sup> Principal Issue – Powell Appt



## 4 – Why did it happen and what other impacts are occurring?

### 4.3 - Major internal impact – PMSA were fully informed of Appointment Risk and consequences before commencement yet did nothing



## 4 – Why did it happen and what other impacts are occurring?

### 4.3 - Key Points - 1st Principal Issue – Powell Appt

- PMSA’s own documentation refutes the PMSA published position.
- The major impact event was the PMSA appointment of Powell as Principal on 21 Jul 14.
- The risks associated with this appointment were obvious and easily identified.
- The PMSA was fully informed on 31 Jul 14 yet did nothing to address the risk.
- This PMSA decision resulted in the customers walking, the losses (brand, \$ etc) but also misrepresentation risk from 2014 to this day.
- This decision was made worse by further PMSA mismanagement (i.e. employing teachers when enrolments were dropping etc)
- PMSA market representations/ statements are inconsistent with the long period of mismanagement evidenced by the PMSA records.
- PMSA market representations/ statements regarding financial stability are inconsistent with:
  - the PMSA’s own Auditor concerning breached loan agreements and
  - the 2014,15 and 16 concerns regarding “Ongoing business”.

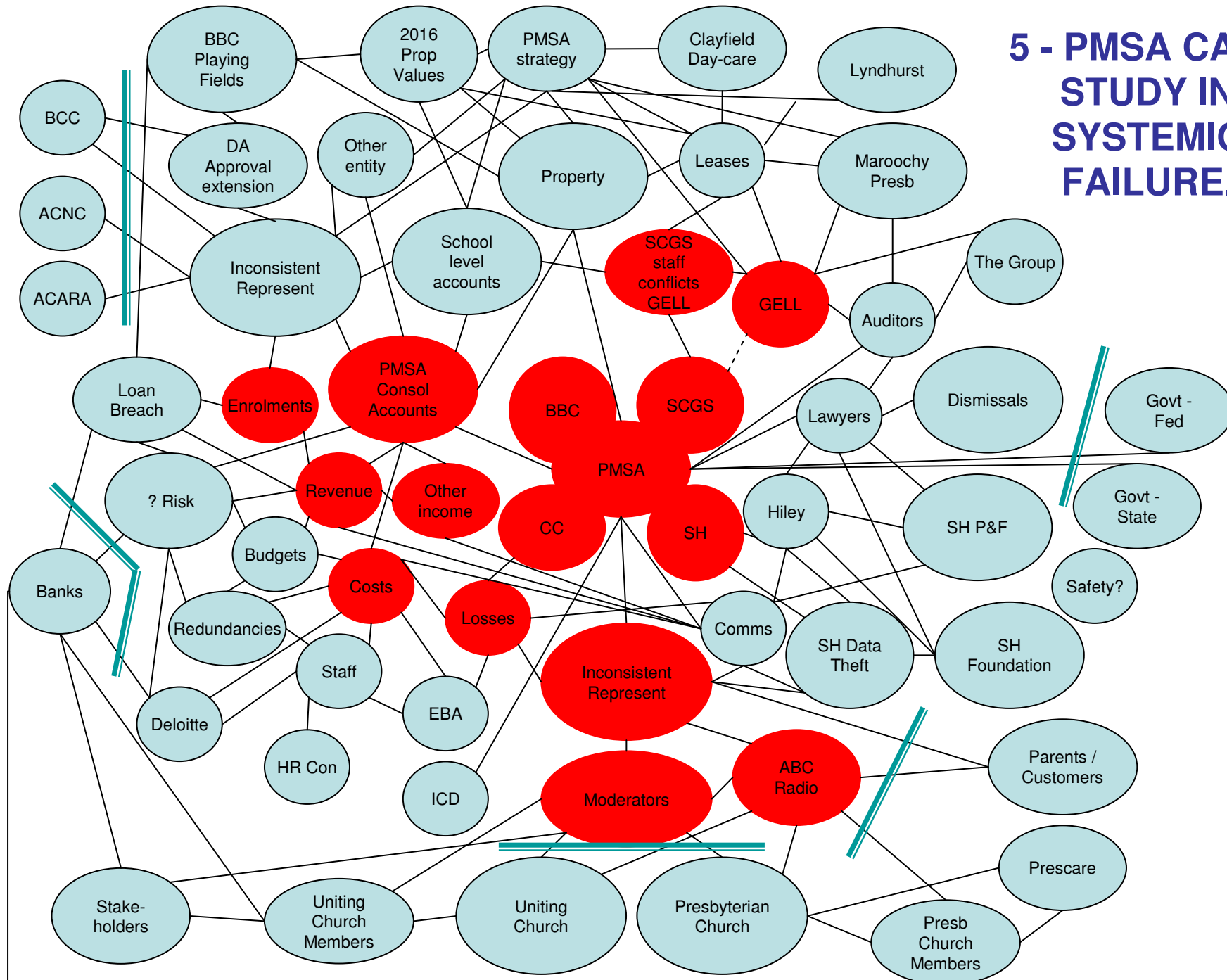
## 4 – Why did it happen and what other impacts are occurring?

### 4.4 - 2<sup>nd</sup> Principal Issue – Somerville House Principal Loss

Based on the CC figures an underestimate SH impacts would be:

- Drop in enrolments at SH of 412 students.
- Drop in revenue of at least \$8.3M / year - Does not include costs associated with data theft, unfair dismissal and defamation claims expected.
- Teacher redundancies – 35+.
- Like Clayfield it is reasonable to expect that the new management at Somerville would be as competent as Clayfield College.
- The “cash cow” Somerville and its “calf” CC can be expected to be in a season of drought.
- Without the cash flow how are the PMSA loan agreements fulfilled without short term cash injection costly refinancing or guarantees being given by both Churches.
- History littered with corpses of developers who had a lot of property assets but unable to manage cash flow.

# 5 - PMSA CASE STUDY IN SYSTEMIC FAILURE.



## 6 – “SO WHAT” – KEY ISSUES IDENTIFIED IN PIP

1. Education business underpinned by spiritual and religious values or Religious Business using the assets and resources of the 4 schools to drive religious outcomes?
2. Its Fundamental: No Money means No Mission and No Customers mean No Money
3. PMSA fails to contain the Clayfield College Issues - Impacts on PMSA activities in 2015, 2016 and 2017.
4. Repeating the past and expecting a different outcome – what the future holds based upon the experience of the past.
5. Breadth and Depth of the PMSA self created issues.
6. Property Matters
7. Attempted attachments – Attempts to distance, mitigate and devolve responsibility for PMSA Decisions which caused brand damage to the schools.
8. Non public records - Quantity and quality of information from the Business Managers up to PMSA Council.

## **6 – “So what” – Key Issues identified in PIP**

- 1. Education business underpinned by spiritual and religious values or Religious Business using the assets and resources of the 4 schools to drive religious outcomes?***

## 6 – “So what” – Key Issues identified in PIP

### 2. *Its Fundamental: No Money means No Mission and No Customers mean No Money*

Examples:

1. Loss of revenue from enrolments.
2. Lack of cost controls.
3. 2 different Auditor statements relating to “going concern”
4. Consultant costs and outcomes
5. Damages claims against PMSA and Councillors from Customers, employees, PMSA etc ?

But more importantly what could the Churches do with the multimillion dollars effectively wasted by the PMSA – Cheaper to outsource management completely.

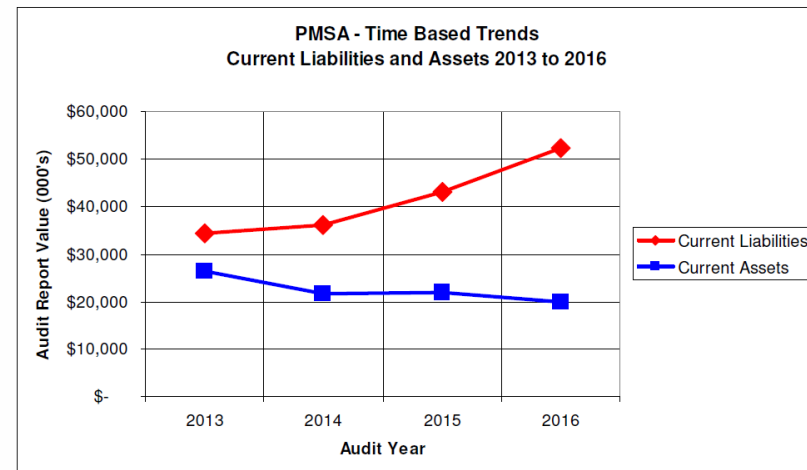


Figure 3.3.3A – Widening trend of greater inflexibility in short term position - Comparing Current Liabilities and Assets (Source PMSA Annual Consolidated Financial Reports)



## 6 – “So what” – Key Issues identified in PIP

### 3. *PMSA fails to contain the Clayfield College Issues - Impacts on PMSA activities in 2015, 2016 and 2017.*

#### Examples:

1. Breach of loan agreement and financial exposure.
2. Repeat the Principal issue – 1<sup>st</sup> Clayfield – 2nd Somerville.
3. Inconsistency between PMSA representations and PMSA’s own documents.
4. BBC playing fields DA etc.

Staging Plan



## 6 – “So what” – Key Issues identified in PIP

### 4. *Repeating the past and expecting a different outcome – what the future holds based upon the experience of the past.*

#### Examples:

- Drop in enrolments at SH of 400+ students.
- Revenue impact \$8M for SH + \$6M from CC + data theft, unfair dismissal, defamation claims + Consultancy costs expected.
- Teacher redundancies 35 SH + 19 CC so say 50-60 positions impacted..
- The “cash cow” Somerville and its “calf” CC can be expected to be in a season of drought.
- Again how will the 2 combined cash flow impacts affect the PMSA loan agreements - short term cash injection, costly refinancing or guarantees being given by both Churches?
- The “bank” and the Churches are critical to the PMSA Councillors as it appears that they can be removed by both.

## 6 – “So what” – Key Issues identified in PIP

### 5. *Breadth and Depth of the PMSA self created issues.*

Examples:

- Coordination and Management
- Financial Management
- Operational Management
- Skills and capabilities at Councillor Level
- HR Management
- Asset management
- Brand management etc

*“Any reasonable person would conclude that the extent of issues in depth and breadth that has occurred over a period of at least three years demonstrates that the systemic nature of the failures will continue to occur and cannot be mitigated or resolved by those who have demonstrated little competency to successfully address such issues in the past.”*

## 6 – “So what” – Key Issues identified in PIP

### 6. *Property Matters*

Examples:

1. Why property valuations on \$450M plus portfolio not done?
2. Lease values and existence questionable at best.
3. Valuations, loans, guarantor arrangements etc between entities inconsistent with PMSA, Auditor and Staff Representations.
4. Inconsistency between PMSA representations and PMSA’s own documents.
5. Impacts on other schools – BBC playing fields DA.
6. Why are staff at SCGS acting as a developers representative for an unrelated entity?



NEWS

#### Locals 'kept in the dark' about church childcare centre

8th Apr 2015 5:00 AM



Marketing coordinator for both New Leaf Early Learning Centre and Sunshine Coast Grammar School Vera Armgardt said she could not comment on why the residents had not been consulted, but said the proposed childcare centre would provide 35 jobs and was a positive development.

## 6 – “So what” – Key Issues identified in PIP

### ***7. Attempted attachments – Attempts to distance, mitigate and devolve responsibility for PMSA Decisions which caused brand damage to the schools.***

Examples:

- The Principal at Clayfield appointed following a recommendation from a HR Consultant yet the appointment was fundamentally flawed.
- Australian Institute of Company Directors engaged in 2014 yet little sign of corporate governance improvements.
- Use of Deloitte’s in 2015 yet the PMSA’s own records show little evidence of revenue and cost management let alone overall efficiency.
- Utilises the Uniting and Presbyterian Church brands to aide legitimacy to PMSA and decisions despite information presented by the PMSA to Churches being at best inconsistent and suspect.

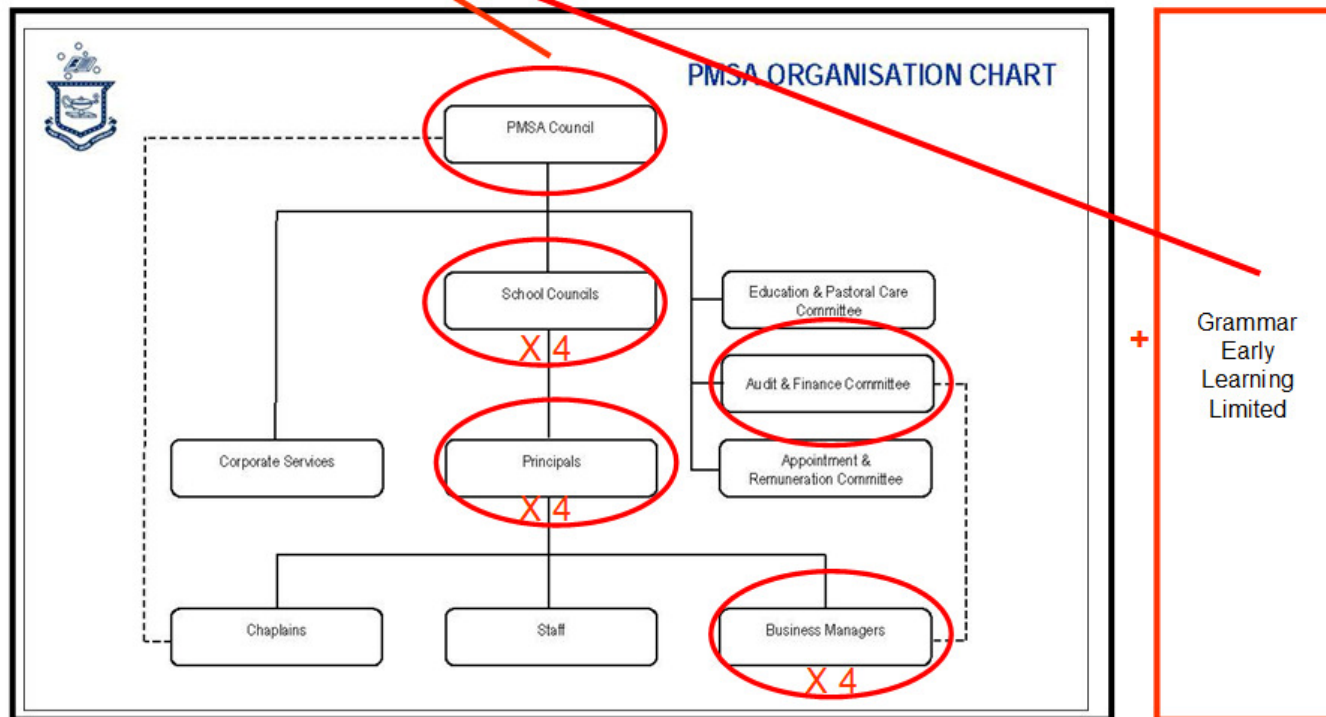
## 6 – “So what” – Key Issues identified in PIP

### 8. *Non public records - Quantity and quality of information from the Business Managers up to PMSA Council.*

- Entities/officers identified below have information so ignorance defence not credible
- Records would be available (i.e. Govt auditing revenue and distributions given enrolment no issues)
- If public records damning then what would internal documents show?

“The Group?”

- **Subsidiaries**
- The consolidated financials comprise the financial statements of the Presbyterian Methodist Schools Association and Grammar Early Learning Limited at 31 December 2016 (“the group”).
- 



## 7 – OPTIONS

Of all of the options the most favourable are listed in order of preference.

1. The Status and Reconciliation Strategy
2. Nuclear Strategy
3. Do nothing option.

If the PMSA were not to accept the Status and Reconciliation Strategy then the other stakeholders would have to decide on the other two options.

The do nothing option would simply allow further waste, harm historical arguments and conduct shown in the past to be repeated in the future.

Why would the Churches condone the wastage of millions of dollars and the loss of potential students and members as self evident by the drop in student enrolments?

It would be far cheaper and effective (for the Churches etc) in tangible (Refer cost impacts from the PMSA conduct) and intangible ways to undertake the nuclear option so that the matters would be resolved once and for all.

For the Churches it seems obvious that this is a mission of the Presbyterian and Uniting Churches can be done far more efficiently by another agent not the PMSA.

## 8 – CONCLUSION

The extent and breadth of the competency issues along with the significant time periods when issues have not been addressed tends to indicate that the PMSA is either unable or unwilling to address the issues impacting its survival.

The PMSA's representations to stakeholders (i.e Moderators etc)

- Are inconsistent with their own documents – Is it error or deliberate?.
- Reactive – hidden system failures drive negative outcomes which they are forced to react to.

The identification of the key issues has resulted in three possible options listed from first to last preference as per below:

1. The Status and Reconciliation Strategy
2. Nuclear Strategy
3. Do nothing option.

The fundamental question is whether the PMSA is being run as

- education business but supported by spiritual values and ethics
- religious business endowed with the resources generated.

What is not beyond dispute is that:

- No Money means No Mission, No Customers mean No Money
- The PMSA would be reluctant to answer the fundamental question.
- Why would the Churches outsource its mission at such an expensive cost?