POSITION OF AN INFORMED PERSON

ASSESSMENT OF PMSA AND SCHOOL INFORMATION FROM PUBLICLY AVAILABLE INFORMATION

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1. INTRODUCTION

The report seeks to identify and analyse information relating to the PMSA and its schools so that a person can be in a position of being informed. This information is directly relevant to the any party (whether they be a Director, Independent Director, Parent or potential PMSA client) who wants to be considered informed.

To be considered informed it would be reasonable for a party to understand the way in which the PMSA conducts its business and in particular the PMSA's financial position and performance.

The Informed Person Report identifies and uses information which is freely available to the public.

Where objective information is not available then industry information has been identified and used within the analysis to identify the key PMSA issues which any informed person would be expected to understand.

Based upon the key issues identified, a series of recommendations has been identified so that an informed person can make reasonable decisions and take appropriate action if it was decided to interact with this particular entity. The same recommendations would be considered of direct relevance to those acting for the PMSA and fulfilment of their duties.

The simple task of an individual being informed is fundamental to any decision makers whether they be:

- Church Moderator's as fundamental owners
- The PMSA whether it be by group decision or decision of individual council members.
- School Councils whether it is by group decision or decision of individual council members.
- Principal's
- Auditor's
- School Business Managers
- Consultants engaged by the entities above.
- Financiers and other lenders.

2. METHODOLOGY

The methodology is based upon obtaining publicly available information which includes information from public sources including:

- Presbyterian and Methodist Schools Association (PMSA)
- Brisbane Boys College (BBC)
- Somerville House (SH)
- Clayfield College (CC)
- Sunshine Coast Grammar School (SCGS)
- Australian Curriculum, Assessment and Reporting Authority (ACARA)
- Australian Charities and Not-for-profits Commission. (ACNC)
- Fair Work Commission (FWC)
- Australian Securities and Investment Commission (ASIC)

Given that time constraints have not allowed the request and collection of specific information directly from the sources it is considered reasonable to use industry information to achieve a level of accuracy which would suit the level of accuracy required for an informed person. This includes industry specific information including:

- IBISWorld Industry Report P8025 titled "*Private Schools in Australia*" by Hayley Munro-Smith dated September 2017.

The analysis undertaken of the information includes:

- Order of magnitude analysis of revenue and costs.
- Specific analysis of key points or trends identified in the initial analysis.
- Information reliability and inconsistencies.
- Specific internal and external issues identified.

Based on the analysis the key issues will be identified and subsequent recommendations provided to increase the level of not only information but assurance that the person interacting with PMSA can be informed.

3. ANALYSIS

3.1 ORDER OF MAGNITUDE ANALYSIS OF REVENUE AND COSTS.

In order to understand the position of the PMSA operations it is important to put into context the fundamental aspects of the organisation.

According to the PMSA website the PMSA can best be described as

"As the governing body of four leading independent schools in Queensland and Australia"

(Source: PMSA Strategic Plan 2015-2018 at http://www.pmsa-schools.edu.au)

The structure and internal reporting relationships has been described by the PMSA in its organisation chart (Refer figure 3.1A) with the key levels of the business being:

- The PMSA Council
- Only the four School Council's, Corporate and Committees reporting to the PMSA (No other entities are shown in the reporting relationship)
- Principals have a sole reporting relationship to the School Councils
- The Business Managers, Staff and Chaplains Reporting to the Principal.
- A secondary reporting line between the "Business Managers" and the "Audit and Finance Committee" is shown. (The reason or need for this is unknown as the information should be the same as the Principal. A prudent person would be cautious of this arrangement)

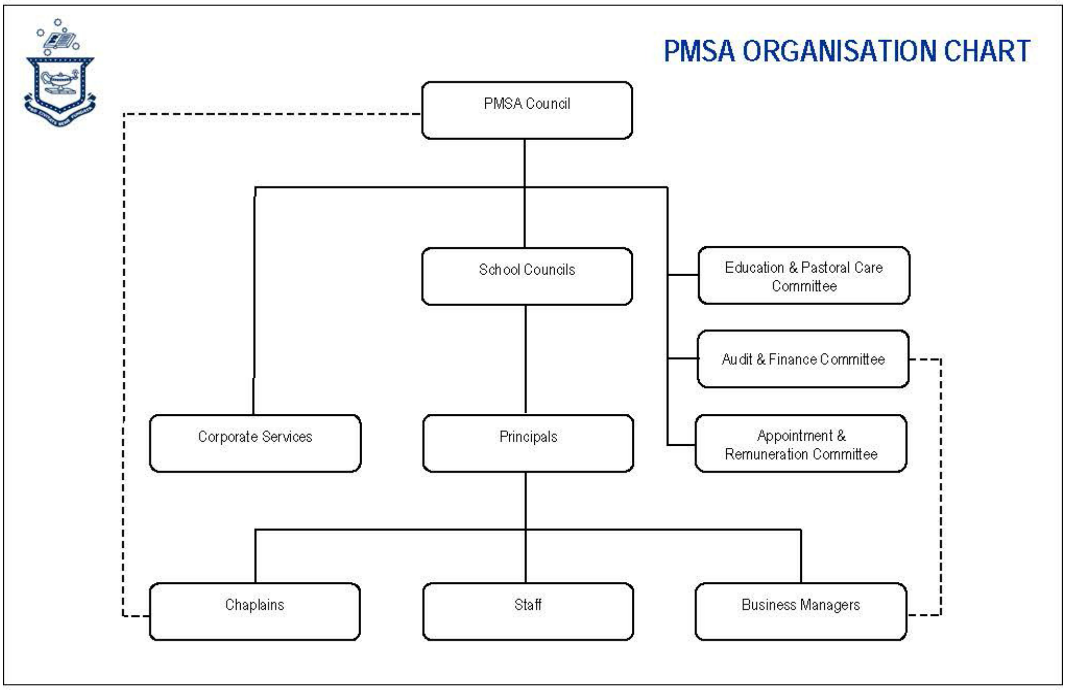


Figure 3.1A - PMSA Organisation Chart
(Source: PMSA Website - http://www.pmsa-schools.edu.au/governance/governance-structure-of-the-pmsa)

The PMSA information shows the reporting relationships from School level (Principal) to School Council level to the PMSA Council. No other business relationships

3.1.1 Size of the PMSA Business

The "*PMSA 2016 Signed Annual Report*" is a consolidated report with income from services documented as $120.880M with Total assets of $475.403M.

These figures indicate its significant size within the private schools Qld market and the Brisbane and Qld markets as a whole. Any reasonable assessment would conclude that this is a business of serious financial capability and not a small "not for profit" community or church group.

It should be noted that if this was to be described on a continuum it could easily be explained as being at one end "a large educational products and services business run by religious appointees" or "a religious or church entity resourced by the finance, capabilities and other attributes of a large supporting business"

The fundamental question that any reasonable person would ask. Is it being run as an education business on business lines but supported by spiritual values and ethics underlying its operations or is it in the religious business endowed with the resources generated

3.1.2 PMSA Assets

Of the Assets it appears that the non current assets of $455.441M includes $434.290M (95%) associated with "*Property, plant and equipment*".

This appears to be very similar to other industries such as property development where the asset value is directly linked to the capability to obtain finance, is used as security by banks wishing to protect the value of the loans and the inherent risk of revenue variability, liquidity in cash flow terms and the ability to pay back debt. (The higher than average risk profile is demonstrated by the skeletons of many past successful property developers.)

Management of the properties, their values, financing obligations and risks would have to be one of the most important elements that the PMSA and the "Audit and Finance Committee" would need to be focussed on. If a breach occurred then any reasonable person would expect the banks to call in the debt and possibly sell of one of the school properties to recover its monies. Hence the importance of ensuring not only the conditions of any financing are met but also the need to have short term cash flow positions to respond to the risks associated with changes in value etc which may trigger a loan breach.

It should be noted that the 2014 and 2015 PMSA Annual reports refer to the assessment of fair value of land and buildings being completed at least once every 5 years with the next assessment due in 2016. (Sources: PMSA Website – 2014 and 2015 Annual reports)

The 2016 Annual Report contradicts the two previous reports and states,

> "*An independent assessment of the fair value of land and buildings is completed at least once every five (5) years with the next assessment due in 2017.*"
>
> (Source: PMSA Website - 2016 Annual report)

Any organisation holding $400M in property assets would have access to reasonable valuation advice given that such up to date information would be required for loan negotiations, property transfers/sales and reporting requirements.

An up to date 2016 valuation figure in the 2016 Report is reasonable and would be expected given the information provided in the 2014 and 2015 PMSA reports specifies this requirement.

As the reports provided by the PMSA are consolidated reports it is unclear as to what property:
- is associated with each entity
- whether property is related to school purposes or other uses
- what loans are associated with what property asset?

That property is not being valued at the time stated and that properties are not identifiable and traceable to operating businesses it is unclear as to how contributors of property purchasers (whether they be government, foundations or others) can be assured that contributions elicited for use on one school actually gets used at that school.

The observation and concerns of the way property is being dealt with will be addressed later in this report.

Not only do the assets appear to be heavily weighted toward property any servicing of loans and other commitments appear to be funded from “Tuition fees and levies” which are documented as being $91.460M or 76% of the “Total Income from services ($120.880M).

Any disruption to incoming revenue associated with a drop in enrolments would not only be a primary business risk but one that would appear to trigger other significant events such as impacting loan covenants with financiers.

What is clearly obvious to a reasonable person is that the general public know the four schools image – its brands represent premium and elite schools. These brands not only are directly related to the incoming enrolment revenue but are critical to the property values given that these schools are based on land which is deriving income.

The three assets can then be simply described as

- the properties
- the schools which drive revenue and
- the “Brands” which impact both land value and revenue

3.1.3 Revenue generated from the PMSA Assets

At Page 1 of the 2016 PMSA Annual Report, the Chairman reports the following regarding enrolments.

schools continue to perform well academically and in a variety of service, spiritual, cultural and sporting activities.

ENROLMENTS

The Association continues to make good progress despite the economic down turn in Queensland and a more competitive market. This down turn is reflective in overall enrolments decreased to 4,815 in 2017 from 4936 in 2016. The more aggressive push by State Education and the Catholic system is also impacting on our school market.

Table 2 – PMSA School Enrolments

	2015	2016	2017
Brisbane Boys' College (all boys)	1558	1550	1538
Clayfield College (girls; and boys to year 6)	794	679	602
Somerville House (all girls)	1380	1415	1439
Sunshine Coast Grammar School (co-educational)	1204	1215	1236
TOTAL	4936	4859	4815

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 & Methodist Schools Association – Consolidated Financial Report for the Year ended 31 December 2016” - Source http://www.pmsa-schools.edu.au

The Chairman's Report identifies:

- A downturn in enrolments
- An apparent change in the market with competitors becoming more aggressive.
- An expectation by the PMSA of a downturn in enrolment yet the final figures only differed in number by 7 (4,859 vs 4,852) from the budget enrolment number.
- Further work "*improving Clayfield College enrolments which over the last three years has seen a reduction from 794 in 2015 to 602 in 2017*"
- Cause of the reduction being the "*general decrease in demand and the location in an area with strong competition"*

(It is noted that the 2016 enrolments figure in the Chairman's Report, 4936 and 4,859 = 77 or approx 2% and the reasons for reducing enrolments will be challenged in the analysis section of this report)

The 2016 Consolidate Financial Report only provides a snapshot of the finances for the 2016 Year along with enrolment data for the previous year (2015) and the next year (2017) where audited and verified information is not yet available. This is different from the 2014 report which provided enrolment numbers to 2010 and information concerning a previously unstated business in the 2016 Report called "*New Leaf Early Learning Centre*"

Enrolments

Like many independent schools in South East Queensland, PMSA schools faced particularly strong competitive pressures as general economic conditions remained uncertain during 2014. It is therefore pleasing to see that overall, enrolments in PMSA schools have remained steady in 2014.

Table 1 – PMSA School Enrolments

	2010	2011	2012	2013	2014	2015 As at 31.1.15
Brisbane Boys' College (all boys)	1584	1566	1554	1569	1575	1558
Clayfield College (girls; and boys to year 5)	941	933	925	905	892	794
Somerville House (all girls)	1194	1233	1235	1284	1326	1380
Sunshine Coast Grammar School (co-educational)	1266	1205	1202	1226	1218	1204
TOTAL	4985	4937	4916	4984	5011	4936

Enrolments in the New Leaf Early Learning Centre at the Sunshine Coast remained steady at around 200, enabling the PMSA to have regular contact with well over 5,200 students and their families.

"Presbyterian & Methodist Schools Association – Consolidated Financial Report for the Year ended 31 December 2014" - Source http://www.pmsa-schools.edu.au

It is also noted by way of example that the products and services provided by the PMSA to its customers extends over a greater period than the one year range either side of the reporting year.

The products and services offered to PMSA customers include:

- "Enrolment Registration Fee" and "Enrolment Confirmation Fee" which is viewed by Customers as having purchased / secured a place/enrolment at an elite school.

- Tuition/Levies and Boarding Fees which is viewed by Customers as having purchased the teaching services and the use of the school facilities for their children.

For example the customer journey of a PMSA schoolchild may have previously been signed up/register their child at birth, confirmed registration at Year 6 level and then commenced education in years 7 to 12. A time span covering 17 years with 5 years at the school.

Customers, who see the PMSA as having changed its product through no fault of their own could withdraw before commencing, withdraw before completion or elect to continue the education. Once established at a school it is unlikely that students would change schools based on the disruptive effects.

If the PMSA acted to negatively impact its product it would most likely be seen to impact the enrolments at each year level.

The impact however would continue in time until the education process is completed. In other words impacts to middle school enrolments would remain lower until the students complete their education. Student number impacts in Year 7 would have an impact until completion in Year 12. A time span of five years. A single negative impact would hit enrolments once with the number of enrolments remaining steady but at a lowered rate. A multiple or continuous unresolved negative impact would see a continuous long term reduction in enrolment numbers.

3.1.4 Enrolments

In order to obtain data relevant to enrolment revenue over such a time span is available from the Australian Curriculum, Assessment and Reporting Authority.

The differences between the Authority and information published in the PMSA 2014 Report are noted.

The Enrolment figures used in Australian Curriculum, Assessment and Reporting Authority has been used given that it has the most up to date information and has along with it a legal obligation that the PMSA has with regard to providing correct information.

Enrolment figures for the four PMSA Schools in the period 2010 to 2016 are shown in Appendix A and graphically shown in Figure 3.1.4A below.

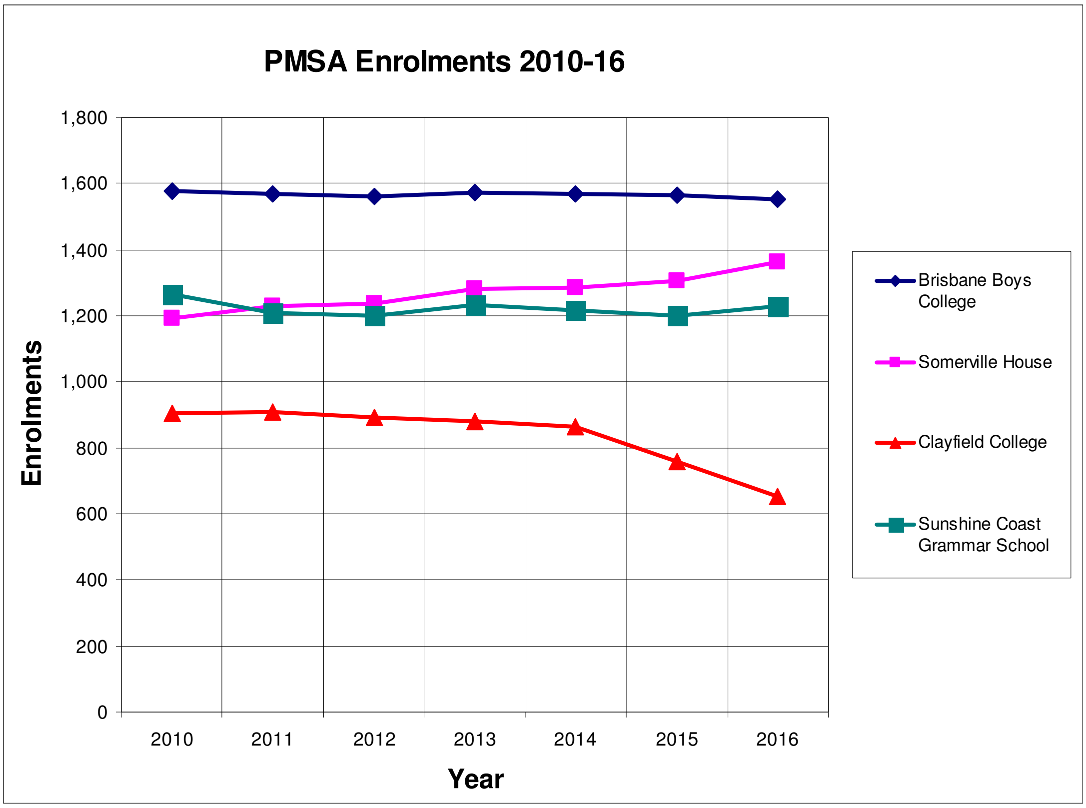


Figure 3.1.4A PMSA Enrolments 2010-16
(Information sourced from Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017)

The proportional seven year change in enrolments is summarised in Table 3.1.4A below.

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

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)

The PMSA Chairman notes on Page 1 of the “Chairman’s Report on the 2016 Consolidated Financial Report” that the significant decline in enrolments at Clayfield College has continued with 602 in 2017

The following points impacting the revenue side are noted below.

- Of the PMSA schools, only Somerville House has demonstrated a steady continuous year on year improvement in enrolment numbers increasing from 1,190 in 2010 to 1,362 in 2016. This is a positive change of 14% so revenues are increasing.
- Of marked difference is Clayfield College whose enrolment numbers were declining only slightly from 2011 to 2014 but then fell off dramatically in 2015 and 2016.
- The dramatic drop in numbers at Clayfield College from 2014 (863 students) to 2016 (652) of 211 students or 24.4% - <u>a loss of approximately 1 in 4 students</u>.
- Both Brisbane Boys College and Sunshine Coast Grammar School enrolments vary little over time.
- The structure chart shows Business Managers at each school and as per the line of authority shown in the PMSA Organisation Chart it is highly unlikely that the Business Managers, the Principal's, School Council and the PMSA were not aware of the enrolment issues and the impact on revenue and business viability.
- Not only would the parties above be aware, they would have been aware that any mitigation efforts taken by the School, School Council or PMSA over the very long period of three (3) years were not effective as demonstrated by the continuing decline in enrolment numbers.
- The decline at Clayfield College suggests that it was not a single event which caused the decline rather a series of events which have allowed the rapid decline in numbers to continue.

3.1.5 Costs

The significant proportion of school costs is teacher salaries. Teacher cost information in the PMSA Consolidated reports is limited and provides partial information on key aspects of being informed.

The IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017 reports the following Key Ratios:

- The 2017/18 Wages / Revenue Ratio – 65.19%
- The 2017/18 Average Wage - $110,079

Teacher numbers for the four PMSA Schools are shown in Appendix B and graphically represented in Figure 3.1.5A below. What is noticeable is the Clayfield College trend in teacher numbers including the spike in 2015 when enrolment numbers were dropping.

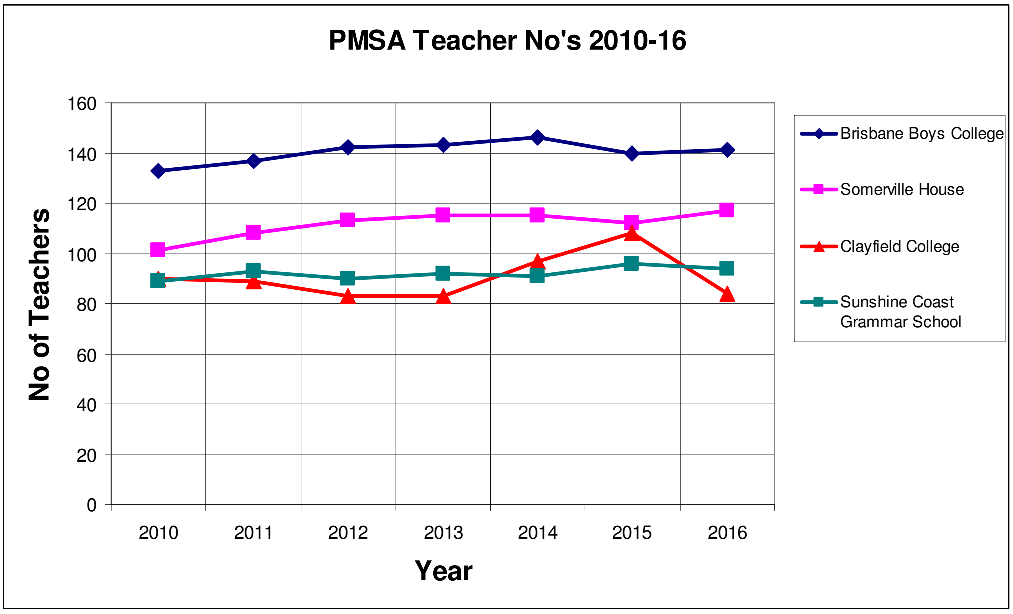


Figure 3.1.5A PMSA Teacher No's 2010-16
(Information sourced from Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017)

Like most industry players the PMCA costs depend upon whether teacher and other staff are employed on full time or part time basis.

The proportional seven year change in teacher and other staff numbers reflecting the full time and part time element is summarised in Table 3.1.5A below.

	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%

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)

A change in demand whether it be positive or negative would normally be expected to be reflected in the same positive or negative change in costs. Management of costs including the number of teachers employed at the various schools would normally drop in unison with the drop in enrolments.

The ratio of Students per Teacher would however remain the same (as the number of classes would drop to match lower students and teachers) so that quality of the service remains constant.

The student to teacher ratio for the PMSA schools is shown below for the 2010-16 period.

Year	Ratio - No of Students/Equivalent Teachers			
	Brisbane Boys College	**Somerville House**	**Clayfield College**	**Sunshine Coast Grammar School**
2010	12.62	12.06	10.98	15.13
2011	11.98	12.24	11.35	13.50
2012	11.63	11.95	11.52	13.46
2013	11.46	12.21	11.80	13.91
2014	11.40	12.03	10.87	13.76
2015	12.08	12.24	8.75	12.97
2016	11.81	12.17	8.94	13.32

Table 3.1.5B PMSA School Student/ Equivalent Teacher Ratios
(Information sourced from Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017

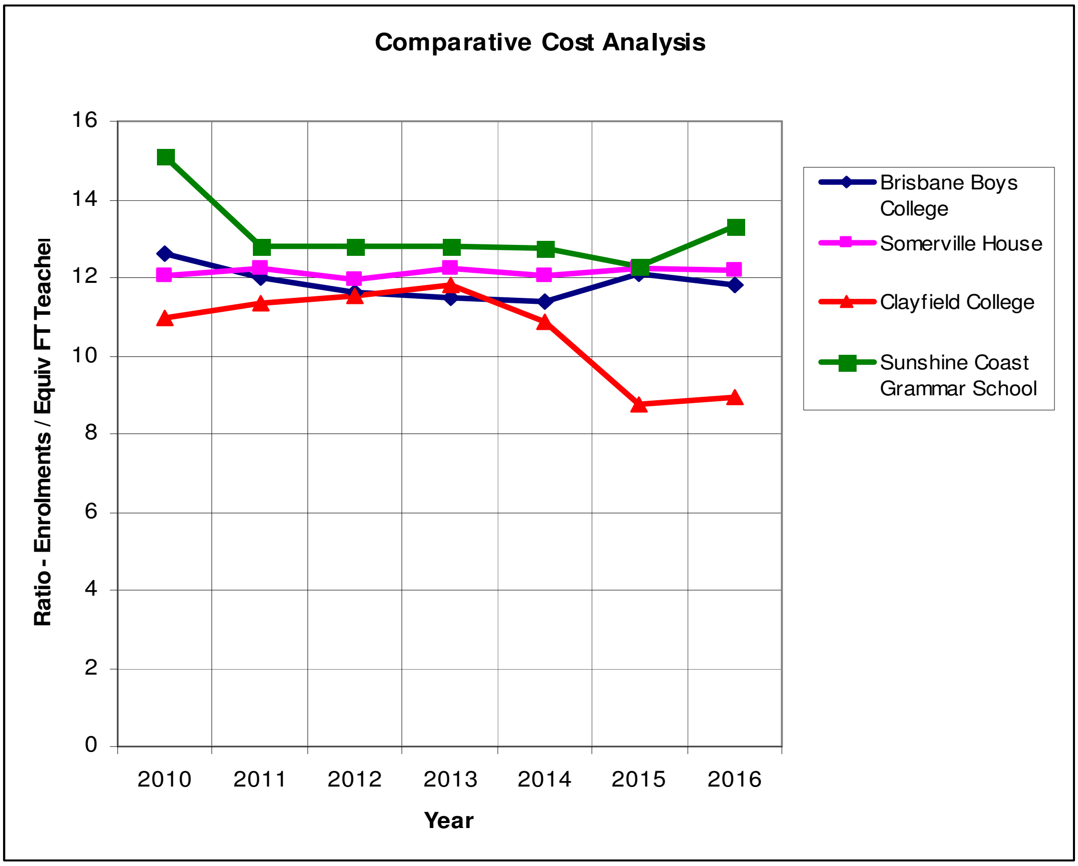


Figure 3.1.5B Comparative Cost Analysis – Ratio of Enrolments per Equivalent Full Time Teachers
PMSA Enrolment and Teacher No's 2010-16
(Information sourced from Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017)

The following points concerning costs are noted below.

- If Somerville House enrolments have been increasing 14% then the number of teachers would reasonably be expected to have increased by a similar amount. The increase in the number of teachers for the same period is 16% but it is reasonable that the % change in equivalent teachers would be a more accurate measure which is 13%.
- It appears that the steady increase in enrolments at Somerville House of 14% has been implemented in a measured way and consistent with the increase in teacher resources of 13%. Such objective evidence would tend to indicate that Somerville House has increased not only revenue but managed to control its costs in such a way to demonstrate/improve profitability.
- The Somerville House ratio of enrolments per equivalent full time teacher shows little change as it appears that enrolments over the period have been matching teaching numbers demonstrating year on year cost control with the ratio indicating little expected change to the product being offered by the school.

- The consistency or lack of variation over 7 years of the Enrolment/Teacher ratio at Somerville House places its management in a league above that of any of the other schools. (This would be self evident to the PMSA and expected to be objectively demonstrated in the KPI's for the Principal at Somerville House.)
- In contrast to the effective management of costs to revenue at Somerville House it appears that Clayfield College' was unable to manage enrolments (dramatic drop in enrolments of 24.4% in the period 2014 to 2016) but also the management of its costs particularly that of teachers.
- Place into context that in 2015 Clayfield College lost 105 enrolments (-12%) yet increased teacher numbers by 11 or 7.2 equivalent teachers. (97 to 108 or an increase of 11.3%)
- No business with reasonable management would expect a drop in customer numbers to be matched with increased teacher numbers as marked and evident as shown by the public data. It seems in 2016 that the cost impacts in the accounts were noticed but they didn't know how much to cut costs by.
- In the period 2014 to 2016 there was a drop in teacher numbers of 13 (from 97 in 2014 to 84 in 2016) and equivalent number of teachers of 6.5 (from 79.4 in 2014 to 72.9 in 2016). A drop of 13% in teacher numbers and only 8% in effective teacher numbers over a period where a reduction in enrolments existed of 24.4% is a major cause for concern – the difference or indicative losses of 16.4% being far greater than the industry profitability average of 3%. (Refer specific analysis section below)
- Without any major difference between the products and services offered between Somerville and Clayfield College it seems unreasonable to expect that the ratio of students per equivalent teacher would be so markedly different.
- The questions are not only limited to the number of teachers per child but such ratios may be produced if the number of classes are being kept the same despite a reduction in enrolments and students per class. This is a management issue and would have been noticed by any reasonable person at management level of Principal, School Council and PMSA.
- The difference in the revenue and cost indicators is one thing but what also is noted is that it has occurred over an extensive time period of at least two years being 2014 to 2016 with indications showing it is continuing into 2017. It practical terms it appears that the cost issues would have existed over a greater period of time given that the PMSA Structure Chart shows dedicated resources of a Business Manager at the School level who would have identified the drop in student numbers in the pre-enrolment stage as a minimum.
- It is difficult to explain the 2015 figures where the Teacher numbers increased from 97 in 2014 to 108 in 2015 (+11 or 11.3%) when the Enrolments reduced by 105 or -12.1% (863 in 2014 and 758 in 2015)
- Responsibility for teacher numbers would normally lie with the Principal however the Principal works within a budget and it seems unreasonable to expect that 11 new teachers at $150,000 each for a total cost of $1.7M would have been missed by the School Council, PMSA Council and the Finance and Audit Committee.
- It is not easily identified why the number of teachers at Clayfield College appears to be at times similar to other PMSA schools where enrolments are at much higher levels. The services and products offered seem similar or less than schools such as Somerville House.

- Any reasonable person who understands that business profitability is based on revenue and cost management would be alarmed by such figures in the first instance but for the situation to occur over such a long period of time despite management by a Principal, overseen by a School Council and PMSA governance programs demonstrates systemic failure at each of these levels.
- That each school has a dedicated Business Manager who is assumed to have all of the information identified above, identifying and managing risk and feeding it to those mentioned above and the PMSA Audit and Finance Committee (Refer PMSA Organisational Chart).raises the issue of what these staff representatives do other than recording and passing on the information to higher levels.

The information sourced from Australian Curriculum, Assessment and Reporting Authority spans a greater time period than the Presbyterian & Methodist Schools Association – Consolidated Financial Report for the Year ended 31 December 2016. The PMSA 2014 report shows a greater span of historical information which appears to be removed from the 2016 PMSA Report and as such does not provide a full picture if the enrolment declines to a reasonable person who only has the 2016 Report.

The drop in enrolments at Clayfield College has continued with the objective evidence indicating that the trend commenced in 2014 and has continued well into 2017.

3.2 Specific analysis of key points or trends identified in the initial analysis

The issues identified above raise a number of simple questions which further analysis may assist in answering. They include the following:

- What products and services does the PMSA provide and to whom?
- Is the dramatic drop in enrolments at Clayfield College a result of external market conditions?
- Was the dramatic drop in enrolments at Clayfield College a result of internal school based or PMSA decisions which impacted the products and services they offered?
- What is the financial impact and revenue loss incurred by Clayfield College in the period between 2014 and 2016?
- Is Clayfield College (as a separate business unit) a going concern based on the public information available?
- Does Clayfield College require ongoing financial support from the PMSA to continue operating?
- If the PMSA is required to financially support Clayfield College (i.e. by way of cash injection to maintain cash flow or guarantor in some way) then where does PMSA obtain the necessary resources to support Clayfield College?
- There are to many people who have the information so PMSA actions must have been directed - Four business Managers, four Principal's four School Council's and a PMSA board over the last four years.

3.2.1 What products and services does the PMSA provide and who are their customers?

Based upon the public information available it appears that the following services are expected to be provided by the PMSA to its customers whether it be the Parents or the Two Church bodies.

- It manages the property portfolio of the schools and other related business interests (It would have access to property professionals commensurate with a $400M property book)
- Brand Manager of the PMSA premium brands including the four schools under its control.
- It acts as the property manager/ agent responsible for the operational use of the properties within the portfolio.
- It acts as a party / guarantor of loans obtained during the operation of the business.
- Provide governance oversight of the school operations.
- Responsible for the successful delivery of the educational services at the 4 schools for Years Prep to 12 and
- It represents the values and ethics of the very church institutions that have delegated it the authority to act.

Given that the PMSA consolidated accounts are at a level above the business unit level it is unclear as to what services are being provided in areas other than the four schools. In other words the consolidated accounts are a “mixed omelette” of numerous potential revenues. The PMSA is however required to report school revenues and other information so at least the school revenue can be extracted from the PMSA published revenue in the yearly PMSA consolidated report.

Analysis of the 2014 revenue information published by the PMSA and the MySchool website at Table 3.2.1A shows revenue of $6.4M generated outside of the 4 PMSA schools.

Revenue Source	2014 Revenue Information ($000)						Difference PMSA vs MySchool	
	My Schools Website (by School/Finance section)					PMSA Annual Report Total		
Revenue Type	SCGS	BBC	CC	SH	MySchool TOTAL		$	%
Aust Govt Funding	7,579	4,657	3,521	4,755	20,512			
State Govt Funding	2,364	2,761	1,467	2,208	8,800			
Total Govt Funding	9,943	7,418	4,988	6,963	29,312	29,463	151	<1%
Fees	13,271	29,788	13,287	22,331	78,677	85,959		
Discounts Bursaries					-	- 7,448		
Net Fees	13,271	29,788	13,287	22,331	78,677	78,511	- 166	<1%
Other	811	1,741	733	5,505	8,790	15,203	6,413	Extra 73% Non School PMSA Rev
Boarding fees					-	6,648	6,648	Not shown in MySchool
TOTALS	24,025	38,947	19,008	34,799	116,779	129,825	13,046	

Table 3.2.1A - Comparison of 2014 Annual PMSA Consolidated Report and MySchool Revenues

Analysis of the 2015 revenue information published by the PMSA and the MySchool website at Table 3.2.1B shows revenue of $5.3M generated outside of the 4 PMSA schools.

Revenue Source	2015 Revenue Information ($000)						Difference PMSA vs MySchool	
	My Schools Website (by School/Finance section)					PMSA Annual Report Total		
Revenue Type	**SCGS**	**BBC**	**CC**	**SH**	**MySchool TOTAL**		**$**	**%**
Aust Govt Funding	7,705	4,802	3,149	4,945	20,601			
State Govt Funding	2,637	3,074	1,441	2,496	9,648			
Total Govt Funding	10,342	7,876	4,590	7,441	30,249	30,592		< 1%
Fees	13,679	29,813	12,588	24,044	80,124	89,123		
Discounts Bursaries					0	-8,358		
Net Fees	13,679	29,813	12,588	24,044	80,124	80,765	641	<1%
Other	718	2,000	1,086	1,913	5,717	11,050	5,333	Extra 93% Non School PMSA Rev
Boarding fees	0	0	0	0	0	7,138	7,138	Not shown in MySchool
TOTALS	24,739	39,689	18,264	33,398	116,090	129,545	13,455	

Table 3.2.1B - Comparison of 2015 Annual PMSA Consolidated Report and MySchool Revenues

The PMSA information shows that:

- it receives significant “other” revenue
- that the revenue is derived on an ongoing basis
- Indicates it is derived from a source and not just a one off payment in a single year.
- It is of such a size ($6.4M and $5.3M) that the PMSA Councillors must have been aware of its existence.
- Its size being in excess of other information which the Chair includes in the Chairman’s Report.

The PMSA does not show for such significant amounts:

- where this revenue has been generated
- who are the clients / customers being serviced.
- What did these clients get
- Are they part of the PMSA, related or completely independent companies or individuals.
- the costs incurred in deriving this “other” revenue
- Whether this is part of any PMSA marketing plan or what impacts are associated with the brand management of the four PMSA schools.
- loans, guarantees or liabilities created by the PMSA pertaining to this activity
- Impacts on the operation, financing, resourcing etc of the four PMSA schools
- The risk/reward profile and whether such risks are acceptable let alone being managed.

An informed person would be concerned that the quantum of other revenue (Say about 5%) because it is not only the revenue which is important to the success of a business. Any reasonable businessman would want to see whether the revenue is less that the costs and what risks are the entities being exposed to.

Given the limited information presented by the PMSA it is important to examine the limited information that has been presented which involves child care services.

Example 1: PMSA Strategy regarding Child Care Services – Grammar Early Learning Limited and Sunshine Coast Grammar School

The Auditors Note 1q) Basis of Consolidation Subsidiaries (Page 23) within the "*PRESBYTERIAN AND METHODIST SCHOOLS ASSOCIATION ABN 22728296617 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016*" states the following regarding the PMSA Schools and New Leaf.

> **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").

It appears:

- that the KPMG Auditor has identified other businesses under the control of the PMSA and included these transaction and financial information within the 2016 PMSA Consolidated Financial Statements.
- The very same KPMG Auditor appears to make no such relationship in the 2015 Audit documents despite the direct reference by the Chairman on Page 1 of the 2015 Consolidated Financial Report who states at Page 1 *Enrolments in the New Leaf Early Learning Centre at the Sunshine Coast remained steady at around 200*.
- The entity "New Leaf Early Learning Centre" ceased on 15 Jan 2006 and then became "Grammar Early Learning Limited" on 16 Jan 2006 (Refer ASIC Extract at Appendix C)
- The Grammar Early Learning Limited Financial Report for the Year ended 31 December 2016 available from the ACNC documents at Page 25 the "Director's Declaration" that the "Company is not publicly accountable nor a reporting entity." – It appears to be a stand alone company with the Auditor KPMG signing off the document at Page 5.
- The KPMG Auditor signing off the Independence Declaration for the 2016 PMSA Consolidated Financial Reports documenting Grammar Early Learning Limited within the PMSA "group" has signed off on a separate 2016 financial report for Grammar Early Learning Limited which according to its own report is:
    - not a reporting entity and
    - is listed independently in the ACNC.

The Grammar Early Learning Limited Financial Report for the Year ended 31 December 2016 shows the following:

- At page 6 it shows "*Management fee – Sunshine Coast Grammar School"* for a 2016 amount of $280,571 and a 2015 amount of $214,006
- At page 6 it shows "*Donation – Sunshine Coast Grammar School Foundation Limited*" in 2015 of $400,000.
- At Page 13 Note 5 shows the value of "total buildings" as $6,493,069 in 2016 and $3,203,008 in 2015 with the statement that the "*Buildings were independently valued on a fair value basis as at 31 December 2011*"
- At Page 3 the Director's report stated the following

Significant Changes in State of Affairs

During the year, the Company commenced and completed construction of a new Early Learning Centre on Presbyterian Church land at 45 Okinja Road, Alexandra Headland. The centre opened on 4 January 2016.

- At Page 12 the Annual Report the Auditor raised the significant issue of working Capital with the disturbing short term picture and the negotiations taking place regarding loans with Westpac and stated:

I. **Working Capital**

As detailed in the Statement of Financial Position, the Company has an excess of current liabilities over current assets of $1,465,232 (2015: $373,915) due to the Commercial Bill facility being classed as current as it expires within 12 months. The loans are being renegotiated with Westpac and the Company has received confirmation from the bank that the terms will be extended. The Directors are of the view that the effect of the following mitigating factors will allow the Company to continue to meet its debts as and when they fall due:

- Continued receipts from childcare & education fees and government grants.
- Current liabilities include the following items for which full settlement in cash is not expected in the ensuing reporting period:
  - Employee annual leave provisions $62,223;
  - Prepaid fees $79,907.
- An expectation of continued generation of cash surpluses by the Company.
- The operating profit for the reporting period includes non-cash expenses relating to depreciation and amortisation totalling $190,245.

12

(NB: (1) Who was negotiating the Loans with Westpac as it appears that the role of the CEO for Grammar Early Learning is not self evident from the information available? and (2) Who has the delegation of authority and responsibility for commercial arrangements in Grammar Early Learning Limited such as these – is it the members alone or has it been delegated and to whom?)

- This follows statement made by the PMSA Chairman in the 2015 Consolidated Financial Report in the Section "Capital Resources" refers to capital resources being expended on the Alexandra Headlands child care centre. Refer below:

The main 2015 works were:

- The completion of the Resource Centre at Clayfield College;
- Refurbishment of ten middle school classrooms at Clayfield College;
- Work on the new child care centre at Alexandra Headlands which opened in January 2016;
- At Somerville House, The Annexe commenced in November 2015. The Annexe project involves constructing another six levels to the existing two storey Junior School Library and Health Centre building. This critical piece of infrastructure will support the implementation of the School's strategy of transitioning to triple streams in the Junior School from Pre-Prep to Year 4, and four streams in Years 5 and 6, by providing an additional eight general and two specialist learning areas. In addition, the Annexe Project will introduce new commercial kitchen and dining room facilities and enable the transition of Year 12 boarders. This project is expected to be completed by November 2016.

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.

- But the Councillors' Report for the very same year (2015) stated the following at Page 6 which appears to directly contradict the Chairman's Report:

Since the end of the financial year, a school within the Association has been provided with written confirmation that it does not intend to act on the 31 December 2015 financial covenant breach as disclosed in Note 8.

Apart from that, no other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Association, the results of those operations, or the state of affairs of the Association in subsequent financial years.

- Note 8 at Page 30 of the 2015 PMSA Consolidated Financial Report makes specific reference to the Breach of the Loan Covenant.

Breach of Loan Covenant

As at 31 December 2015, a school within the Association breached the Net Operating Margin covenant with its financer. As a result of the breach, the financier had the ability as at 31 December 2015 to call for repayment of the total amount owing of $7,200,000 from that school.

As $1,000,000 was classified as current, the additional $6,200,000 has been reclassified as a current liability as at 31 December 2015.

As disclosed at Note 14, since the end of the financial year, the financier has provided that school with written confirmation that it does not intend to act on the 31 December 2015 financial covenant breach.

- The very same Auditor also raised similar concerns with the financial viability of the PMSA in the 2015 (Point p)) and again at 2016 (Point o))consolidated financial statements as per the 2016 example below:

o) Going Concern

As at 31 December 2016, the Association has an excess of current liabilities over current assets of $32,247 thousand (2015: $21,086 thousand). Included in current loans and borrowings of $20,492 thousand as at 31 December 2016, are bank borrowings totalling $15,673 thousand that are due to mature within twelve months of the year ended 31 December 2016, therefore this amount has been disclosed as a current liability as at 31 December 2016.

Notwithstanding these circumstances, the financial statements have been prepared on a going concern basis as the Council believes the Association is a going concern and will be able to pay its debts as and when they become due and payable. The Council has formed this opinion on the following basis:

- The Association has received written confirmation from its bank that these facilities will be renewed for a period of at least 12 months from the date of maturity of the existing terms.

- The Association will continue to generate net operating cash inflows sufficient to meet its debts as and when they fall due.

The Councillors are satisfied that the going concern basis of preparation is appropriate on the basis of the undertakings provided. The financial statements have therefore been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and settlement of the liabilities in the ordinary course of business.

- The Grammar Early Learning Limited Financial Report for the Year ended 31 December 2014 shows the following at Page 2

Short and long term objectives

The company was formed on 11th August 2005 to establish and carry on institutions to deliver educational programs where children of all ages will be cared for, nurtured and learn in an environment consistent with Christian doctrines, and where quality care is the highest priority.

Since 2005, the operations of the company have focused on achieving its objectives by delivering educational programs and childcare services at the New Leaf Early Learning Centre at Forest Glen. The company operates two separately licensed centres being the Nursery Wing and the Pre-prep Wing.

In the longer term, the company may provide financial assistance and support to the Presbyterian and Methodist Schools Association, in particular, the Sunshine Coast Grammar School. The support will assist the school to further its mission to provide a vibrant, Christian school that offers opportunity, participation and challenge founded on Christian values.

- The Grammar Early Learning Limited Financial Report for the Year ended 31 December 2014 shows the following at Page 3:

Significant Changes in State of Affairs

On 19th December 2014, the Company submitted an application to the *Sunshine Coast Regional Council* to develop an Early Learning Centre on Presbyterian Church land at 45 Okinja Road, Alexandra Headland. The proposed centre is currently being considered for formal approval by the PMSA Council.

The referenced Application was submitted by:

Name/s (individual or company name in full)	**Grammar Early Learning Ltd C/- KHA Development Managers**
For companies, contact name	**Andrew Stevens**

(Source: Email from Adam Seaton to Internet Mailbox Sunshine Coast Regional Council on Tuesday 23 Dec 2014 **Titled "**Development Application, 43-45 Okinja Rd Alexandra Headlands, Email 1 of 1, MCU14/0206" from Sunshine Coast Regional Council "PD Online" for Application No MCU14/0206.)

The declaration of owners consent shows that the owner is the Presbyterian Church of Queensland and not the PMSA as would reasonably expected.

Table H	
Name of owner/s of the land	**The Presbyterian Church of Queensland**
☒ By making this application, I, the applicant, declare that the owner has given written consent to the making of the application.	

(Source: Email from Adam Seaton to Internet Mailbox Sunshine Coast Regional Council on Tuesday 23 Dec 2014 **Titled "**Development Application, 43-45 Okinja Rd Alexandra Headlands, Email 1 of 1, MCU14/0206" from Sunshine Coast Regional Council "PD Online" for Application No MCU14/0206.)

- What is of major concern is <u>the involvement of the SCGS in the development application when it was not the land owner and not the applicant.</u> The involvement of the SCGS Marketing Co-ordinator appears to act as the New Leaf Early Learning Centre Marketing Co-ordinator if the reported statements published in the Sunshine Coast Daily on 8 April 2015 are correct as detailed below.

  "Mr Bourne said he was surprised church officials had ignored his requests to talk about what was being planned.

"It's been done under the cloak of deceit," he said. "They're just trying to sneak it through."

Mr Bourne said he first approached his neighbour six months ago, after noticing surveyors in the block behind his.

"I rang the church and said if they're doing anything, I would love to be involved," he said.

He said the church staff had agreed to keep him informed, but he never heard from them.

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.

"We would have done extensive research through our planners to combat any water flow issues that there might be," she said.

The application for a material change in use of 43-45 Okinja Rd, Alexandra Headland, is currently being assessed by Sunshine Coast Council."

(Source: https://www.sunshinecoastdaily.com.au/news/locals-kept0in-dark-childcare-centre/2599996/)

- The current title of the Alexandra Headlands Child Care business shows no PMSA or Sunshine Coast Grammar School security over the site. (Refer Appendix D)
- The Constitution of New Leaf Earning states the following at Page 2 of its Constitution

3. Objects

3.1 The Company is formed to establish and carry on institutions to deliver educational programs where children of all ages will be cared for, nurtured and learn in an environment consistent with Christian doctrines.

3.2 The Company may provide financial assistance and support to the Presbyterian and Methodist Schools Association.

3.3 The Company must pursue charitable purposes only and must apply its income and assets in promoting those purposes.

The public records concerning the relationships between the PMSA, Sunshine Coast Grammar School, Sunshine Coast Grammar School Foundation, New Leaf Early Learning and Grammar Early Learning Limited Financial Report show the following:

- The Australian Charities and Not-for-profits Commission records show that Grammar Early Learning Limited reports as a separate entity.
- The Australian Charities and Not-for-profits Commission records show that the reporting entities grouped with the PMSA does not include Grammar Early Learning Limited
- Contrary to the ACNC information the Audit reports show that the 2016 PMSA Consolidated Financial report includes the activities of Grammar Early Learning Limited.
- It is unclear as to whether the Auditor or the Australian Charities and Not-for-profits Commission is incorrect – either way a reasonable person would see this as a significant matter as either the Auditor is incorrect or the ACNC is incorrect.

- Grammar Early Learning Limited submitted a development approval on 23 December 2014 for a child care centre at 43-45 Okinja Rd Alexandra Headlands. The land being owned by the Presbyterian Church of Qld. No PMSA involvement would appear to be necessary. (Refer Title shown at Appendix D)
- It is unclear as to why Grammar Early Learning sought or needed any approval from the PMSA in reference to the "19 December 2014" application (Assume that the 19th is the same as the 23rd Dec 14 DA) unless Grammar Early Learning Limited needed something from the PMSA to realise the development. It appears to be requesting a financial benefit in some form.
- It is unclear as to why no lease agreement was able to be located the Grammar Early Learning Limited use of the Sunshine Coast Grammar property on the SCGS Forest Glen site.
- In 2015 this activity was happening despite Grammar Early Learning Limited being a separate company and the project not being on PMSA land. The PMSA Auditor noted that the PMSA had breached a loan covenant and expressed "Going Concerns" reservations in the 2015 Audit reports. Going concerns being raised by the same Auditor in both the 2016 PMSA and Grammar Early Learning Limited Reports.
- A search of a lease between Grammar Early Learning Limited and the Sunshine Coast Grammar School has found nothing

<u>Any reasonable person would ask whether there is or was a PMSA strategy to roll out a pre school services since at least 2005 when New Leaf was created?</u>

<u>Any reasonable person would ask whether there is a PMSA strategy to expand the preschool services since it appears that the Alexandra Headlands operations indicates an intention to expand the business?</u>

<u>Any reasonable person would ask whether PMSA employed staff at the SCGS are in effect acting as or undertaking the usual tasks of a CEO of Grammar Early Learning Limited and is their a conflict in the tasks as employee of the PMSA?</u>

<u>Any reasonable person would ask why would the PMSA have any capital involvement or provide a financial benefit to a capital strained business such as Grammar Early Learning on land controlled by another entity at a time when its finances are not under control as evident from the breach of a loan covenant?</u>

<u>Any reasonable person would ask what did the PMSA get from the services it provided to Grammar Early Learning Limited and has it received appropriate remuneration for not only the services it provides but also the risk that it has attracted?</u>

<u>If the Grammar Early Learning Limited business fails how does the PMSA retrieve whatever it invested since it appears that the only asset not already controlled by the PMSA is on land owned by others and it appears not to have any securities attached to the Alexandra Headlands property title?</u>

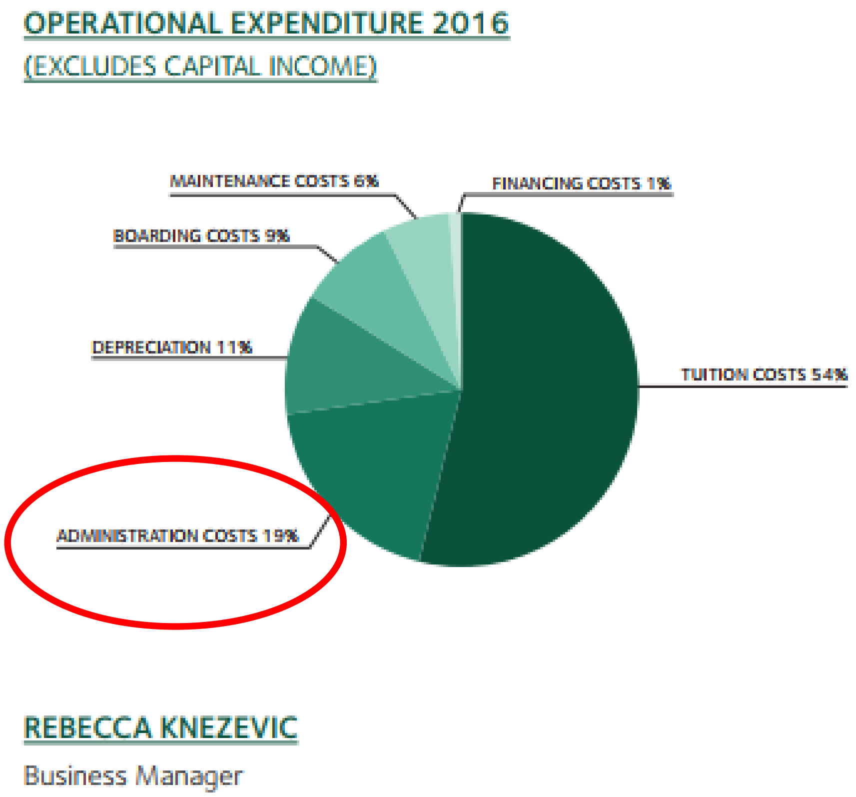
Not only has the PMSA appeared to have supplied a financial / capital contribution in some way but it appears that the PMSA through the Sunshine Coast Grammar School provides additional services and products to Grammar Early Learning Limited including:

- Land at the Sunshine Coast Grammar School for the Grammar Early Learning business at this site (yet no lease was able to be identified. Let alone revenue into the PMSA accounts)
- Management capability by way of using Sunshine Coast Grammar Managers
- Operational capability with HR and other services provided.
- Marketing and brand management assistance as evident from the promotion of the Grammar Early Learning Limited business logo’s etc on the SCGS website.
- Marketing co-ordination and development spokesman as evident by the comments made to the Sunshine Coast Daily Newspaper regarding public complaints regarding the New Leaf Early Centre at Alexandra Headlands.

It appears that the Management Fee paid to SCGS is approximately 11% of revenue and appears to be based on an overhead type of administrative arrangement and not direct operational management activities as represented in the documentation sighted.

Comparing this fee to another PMSA school shows that administration costs at Clayfield College are in the order of 19% and not the 11% figure charged to Grammar Early Learning Limited.

(It should be noted that the 19% figure would not include all of the services undertaken by SCGS such as marketing co-ordination and development applicant spokesperson for an independent corporate entity)



Operational Expenditure – Clayfield College 2016
(Source Clayfield College Annual Report 2016:
https://www.clayfield.qld.edu.au/about/school-performance)

This and the risk associated with such activities appears low when considering the quantum and risk associated with the services provided by PMSA and SCGS.

It was thought that payments or other transactions of any kind may have been documented within the related party transactions of the reports. Page 9 of the 2015 PMSA Report concerns “Related party transactions – Councillors”. The 2015 PMSA Reports states that no such payments are noted:

> Christian Reformed Bookshop, of which Councillor Rev Guido Kettniss is a partner, received payments totalling $776 during 2015 for books and other educational materials.

A comparison of the Director’s Register of Grammar Early Learning Limited and PMSA Councillors for the 2015 Period shows the following:

Director’s Register of Grammar Early Learning Limited 2015	Councillor’s Register PMSA 2015
Name of Director B. Stein J. Fadian G. Kettniss E. Woodward P. Clegg M. Woods G. Adsett D. Crevola	Council/ Committee G Adsett A Bennett J. Demack G Skelton M Fysh G Kettniss R McCall J McPherson D Robinson K Standish G. Lynch R Wilkinson H. Murray

Pages 1 and 2 of the 2015 Grammar Early Learning Limited Director’s Report shows that Director’s were aware of the activities due to their involvement with the PMSA, Sunshine Coast Grammar School and Grammar Early Learning Limited organisations:

- Rev Kettniss is the Deputy Chair of the Presbyterian and Methodist Schools' Association
- Gregory Adsett is currently Chair of the Sunshine Coast Grammar School Council, PMSA Councillor and member of the PMSA Appointment and Remuneration Committee

It appears that no mention is made of payments/ capital contributions to Grammar Early Learning Limited or disclosure of potential related party transactions.

Given the relationship that specific Director’s have or had with the PMSA it is noted that in 2015 when the PMSA was having substantial financial issues it gave a donation of $400,000.

It appears it did not give it to the PMSA but to the Sunshine Coast Grammar School Foundation which would in effect place the money out of the direct control of the

PMSA and place it within an organisation which would spend the monies on the Sunshine Coast Grammar School. By doing this it appears that the Director's may have attempted to prevent the use of the monies at other PMSA schools or business interests.

It should be noted that:

- if the Sunshine Coast Grammar School breached its loan agreements then the monies should have been paid to the school and not the foundation.
- If the Sunshine Coast Grammar School was not the school then the monies should have been paid to the PMSA which would be through the Sunshine Coast Grammar School.
- Either way the payments were made through the Sunshine Coast Grammar School because Grammar Early Learning Limited was using the SCGS to do this task.
- It would be difficult for the SCGS Business Manager to be unaware of the monies and direction of payments as they appear to have gone through this office.
- It would be difficult for the SCGS Business Manager not be aware of a lease arrangement between SCGS and Grammar Early Learning if the officer was the business manager at SCGS and a management representative of Grammar Early Learning.

Not only do we not know that a capital contribution to Grammar Early Learning Limited appears to have been approved but it is unclear as to where in the records and scope of the agreement exists.

What is evident are the representations made about the relationship of New Leaf Early Learning and SCGS as detailed within the examples shown at Appendix E.

Given the Directors relationship it would be reasonable to identify it within the related party transaction part of the audited reports but this is not evident.

Example 2: PMSA Strategy regarding Child Care Services – Clayfield College and Grammar Early Learning Limited and Sunshine Coast Grammar School

The following information is noted regarding the provision of child care services at Clayfield College:

It appears that Clayfield College provides a service as evident from signage on Sandgate Rd.

According to the Clayfield College Website

"At Clayfield College, outside school hours care is operated by Children First, *a separate entity to Clayfield College.* Children First *provide care for school age children - before and after school, and during holiday times.* Children First *is registered as an After School Care Provider for school age children only, and as Pre-Prep children are not recognised by the government as school age,* Children First *is unable to care for Pre-Prep children."*
(Source: https://www.clayfield.qld.edu.au/community/outside-school-hours-care)

Perusal of the "Children First" Webpage however states something different to the Clayfield College representations as demonstrated by the following information:

Welcome to Children First Learning Centres

Children First Learning Centres (CFLC) has been involved in the early education industry since 1991

CFLC is a non-corporate identity offering early learning programs for children up to and including school age, based on the "Early Years Quality Framework" (for under 5's) and "My Time, Our Place" (for school age children).

Education and Care Services National Law and Regulations, as well as State Regulatory Authorities, effective from 1st January 2012, govern our centres.

(Source: http://www.childrenfirst.com.au/index.php/company-profile)

and

Welcome to Lyndhurst Early Learning Centre

An exciting new era in early childhood learning began on 15th December 2008. Children First Learning Centres redeveloped the historic Hall & Dodd's building in the grounds of Clayfield College; the first step in transforming the Heritage Listed building into the area's leading early learning facility.

Set on a spacious 3000 square metre site, the centre offers programs for children from 6 weeks old to 5 years old. The centre operates Monday to Friday, 52 weeks per year (closed Public Holidays), 6.30am to 6.30pm – providing a nurturing and child-centric learning environment. The focus is on developing a strong learning basis for children at the most influential time of their lives.

Being located in the grounds of Clayfield College provides an excellent level of convenience for busy working parents.

(Source: http://www.childrenfirst.com.au/index.php/lyndhurst)

The address and contact details for the centre as per below:

Contact Info

Lyndhurst Early Learning Centre

3 London Road, Clayfield Qld 4011

Telephone: (07) 3117 2222

Fax: (07) 3117 2223

Email: lyndhurst@childrenfirst.com.au

(Source: http://www.childrenfirst.com.au/index.php/lyndhurst-contact-info)

The signage for the Lyndhurst centre is clearly evident from Sandgate Rd as per the Google photograph below.

(Source: https://www.google.com.au/maps/@-27.4206854,153.0530789,3a,75y,163.73h,91.66t/data=!3m6!1e1!3m4!1stuLfvs0Y3njPiGFTtlgPcA!2e0!7i13312!8i6656)

The property appears to have been purchased by the PMSA in 2003 for a price of $4.4M with a land use for educational including kindergarten. (Refer Appendix F)

The Property Title (Appendix G) makes reference to the 2014 lease arrangements which includes the rental /consideration of the $79,930 fee attached based upon lease terms of commencement 01/01/14 to 31/12/18 with four 5 year options. (Refer Appendix H).

This results in a rental yield on an outdated purchase price of approx 1.8% based upon a 2003 value and 2014 lease arrangement. This is considered to be significantly lower than current market values.

The entity or tenant who is obtaining this significantly low rate is described in the documents as:

Tenant
Children First Learning Centres Pty Ltd
ACN 009 986 547 as Trustee of the Community Property Investment Superannuation Fund
103 Limestone Street
Ipswich 4305
Fax 07 3812 7566

It appears that the Community Property Investment Superannuation Fund public information is limited however it does not have contact details or addresses similar to any PMSA entity so for the purposes of this report it is assumed to be an independent entity.

It is noted that the three centres appear:

- To run in a secular manner with little information to determine whether the centres have a faith based philosophy or whether it has chosen to remain silent.
- To have two of their three centres based at Clayfield would indicate that Children First business has a high dependence on the success of Clayfield College.

The signatures shown on the mortgage and lease documents appear to be PMSA Councillors Standish and Ketniss so the PMSA meeting records etc would expect to show the delegation to enter into this long term lease agreement.

What do the examples show?

- The examples show the potential revenue sources (other than the schools) shown in the PMSA annual reports do not provide anywhere near the revenue which has been identified as “other”.
- There must be other significant sources of revenue which have not been disclosed in the financial reports.
- There appears to be no consistent strategy as to the services that the PMSA wish to provide in preschool market.
- Clayfield College has effectively passed over the service to an external entity and does not even recognise the services on its own website despite the services being on Clayfield owned property. Contrast this with SCGS who appear to be heavily involved within a private company on SCGS property with the full knowledge of the PMSA Council.
- That the PMSA Council is identified within its own records as being involved in some approval or capital contribution to Grammar Early Learning at a time when one of its schools has defaulted on a loan agreement, it has no agreed strategy regarding preschool services and that the Auditor’s statements appear to be conflicting with the ACNC records and data.
- That the issues identified were not only discussed but approved at the highest levels of the PMSA as evident from the PMSA records and signatures on the public documents.

- That the related party transaction sections of the PMSA reports are silent on such matters.

What we did know is that the PMSA

- o Manages the property portfolio of its own schools and other related business interests (It would have access to property professionals commensurate with a $400M property book)
- o Is Brand Manager of the PMSA premium brands including the four schools under its control.
- o It acts as the property manager/ agent responsible for the operational use of the properties within the portfolio.
- o It acts as a guarantor of loans obtained during the operation of the business.
- o Provide governance oversight of the school operations.
- o Responsible for the successful delivery of the educational services at the 4 schools for Years Prep to 12 and
- o It represents the values and ethics of the very church institutions that have delegated it the authority to act.

What we now know is that the PMSA also provides

- Provides management services to a separate preschool company.
- Provides some yet to determined capital contribution to a school care company.
- Provides brand support and advertising service/platform for the “New Leaf Early Learning Centre” despite not having a consistent PMSA wide strategy for this market.
- These services are provided for a low amount which can not as yet be considered within a risk adjusted framework.

What remains unknown is:

- The sources of the “other revenue” which has yet to identified.
- Whether the other revenue is sustainable or will dry up when the land use or other changes occur.
- Whether this revenue is essential to continue the funding and loan agreements the PMSA has entered into.

3.2.2 Is the dramatic drop in enrolments at Clayfield College a result of external market conditions?

It is reasonable to assume that external market conditions (which are beyond the control of Clayfield College) may have impacted enrolment numbers?

It is important to note the following information:

- Page 1 of the Chairman’s Report on the 2016 Consolidate Financial Report states:

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.

(Source: 2016 PMSA Consolidated Financial Report)

- Page 1 and Page 3 of the Chairman's Report on the 2015 Consolidate Financial Report state the following:

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

More work is planned for Clayfield College as part of the drive to improve enrolments and to raise the standard of facilities that are appropriate for the tuition fees charged.

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.

(Source: 2015 PMSA Consolidated Financial Report)

Industry information is available from the - IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017 which states the following:

Industry Performance

Life Cycle Stage	The number of establishments is increasing
	The services offered by private schools are well-defined and clearly segmented
	The industry is outperforming the wider economy

(Source: Page 11 - IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017.)

and

"Queensland is underrepresented compared with its share of the population, hosting 17.8% of private schools but 20.1% of the population. This fall in enterprises in this state is primarily attributable to declines in the numbers of primary and secondary private schools."

(Source: Page 19 - IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017.)

In order to test the impact of external market forces an additional analysis has been undertaken to determine whether the drop in enrolment numbers was due to external forces.

If external forces impacted the enrolment numbers then it is reasonable to assume that such forces impacted other private schools within the Clayfield College Market.

A comparison of enrolment numbers for Clayfield College and local competitor St Margaret's Anglican Girls School has been provided in Figure 3.2.2A, B and Table 3.2.2A below.

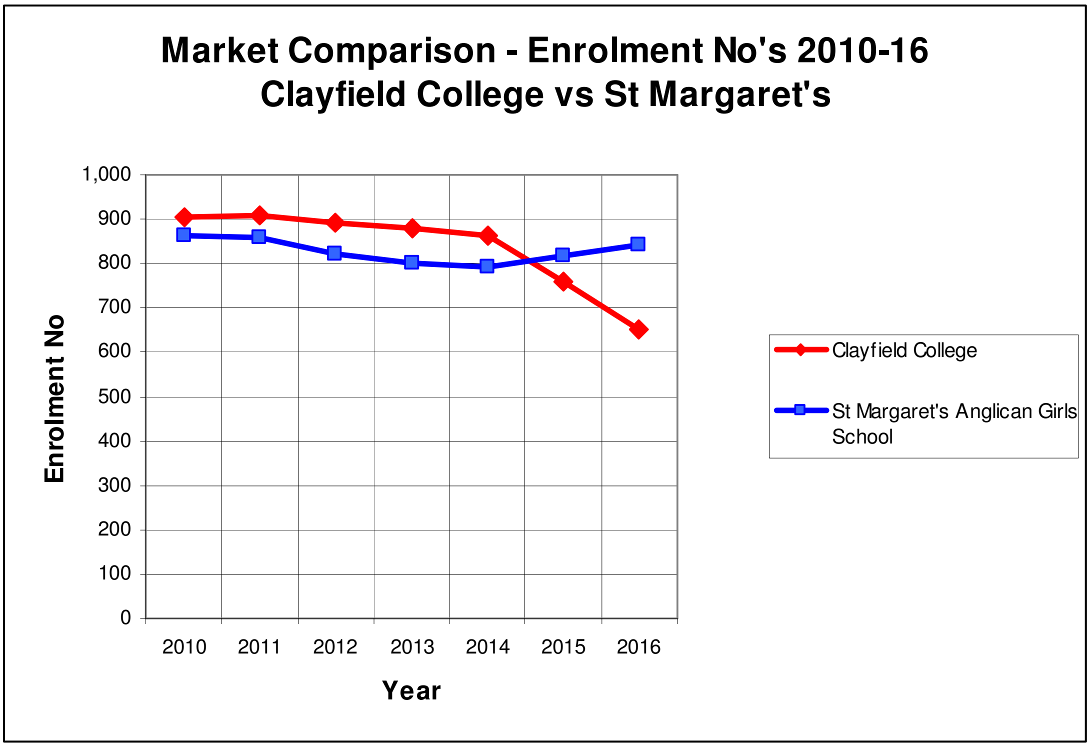


Figure 3.2.2A – Enrolment Comparison
Clayfield College and St Margaret's 2010 to 2016

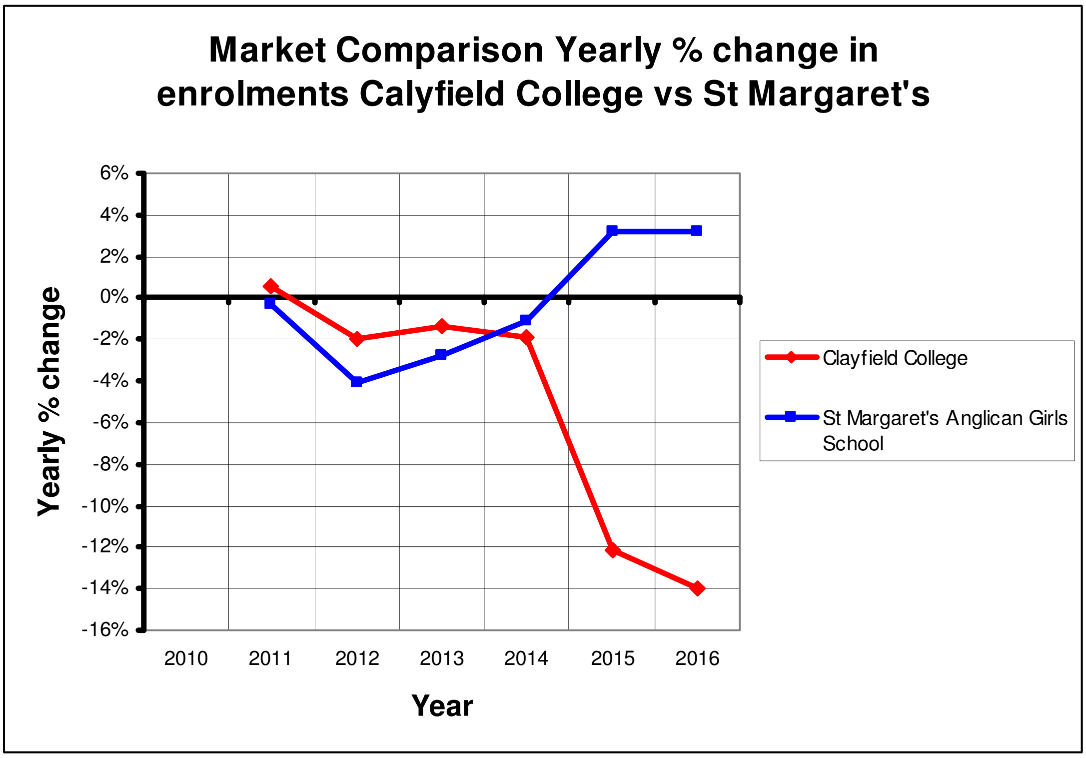


Figure 3.2.2B – % Change in Enrolments
Clayfield College and St Margaret's 2010 to 2016

Year	No of Students		Change in enrolment no's from previous year		% Change in enrolment from previous year	
	Clayfield College	St Margaret's Anglican Girls School	Clayfield College	St Margaret's Anglican Girls School	Clayfield College	St Margaret's Anglican Girls School
2010	905	861				
2011	910	858	5	-3	1%	0%
2012	892	823	-18	-35	-2%	-4%
2013	880	800	-12	-23	-1%	-3%
2014	863	791	-17	-9	-2%	-1%
2015	758	816	-105	25	-12%	3%
2016	652	842	-106	26	-14%	3%

Table 3.2.2A – Change in enrolments comparison 2010-2016
(Information sourced from Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017)

The following points are noted.

- Both Clayfield College and St Margaret's enrolment numbers changed very slightly in the period between 2010 and 2014.
- The negative impact to enrolment numbers at Clayfield College in the period 2015-2016 is contrasted by a positive increase in enrolment numbers at St Margaret's for the same period.
- The Clayfield College enrolment loss of 24.4% in the period 2014 to 2016 is contrasted with St Margaret's increase in enrolments in the same period of 6%. An approximate 30% difference in enrolments within the same period.
- Where in 2014 Clayfield College had approximately 9% more enrolments than St Margaret's by 2016 its numbers had reduced to such a significant extent that Clayfield College was now only 77% of the school population of St Margaret's.
- External forces beyond the control of Clayfield College and St Margaret's would impact both entities in a similar manner with enrolments at both schools resulting in enrolments trending in the same direction.
- That the trends between the schools are opposite appears to indicate that that either a negative internal impact is operating within Clayfield College in the 2015-2016 period resulting in enrolment losses at Clayfield and potentially increases at St Margaret's or
- It appears that either St Margaret's had made better decisions attracting greater enrolment numbers than Clayfield College or that Clayfield College made poorer decisions in the period 2014-16 than St Margaret's..
- Given that the losses in enrolment numbers from Clayfield over the two years are 211 and the increase at St Margaret's is only 51 (Approx 25%) it appears that the losses in enrolments have been initiated internally within Clayfield College with the losses moving to other competitors.
- It is simply not credible that such losses would not have been picked up at the commencement of the 2015 year by the Clayfield College Business Manager, the School Principal and the School Council.

- It is simply not credible that such losses would not have been picked up at the commencement of the 2016 year by the Clayfield College Business Manager, the School Principal and the School Council.
- It is simply not credible that such losses would not have been picked up at the commencement of the 2017 year by the Clayfield College Business Manager, the School Principal and the School Council.

3.2.3 Was the dramatic drop in enrolments at Clayfield College a result of internal school based or PMSA decisions which impacted on the products and services they offered?

Enrolment numbers are seen as being a KPI to success in this industry. A drop in enrolments can be seen as a serious strategic marketing failure as the marketing strategy for schools has a high level of customised services whether it be the tangible school infrastructure / building and the intangible leadership and teaching quality of Principal's and their staff.

Any reasonable business person understands that because the quality of services (such as education) is difficult to asses, consumers frequently use price as an indicator of quality. When prestige pricing is used, it is important that all other tangible elements of the marketing mix reinforces this prestige image.

The changes in the essential elements of a service marketing program (Product, Price, People, Promotion, and Place) would explain the impacts associated with KPI's associated with success or failure.

Publicly available information concerning PMSA and Clayfield College changes to their product and people impacting the 2015 and 2016 enrolment figures are provided below.

- On 21 July 2014 the PMSA issued a media release announcing the appointment of Ms Melissa Powell as Clayfield College Principal effective 1 January 2015.
- On 16 October 2015 and after less than 10 months in the role the Chairman of the PMSA (Desmond Robinson) and Clayfield College Council Chairman (Kevin Standish) announce the resignation of Ms Melissa Powell as school Principal effective 17 January 2016.
- The reasons given for Ms Powell's resignation being "*Melissa has accepted appointment as Principal of Seymour College (formerly Presbyterian Girls' College) in Adelaide, one of Australia's leading day and boarding schools for girls.*".
- On 31 August 2016 the Chairman of the PMSA (Robert J.McCall) and Clayfield College Chairman (Anne Bennett) announce the appointment of Kathy Davis from Acting Principal to Principal despite the issues that have resulted since the first decision in July 2014. (Refer PMSA letter dated 31 August 2016 at Appendix K)
- The announcement of the Principal position on 31 August 2016 occurred some 11 months after notification of the vacancy on 16 October 2015.
- On 12 December 2016 the Board Chairwoman for Seymour College announced the immediate resignation of Ms Powell after less than 12 months in the role.

Changes to the product offering associated with “place” and “product” are detailed on page 3 of the Chairman’s Report in the 2015 and 2016 Consolidated Financial Reports

- The completion of the Resource Centre at Clayfield College;

(Source: Page 3 - Chairman’s Report in the 2015 Consolidated Financial Report)

Clayfield College

The Year 6 classrooms opened at the beginning of the 2016 second term. More work is planned for Clayfield College as part of the drive to improve enrolments and to raise the standard of facilities that are appropriate for the tuition fees charged.

(Source: Page 3 - Chairman’s Report in the 2016 Consolidated Financial Report)

A Marketing 5P Analysis has been undertaken to determine what happened and in which way a positive or negatives benefit was received as measured by enrolment numbers.

Marketing Element	2014 Observations	2015-16 Observations
Product	On the rise with improving quality of staff and infrastructure	Product damaged by instability and quality of Principal Appointments with negatives outweighing improvements to school.
Price	Premium price retained	Premium price retained despite quality of product lowered.
People	Improving numbers in 2014 and improving quality	Qualities of Principal not consistent with prestige product and service being offered. Loss of skilled staff following appointments.
Promotion	Positive with initiatives such as “Womens Industry Network” being launched	Negative perception by parents and other stakeholders with “word of mouth” promotion associated with appointments. PMSA public statements not seen as being consistent with appointees experience or role at a Qld Prestige School.
Place	Infrastructure being planned but not open.	Infrastructure improvements continuing.

Table 3.2.3A - Comparative Analysis of Marketing Mix elements and Clayfield College action in the period 2014-16.

The instability at the head of Clayfield College in the 2015 and 2016 periods is self evident. If a lack of competence at the highest school level or council level then it would become noticed in the results. The following points being noted.

- The PMSA appointment of Powell in July 2014 gave Parents not only the opportunity to assess the appointment but also sufficient time to obtain places at other private schools in 2015.
- The effectiveness in 2015 of Powell as Principal, School Council and PMSA to manage not only the fallout from the appointment but also its costs is demonstrated by the action to significantly increase teaching resources at a time when enrolment numbers have taken a significant drop.
- Such administration failure would normally be grounds for dismissal of both the Officer and those who appointed the Officer.
- The delay in appointing a successor to Powell (over 11 months) appears to indicate that the PMSA and the School Council were unable to identify suitable candidates given the issues in the original appointment of Powell and status of the Clayfield College business in 2015. This may be for price, quality of candidate or a lack of institutional/employer attractiveness given the history of public instability.
- After 11 months it appears that the PMSA and College Council reacted to the need to finalise the appointment of the Principal Position and appointed of Kathy Davis who had been in control of the school since January 2016.
- New and existing parents voted with their feet with a similar number of enrolments being lost in 2016 as in the previous year.
- It appears that the losses in both enrolments and impact to cash flow would have been at the very forefront of the issues before the Principal, the School Council and the PMSA so it is no surprise that Powell resigned seeking other opportunities. Anybody who increases teacher numbers significantly while being aware of major drops in enrolments is simply not up to the task of managing such a business.
- Having not learnt from the Powell experience the School Council and PMSA for a second time appointed in an acting then permanent role a Principal who parents viewed as not suitable and not surprising the enrolment numbers dropped in a similar manner to the first appointment.
- What is noticeable is that the PMSA and School Council did not have the capacity to identify and employ a Principal which parents deemed credible. The PMSA and the School Council did not identify the lack in their capability or else they would not have made the same mistake a second time.
- What is noticeable is that the PMSA had its best performing school and Principal / Manager at Somerville who could have been used to assist in resolving the problems created by the PMSA.

The decision to appoint the two Principal's rests wholly and solely with the PMSA and the School Council and as such the impacts of the internal decisions rests with these entities.

The objective evidence of the impact of the appointment of Ms Powell and the continued instability in the leadership position is shown in the change in enrolment numbers and yearly % change shown in Table 3.2.3B below.

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%

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)

What is important to note is that both the PMSA and College Council appear to have used an external recruitment consultant to make the appointments and as such two key questions to ask the PMSA are:

- Did the PMSA accept the recommendation of the consultant on who to appoint and if they did then has PMSA sought to recover the losses incurred due to accepting such a poor recommendation?
- If the PMSA elected to select another candidate then why did they do this?

3.2.4 What is the financial impact and revenue loss incurred by Clayfield College in the period between 2014 and 2016?

To be informed it is important to look at:

- The actual loss of expected revenue from enrolments
- The opportunity cost of revenue lost from increasing enrolments as Somerville House demonstrated could be done
- The financial impacts to cash flow and financial instruments required to keep the business operating if cash flow turns negative over a considerable period of time.

Loss of expected revenue from enrolments

The order of revenue loss to Clayfield College due to the PMSA decisions to drop the quality of its services is approximately 211 students at a conservative $20,000 per year = $4,220,000 per year. (The loss if the PMSA 2017 figures shown on Page 1 of the 2016 Consolidate Financial Report would be 261 at $20,000 per year = $5,220,000) (NB: The figure of $20,000 was based on the $20,991 earned per student quoted in 2015 by the Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/ - 28 Oct 2017)

Based upon a Year 7 to 12 program enrolment the cost to the PMSA is in excess of $20,000,000.

Opportunity cost of revenue lost from increasing enrolments as Somerville House

The opportunity cost to increase enrolment numbers in a similar way would result in new enrolments of approximately 2% per year from a 2014 base of 863 students. If St Margaret's can increase numbers then why would Clayfield College not be able to do so?

The compounding opportunity loss would be in the order of an additional 17 students per year or approximately $340,000 per year in the first year, $680,000 in the second, $1,020,000 in the third, $1,360 in the fourth and finally $1,700,000 in the fifth for a total lost opportunity cost of $5,100,000.

Loss to Clayfield College due to the lowering of the product and services by the PMSA is in the order of $25M.

The financial impacts to cash flow and financial instruments required to keep the business operating.

If Clayfield College and the PMSA did not match the externally imposed revenue reductions with matching cost reductions then the loss would quickly be shown up to the Business Manager, the Principal, School Council and the PMSA in its profitability reporting.

The private school industry operates with small profitability margins and schools quickly enter the non profitability area as evident in the IBISWorld Industry Report P8025 titled "Private Schools in Australia" by Hayley Munro-Smith dated September 2017.

The following points are noted concerning the relationship between enrolments and teacher numbers.

- In 2014 the number of enrolments of 863 students was met with equivalent full time teaching numbers of 79.4 teachers. This equates to a figure of 10.8 students per equivalent teacher.
- The 2016 enrolment number of 652 resulted in 72.9 equivalent teachers or a multiple of 8.9 students per equivalent teacher.

If the number of enrolments are dropping significantly then the expectation from a management perspective is that that teaching numbers would drop at a similar rate.

So rather than the equivalent number of teachers in 2016 being 72.9 it would seem logical that the number of equivalent teachers based on the 2014 multiple would be 652 enrollments/10.8 students per equiv teacher = 60.4 equivalent teachers.

If the KPI of Enrolments/teacher of 12 was used as per the experience at Somerville and student population of 652 students would result in 54.3 teachers being required.

This indicates that Clayfield College would have been required to cut in the order of a further 12.5 teaching positions to be in a same position as that reflected by its enrolment numbers. (72.9 to 60.4 to 54.3) = 18.6 full time equivalent teachers.

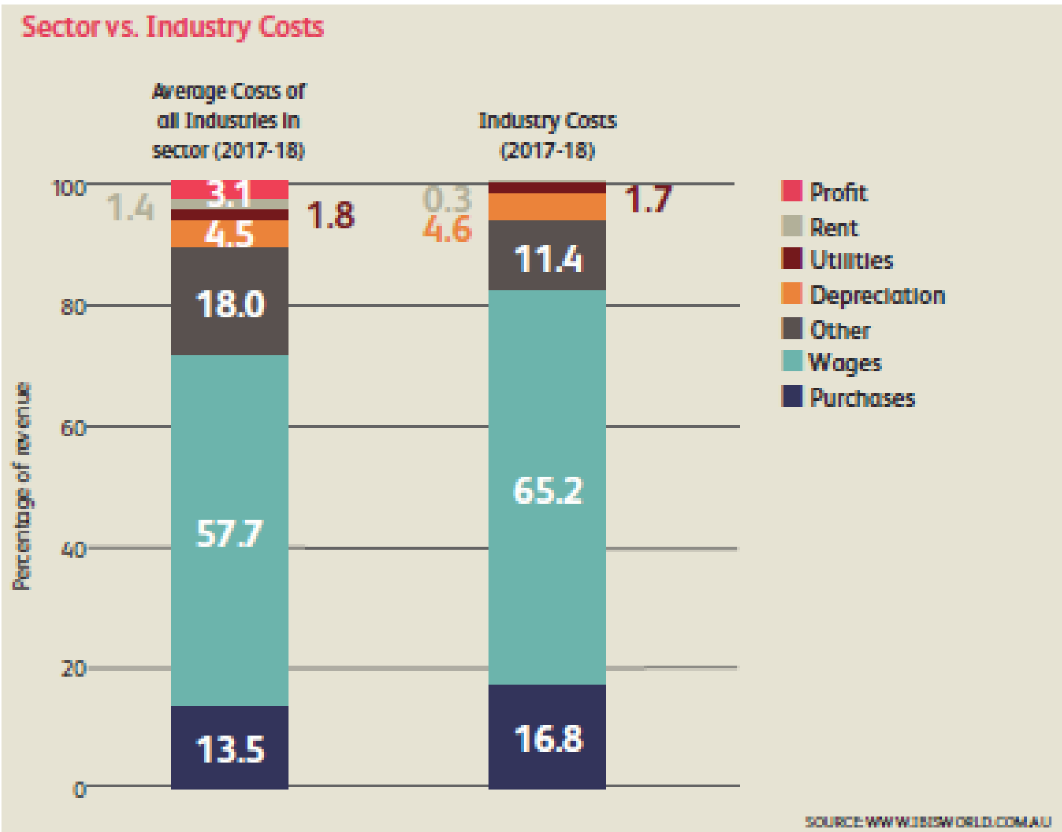
Based on an indicative cost of an experienced teacher costing Clayfield College $150,000 per year (Order of cost estimate only based on Average Wage figures contained in the Key Rations shown on Page 32 of the IBISWorld Industry Report P8025 titled “Private Schools in Australia” by Hayley Munro-Smith dated September 2017 and on cost of approximately 35 to 40%) the additional cost born by the Clayfield College Council and PMSA by way of its staff management not matching its revenue as measured by enrolments is in the order of $1,900,000 per year given current enrolment to staff rations or $2.8M if resources were managed as efficiently as per the Somerville House KPI’s.

(NB: These calculations do not include the redundancy payments and liabilities associated with staff retrenchments).

Combining the loss in revenue due to enrolments each year of $4.2M and the over staffing costs it appears that the Clayfield College Council and PMSA have exposed themselves to an unnecessary loss per year of approximately $6M at best and $7M at worst. This is just at Clayfield College alone.

The question of cash flow and sustainability is difficult to determine in detail due to the actual costs not being available. It is however reasonable to use industry data where necessary to give an indicative assessment of the Clayfield College position.

It is reasonable to assume that Clayfield College in 2014 operated at the industry average profitability of approximately 3% as per the IBISWorld breakdown shown below.



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

Assuming a 3% profitability level in 2014, a drop in revenue due to loss of enrolments of 24.4% and cost reductions reflected by teacher numbers of 8.1% (79.4 to 72.9 equivalent full time teachers worst case scenario or 12.5% best case scenario factoring the 65% proportion of costs indicated by IBISWorld)

This provides an order of cost for losses in the system of approximately 24.4% less 12.5% = 11.9% which for order of cost purposes is 10%. This consumes the 3% profit allowance and places Clayfield College in a potential short term loss making position in the order of approximately 7% on the 2016 reporting year.

Remembering the "Property" issues that a drop in revenue creates as discussed in Section 3.1.2 the impact to Clayfield College and the PMSA are as follows

- If Clayfield is operating in a negative position the shortfalls will need to be remedied by Council Reserves or from the PMSA in the 2015 and 2016 years.
- The loss making appears to have commenced in 2015, continued to 2016 and from the 2017 figures contained in Page 1 of the 2016 Consolidate Financial Report appear to be continuing unabated.
- The losses are continuing to this time with no apparent trend or indicator showing any stop in the loss.
- Losses of this magnitude and over such a length of time for a property business would be viewed as extremely serious by it management and board.
- Such losses would not normally be covered by reserves and so it appears logical that the PMSA are providing cash flow support and possibly loan guarantees to ensure that Clayfield College remains open if not a long term going concern.
- The issue that arises is where does PMSA get the cash reserves to cover the working losses and does it have the necessary long term financial capability and willingness to guarantee the entity?
- Does the PMSA and Clayfield College have the capability to turnaround the situation that it created in late 2014 given that it has not been able to demonstrate it can from the figures in the 2015, 2016 and 2017 data?

3.2.5 Is Clayfield College (as a separate business unit) a going concern based on the public information available?

Based on the information above it appears that Clayfield College is running at a financial loss and requires the support of the PMSA to continue.

Any reasonable person would conclude that if it was unable to remedy its incoming revenue issues (enrolments) and control its costs within two years then any reasonable person would have expected a change in management in 2016 at the latest.

Unfortunately it appears from the information available that despite being aware of the issues in early 2014 the School Council and PMSA have not been able to retain students or develop an appropriate strategy to stem the impacts.

The market has been telling the PMSA since 2015 that there are far better options available than the services provided at the price being charged by Clayfield College.

3.2.6 Does Clayfield College require ongoing financial support from the PMSA to continue operating?

It is reasonable to assume that Clayfield College and the PMSA were acutely aware of the problem in cash flow in 2015 when the following events occurred:

- Large numbers of parents were confirming their children would not be taking up places.
- Salary payments being made to an ever increasing number of teachers and
- The rates of revenue lost and costs incurred were not only different but in different directions – revenue negative, costs positive.

What is reasonable to conclude is that:

- The product and services being offered by Clayfield College were not competitive with their customers not only informing them directly but this was matched by the enrolment reductions over 3 years.
- The Business Manager, Principal, Council and PMSA were aware of these major cash flow indicators and issues yet have appeared to do nothing effective.
- The Business Manager, Principal, School Council and PMSA have demonstrated that they are either incapable or unwilling to stop the decline in enrolments or manage the staff costs to be in a profitable position.
- According to the Auditor one of the schools breached a loan covenant which for all purposes appears to be Clayfield College however this appears unlikely as it would normally be the PMSA who breached the loan agreement based upon the loss of performance exhibited by Clayfield College.

It would be reasonable to assume that the matters have continued since 2015 to 2016 that:

- Enrolments will continue to fall if the current PMSA and School Council strategies do not address the marketing and cost control issues which appear to be simply repeated each year.
- As long as the PMSA and Clayfield College offer a product that is inconsistent with its promotion, price and people the market will be harsh and provide feedback as students go to competitors.
- Teacher outlays will continue to overwhelm enrolment revenue and drive losses because the levels do not match the enrolment numbers.
- The PMSA will be required to financially support and guarantee the work of Clayfield College as per the representations made to Parents or else they will have another issue – a legal one based on false and misleading conduct to deal with.

3.2.7 If the PMSA is required to financially support Clayfield College (i.e. by way of cash injection to maintain cash flow or guarantor in some way) then where does PMSA obtain the necessary resources to support Clayfield College?

It is unclear as to the level of resources (financial and otherwise) within the control of the PMSA however it is clear that the options available to it include:

- Use of existing PMSA reserves
- Direct funding from the JV Venture existing between the two churches to the PMSA.

- Agreed reduction in the funds being returned to the JV by the same amount as the support provided to Clayfield College.
- Reduce the internal costs of the PMSA organisation so that the savings can be used to cover the Clayfield College liabilities.
- Obtain the necessary funds from the other three schools and then divert to cover Clayfield College liabilities.
- Obtain the funds from government organisation.
- Obtain the funds from Donors

Without having the financial records of the above entities it is important to note the following:

- The May 2016 “Reports from Schools and Colleges” to the Schools and Residential Colleges Commission shows no mention of the financial issues being experienced by Clayfield College or any actions being undertaken by the PMSA to support the school.

- Neither the Clayfield College Chairwomen nor Principal makes reference to the financial issues, the massive reduction in enrolments nor the marketing issues that impact the school in the “2016 Clayfield College Annual Report”.

- If anything the “2016 Clayfield College Annual Report” appears to “gild the lily” regarding staff numbers and the stability of the teacher numbers as demonstrated below.

At Page 22 of the “2016 Clayfield College Annual Report” it states that “*From the end of 2015, 98.70% of staff were retained for the entire 2016 school year*”. This appears to be contradicted by the information available from the Australian Curriculum, Assessment and Reporting Authority: https://www.myschool.edu.au/

Clayfield College					
Year	**Student No**	**No of Teachers**	**No of Equivalent Teachers**	**No of total staff**	**No of full time equivalent staff**
2015	758	108	86.6	153	124.8
2016	652	84	72.9	130	111.7

- The reduction in No of Teachers would be 108-84 = 24 or 22%
- The reduction in No of Equivalent Teachers would be 86.6-72.9 = 13.7 or 15.8%
- The reduction in No of Total Staff would be 153-130 = 23 or 15%
- The reduction in No of Full time Equivalent Staff would be 124.8-111.7 = 13.1 or 10.5%

- The PMSA by letter of 26 October 2017 stated the following. “*Two years ago, the PMSA Council commissioned international accounting and consulting firm, Deloitte, to identify possible opportunities to strengthen the overall efficiency of its school administration. ….. Furthermore no plans exist to centralise the operations of our schools*” It appears that the PMSA were so concerned with its position in 2015 that it called in consultants to assist in the financial issues identified at the time. Based on the PMSA statement it appears that the option to find significant savings was not pursued meaning that any subsidy of the Clayfield College operations would not be found by internal cost savings.

- That the PMSA and Clayfield College have remained silent as to the significant product and service issues they have introduced would tend to indicate that they believe that these issues are being managed.
- It is impossible to identify whether the Church JV has made provisions to subsidise PMSA and Clayfield College or whether they are taking a reduction in the contributions that PMSA return to offset the liability.
- This point could be clarified by asking the Church Representatives themselves however it seems unlikely that a Church organisation would either divert resources to the PMSA or accept a lower return based upon potential mismanagement by the School and or the PMSA over the extensive two year period.
- It would be difficult to argue a case for additional government funding to cover any losses at Clayfield College when the liability rests with the conduct of the Principal, Council and PMSA.

It appears that the funding arrangements for the PMSA liability would include the diversion of funds from the other three schools or obtaining funds from Donors. Either way it would:

- Appear difficult for the PMSA to legitimately ask other School Councils to effectively “bale out” Clayfield College for losses incurred over two years and with no apparent realistic strategy in place to reduce costs and improve the products and services offered.
- Appear difficult for the PMSA to request assistance from Donors and School foundations to fund the ongoing liability created by the PMSA and School Council has created at another school.

To do so would effectively require the PMSA to make public that Clayfield College may not be a viable going concern and that the PMSA have been unable over at least two years to address what are very simple business issues related to its product and services and the management control of the school.

To make public the possibility that Clayfield College is not a going concern may create a situation where the information release may drive a continuing cycle of reduced enrolments requiring cost reductions which in turn leads to fewer students being enrolled etc. An effective death spiral.

If the PMSA can not control the liabilities at Clayfield College then any reasonable person would conclude that if the problem can not be fixed internally then the problem could only be removed from the PMSA by external disposal. In other words sell the school and the site.

Unverified market intelligence indicates that private school competitors to PMSA and potentially Prescare are undertaking assessments of the sites potential. A Right to Information Application(RTI) will be submitted to the BCC seeking the BCC DART “Site / History” Reports generated for the BCC planning team when any entity undertaking such assessments submits a “Development Certificate Request” or lodge a “Prelodgement Meeting Request”. These requests automatically generate a unique BCC DART Number, search procedure and planning documents which are all discoverable under RTI legislation.

These property issues and risks would normally be associated with the valuations aspect of the PMSA property folio. Whether there is a linkage between the valuations and the potential of a non public sale, related party transfer or any form of development is beyond the scope of the report it is clear that any reasonable person would be wanting to clarify the issues.

3.2.8 There are too many people who have the information so PMSA actions must have been directed - Four business Managers, four Principal's four School Council's and a PMSA board over the last four years.

The public information objectively demonstrates the problems which the PMSA have had and the inability to deal with them however to be able to act over such a length of time with so many professional people and staff involved would require senior management involvement and direction. The following examples demonstrate these concerns and the simple logic that any reasonable member of the PMSA organisation would simply ask:

- How do funds get transferred to Clayfield to cover the losses and where did the funds come from?
- If the Grammar Early Learning Limited Director's in 2015 thought it important to bequest money to the SCGS Foundation rather than the PMSA were they aware of the loan breaches etc fearing that the monies would be spent in Brisbane rather than the Sunshine Coast?
- If these Director's were protecting these assets then what were the other two schools (Somerville House and Brisbane Boys College Business Managers, Principal's and School Councils saying about funding other schools)
- Why would the PMSA have to do anything for Grammar Early Learning Limited when it is a separate business wanting to expand on land not related to the PMSA?

3.3 Information reliability and the potential for misleading and deceptive conduct.

The reliability and integrity of information sourced from the public agencies (including the Australian Charities and Not-for-profits Commission and the Australian Curriculum, Assessment and Reporting Authority) is considered to be of high objective value given the bureaucratic requirements in submitting, compiling the information and the legal obligation to provide true and accurate information.

It is reasonable to rely upon this information published by statutory entities to become informed however it has become evident that there is information available within the public domain which on first viewing seems fair and reasonable but on verification inconsistent with the statutory information or even part of conduct which may be misleading and deceptive.

Not only is important to note the information provided but also the information that is not. Omission by error or deliberate by nature.

It is important to note the following information.

3.3.1 ABC Mornings Interview - 3 November 2017 with PMSA Chairman.

In late October or early November 2017 the PMSA appointed a communications firm "Cannings Strategic Communications" as delegated communications consultant. This is self evident from communications issued by the PMSA which directly references the delegation provided to "Cannings Strategic Communications" with regard to media enquiries. (Refer example PMSA correspondence of 2 November 2017 issued under delegation at Appendix I)

It would not be unexpected for a consultancy such as Cunnings Strategic Consultations to recommend to its client for the senior officer not to participate an interview with the ABC and for the PMSA to delegate another officer. Given the issues that the PMSA Council would have been acutely aware of as demonstrated in the sections above.

On 3 November 2017 the PMSA Chairman on ABC Morning Radio participated in an interview with ABC's Steve Austin. In response to questions over the flow of information and communication with stakeholders the following discussion occurred:

> PMSA Chairman - "*Steve what I can tell you is that I have regular conversations with both churches in my role as Chairman I speak very regularly to them. and we have as part of our processes in the conversations we have is around ensuring that our Christian mission that we want to see happen within the schools does occur*."
>
> Steve Austin: *"Are the PMSA Annual Reports and the individual school annual reports open and available for general publication and reading?"*
>
> PMSSA Chairman "*As with all schools Steve, .. all that information is on the relevant ….places within the …AN.NC ..place…. So they are*"
>
> Steve Austin "*The Charities Commission?"*
>
> PMSSA Chairman "*Where those things need to be .. they are available … for the public record.*"
>
> Steve Austin "*So the PMSA annual report and each of the schools annual reports are open and available for public .. for viewing*"
>
> PMSA Chairman "As are all schools Steve"

and

> *ABC – I am told by another listener who just sent me a quick text that saying that individual school PMSA Results are not available on the ACNC website?*
>
> *PMSA Chairman – So….My understanding Steve is that ..as with all schools that information is there.*
>
> *Individual School PMSA results are apparently not there now. Is there a reason for that?*
>
> *PMSA Chairman – Steve I am not aware of that I can look into that.*

ABC – You will look into that .

PMSA Chairman – Yes

ABC – You will look into why that is?

PMSA Chairman – Yes

With respect to the financial impacts in the period 2014 and 2016 the PMSA Chairman provided the following information..

PMSA Chairman - But we are very committed to the Christian mission of our schools… What I can say is that our mission is guided and upheld by our Christian .. values.

ABC - What are those values?

PMSA Chairman – Those values are about creating our school communities are Strong, viable and successful. We are about creating strong, successful and viable schools.

ABC - Are the schools strong, viable?

PMSA Chairman –Yes they are.

ABC – They are. I understand from 2014 to 2016 the audited accounts of the

PMSA Chairman - show good revenue but a 50% drop in profit. Is that right?

PMSA Chairman – Steve …where…. one of the key things there I guess … is that.. we are viable and we have …sufficient income that is very.. to ensure that the schools are very viable… as we move forward.

ABC – But has there been a 50% drop in profit?

PMSA Chairman – Its not really what we describe as profit…Steve …Its really around how is what were required..In certain years we have building projects that we need to do and so that …essentially will define some times whatever …how you define what your EBITA and things like that are .. considering what sort of ..you know .. interest rates and things like that like that you might be paying.

ABC – So by the sounds of it you have taken a financial hit over the last few years.

PMSA Chairman – I wouldn't say that Steve we know….

ABC - Well how would you describe it

PMSA Chairman – If you are looking at Somerville House for example its had…in the last number of years a very successful rebuilding program so that it's a very modern school.. a lot of new buildings there .. it is a premier girls school in Queensland.

ABC - Indeed it is. But I just need to clarify..so has there been a reduction in you lets say the financial margin of safety. So your not a company so your not designed to make profit but have you has a significant 50% reduction in your margin of financial comfort?

PMSA Chairman – What I can say is that we are very financially viable

Steve. - I am going to take this as I'm..reading between the lines that you have taken a financial hit.

Oh Steve the reality is that we are very financially viable and moving forward we have a .. the capacity to ensure that we are having good schools .. and that there will be no …. our offerings will be of the highest standard to all our parents and students.

In specific reference to each of the schools growing the following statements were made by the PMSA Chair.

ABC – Are the schools financially viable, all of them?

PMSA Chairman – The schools all are financially viable

ABC – And are they growing?

PMSA Chairman – Steve.. they are all growing so ..so at Somerville House ..its a growing school and Sunshine Coast Grammar School is definitely a growing school as you said previously there are within the independent sector … it is low growth but our schools are very viable .. and .. are .. solid.

ABC – Is the Board of the PMSA . The Presbyterian and Methodist Association Board , your board. Are you all united? In you positions so far?

PMSA Chairman – Yes we are Steve.

and

ABC - Anything that the Parents of the students need to know today as far as your concerned?

PMSA Chairman – Well what I have said ..Its probably those two things Steve Is that we want the same things.. we want the best schools …we want the best education and we want the best future for those schools. The second thing around we value the uniqueness and their independence of each of the schools So I can guarantee that there are no plans to merge the schools at all

ABC - Absolutely false, wrong and misleading

PMSA Chairman – That is correct.

ABC - There is no plan to merge any schools.

PMSA Chairman – That is correct Steve. So we . They are unique… they are fantastic schools. And they have their..

ABC – So anyone says that there is a secret plan. That you have got a secret plan or KPMG report is lying or misleading people?

PMSA Chairman – That is certainly correct Steve. Its totally misleading

ABC – And they are all financially viable in their own right?

PMSA Chairman – Correct Steve

What is important to note is the following:

- A reasonable person would expect a crisis Communications firm to provide advice to the Chairman advising against the interview with the ABC.
- If the Chair ignored this advice then a reasonable person would expect the consultant to provide a script of points for discussion and a series of "Hot" points and lines of script to divert questions away from potential areas of risk and liability as failure to follow this advice would in effect be "pouring fuel onto the existing fire".
- It is considered to be a high probability from listening to the interview that one of the Canning Strategic Communication script lines would be to state that the "Schools are financially viable"
- To the ABC's credit it sought clarification on two significant points being (1) Are the schools all growing and (2) Are all of the schools financially viable. (These questions going to the business level of the PMSA schools which as per discussed above are where the public records show a disturbing picture.)
- The statements made by the PMSA Chairman that the schools are "all growing" and confirming the ABC statement that they are all financially viable in their own right with the word "Correct" would appear to be incorrect.
- Not only do the ACNC figures show that Clayfield College and Brisbane Boys College are not growing but the PMSA's own Table of enrolments on Page 1 of the 2016 Consolidated Financial Report shows this. It is reasonable to expect that the PMSA Chairman would know the trend in enrolments at each of the four schools.
- A competent Chairman would be aware not only of his enrolment trends but be aware of the information provided to the government as it is used by many stakeholders to judge the school.
- A competent Chairman would also be aware that "results" are not published by the ACNC but only revenue. Costs are not provided at the school level as they would be used by competitors, parents and other stakeholders to determine viability – the very question that the Chairman responds to saying they are but at the same time providing inconsistent and potentially false information regarding school growth.

3.3.2 Information to the Moderators

If communication with the Moderator's is as indicated by the Chairman of the PMSA on 3 November 2017 (refer below),

> PMSA Chairman - "*Steve what I can tell you is that I have regular conversations with both churches in my role as Chairman I speak very regularly to them. and we have as part of our processes in the conversations we have is around ensuring that our Christian mission that we want to see happen within the schools does occur.*"

then the information pertaining to the PMSA schools would be shown in the documentation presented to the "Schools and Residential Colleges Commission" of the Uniting Church in Australia, Queensland Synod.

A perusal of the May 2016 Report indicates the following:

<u>For Clayfield College</u>

"We Employ 216 full-time, part-time and casual staff including 99 teachers" which conflicts with My School which states:

- 108 teaches in 2015 and 84 in 2016 not 99.
- No of total staff in 2015 of 153 and in 2016 130 not the 216 as indicated.
- There has never been over 160 staff in the last seven years at Clayfield College.

<u>For Sunshine Coast Grammar School</u>

The document describes a relationship between the School and the Presbyterian Church at Maroochydore which continues the mysterious relationship described in Example 1 above.

SUNSHINE COAST GRAMMAR SCHOOL

Sunshine Coast Grammar School

1) Ways Christian ethos and links with the broader church developed

- In 2015, the School entered a formal partnership with the Presbyterian Church Maroochydore building a 150 place Early Learning Centre on Church land that the School has leased. Working in collaboration with the Church, the School has continued to forge connections with the Church. There is certainly the opportunity to build the congregation as a direct result of the families at Alexandra Headlands Early Learning Centre. The Centre officially opened on January 4 2016.

Source: “Schools and Residential Colleges Commission” of the Uniting Church in Australia, Queensland Synod – May 2016

- The document describes a relationship between the School and the Presbyterian Church at Maroochydore.
- The tile deed and lease arrangements show that the relationship is not with SCGS but with Grammar Early Learning Limited as indicated.
- Does the Presbyterian Church at Maroochydore have the impression that it has a lease with SCGS when its lease is with a private company?
- Has any of the PMSA Councillors or staff of SCGS represented that they are acting in this capacity and that the PMSA or SCGS is supplying the services which are being delivered by another company?
- Is the purpose of the entities relationship to “build the congregation as a direct result of the families at Alexandra Headlands Early Learning Centre” as stated?

3.3.3 Auditor’s Statements in the PMSA Annual Reports

An Audit Report attached to any consolidated financial statement would be expected to provide assurance that the statements being made are reasonable, accurate and more importantly “believable”.

A reasonable person would not be reassured given the information concerning the inconsistencies with the Auditor’s statements discussed at Section 3.2.1

The Audit Report of the PMSA 2015 Consolidated Financial Report states the following:

p) Working Capital

The Association has an excess of current liabilities over current assets of $21,086 thousand. As at 31 December 2015, a school within the Association breached a financial covenant and as a result $6,200 thousand of non-current bank borrowings was re-classified to current borrowings as at 31 December 2015, refer to note 8. In accordance with the Australian Accounting Standards, this presentation is required regardless that the related breach has been waived by the relevant financier subsequent to balance date, refer to note 14.

The Councillors are of the view that the effect of the following mitigating factors will allow the Association to continue to meet its debts as and when they fall due:

- the breach of financial covenant as at 31 December 2015 has been waived by the financier subsequent to that year end (refer to note 14);
- continued receipts from tuition fees and government grants; and
- the Association will continue to generate net operating cash inflows sufficient to pay its liabilities as and when they fall due.

The same Auditor in the Audit Report of the PMSA 2016 Consolidated Financial Report states that the following

o) **Going Concern**

As at 31 December 2016, the Association has an excess of current liabilities over current assets of $32,247 thousand (2015: $21,086 thousand). Included in current loans and borrowings of $20,492 thousand as at 31 December 2016, are bank borrowings totalling $15,673 thousand that are due to mature within twelve months of the year ended 31 December 2016, therefore this amount has been disclosed as a current liability as at 31 December 2016.

Notwithstanding these circumstances, the financial statements have been prepared on a going concern basis as the Council believes the Association is a going concern and will be able to pay its debts as and when they become due and payable. The Council has formed this opinion on the following basis:

- The Association has received written confirmation from its bank that these facilities will be renewed for a period of at least 12 months from the date of maturity of the existing terms.

- The Association will continue to generate net operating cash inflows sufficient to meet its debts as and when they fall due.

The Councillors are satisfied that the going concern basis of preparation is appropriate on the basis of the undertakings provided. The financial statements have therefore been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and settlement of the liabilities in the ordinary course of business.

It is unclear as to why the Auditor would accept the assurances of the Council when:

The PMSA are attempting to transfer or "kick down the road" the liabilities (bank facilities) by extending them to the next reporting period on two occasions. Accepting that continuation of receipts will be sufficient to ensure continuation of receipts when 1 of the 4 schools is haemorrhaging student enrolments and the downward trends as stated by Chairman in the 2016 Consolidate Financial Report as per below:

The Association continues to make good progress despite the economic down turn in Queensland and a more competitive market. This down turn is reflective in overall enrolments decreased to 4,815 in 2017 from 4936 in 2016. The more aggressive push by State Education and the Catholic system is also impacting on our school market.

The reduction of staff at Clayfield College exceeds natural attrition and so the payment of accrued liabilities would not only have occurred, but expected to have been sighted in the documentation considered by the Auditor (unable to see them in the consolidated financial statements) but also impact the funds available within the PMSA Current Asset pool.

The Auditor provided figures which show the management ability to control the risk of having insufficient funds to cover current liabilities.

The historical trend which shows PMSA capability to control this issue has been provided below.

Year	Current Liabilities ($000)	Current Assets ($000)	Value Current Assets over Current Liabilities ($000)	Auditor
2013	$ 34,430	$ 26,391	- 8,039.00	
2014	$ 35,983	$ 21,631	- 14,352.00	BDO
2015	$ 43,078	$ 21,992	- 21,086.00	KPMG
2016	$ 52,209	$ 19,962	- 32,247.00	KPMG

Table 3.3.3A – Comparing Current Liabilities and Assets
(Source PMSA Annual Consolidated Financial Reports)

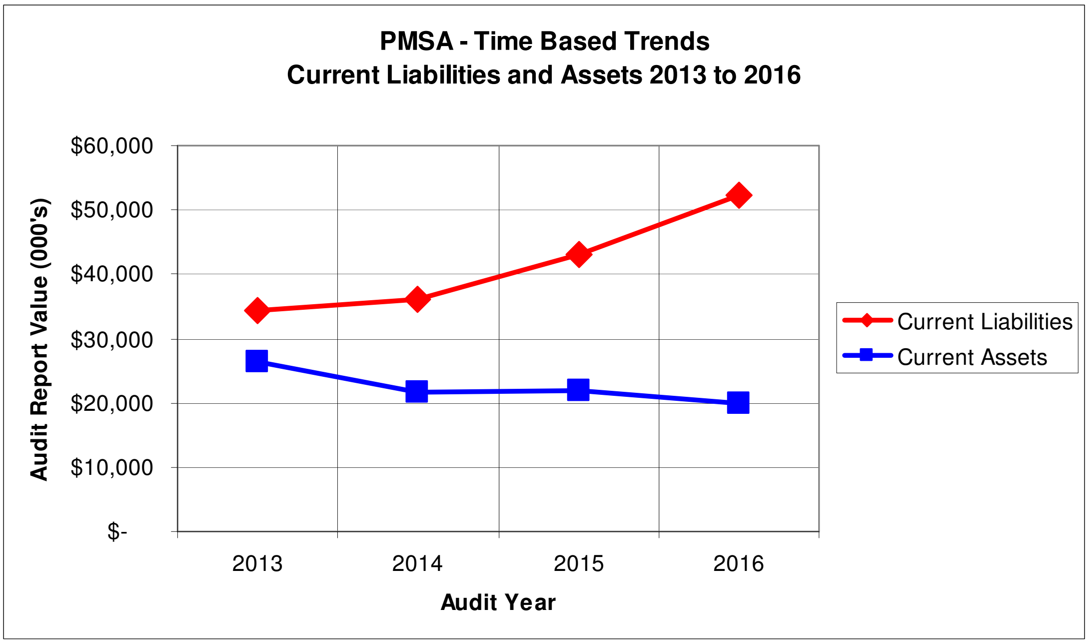


Figure 3.3.3A – Widening trend of greater inflexibility in short term position - Comparing Current Liabilities and Assets
(Source PMSA Annual Consolidated Financial Reports)

The domination of the PMSA balance sheet by the value of its properties assets should have made the PMSA acutely aware of the risks associated with the need to have a steady revenue stream dictated by maintaining at worst or at best improving enrolments.

Any reasonable person would conclude that the PMSA appears to be incapable of resolving the increasing risk of having the current assets to cover current liabilities.

The Auditors information presented in the 2014, 15 and 16 Reports indicates that if the Westpac Bank calls in its loans following a PMSA default (as per the 2015 default event) then the question of where the PMSA would obtain the money from will need to be answered.

Given that the PMSA has changed the leadership position at Clayfield in 2014, the significant drop of enrolments, the breach of loan conditions and an ever expanding difference in current liabilities and current assets any reasonable person would be asking what are the impacts now that the PMSA has lost the services of its best Principal (Somerville House) to enrolments and revenue.

3.3.4 School Information - Annual Reports, Strategic Plans etc

Information presented in each schools Annual Reports, Strategic Plans, Prospectus etc should be the same as other information presented to the ACNC and other statutory organisations.

For example the Clayfield College 2016 Annual Report stated that it had enrolments of 674 students yet the MySchool Website shows the following for Clayfield in the 2016 Year.

Students	
Total enrolments	652

The Clayfield College Annual Report states the following regarding teacher and staff numbers however these numbers are again different from the numbers in the MySchool and report to the Synod as discussed in Section 3.3.3 above.

Key Staff Outcomes

Staff composition

	Full time	Part time	Total
Teacher	62	17	79
Non Teacher	30	24	54
TOTAL	92	41	133

One member of staff was identified as Indigenous in 2016.

(Source Page 22 2016 Clayfield College Annual Report)

The Clayfield College information concerning the levels of staff retention is shown below.

Proportion of teaching staff retained from the previous year

Number of permanent teaching staff at end of previous year	Number of these staff retained in the following year (the program year)	Retention rate
77	76	100%

From the end of 2015, 98.70% of staff were retained for the entire 2016 school year.

(Source Page 22 2016 Clayfield College Annual Report)

The 2015 and 2016 MySchool data shows a different picture:

- No of Teachers: 108 (2015) and 84 (Myschool) or 79 (CC Report) in 2016 = 77% or 73% retention rate – In other words ¼ of the school teachers by numbers have left.
- No of Total Staff: 108 + 45 (2015) = 153 and 130 (Myschool) or 133 (CC Report) in 2016 = 84% or 86% - In other words 14% or 1/7 to 1/8 of total staff numbers have left when approximately the leaving rate for teachers is almost double this rate.
- It appears from the figures that non teaching staff which dominates overheads is reducing at a lower rate that the already slow rate of teacher reductions.

The staff retention rate shown in the 2016 Annual Clayfield College Report appears to be incorrect and potentially misleading in staff numbers but also school employment stability.

The drops in employment figures of 15 to 20% in one year from the high 2015 employment numbers would surely not be from natural attrition or routine resignation but would require redundancy packages. Hence the amounts would need to be shown in the financial accounts of the School along with the cash flow impacts of paying the associated entitlements.

4. KEY ISSUES

We live in a community where technology has provided the opportunity of everyone in the community to be better informed but also exposed to a greater risk of being misled.

Any reasonable person who is involved with the PMSA at any level (from prospective parent, student, parent, staff member, Principal, School Councils, PMSA and the leaders of the churches) can use this technology to take advantage of the societal demand for openness and transparency in our institutions whether it be obtaining published government information, RTI access or another of the many avenues of information available.

The key issues have been developed by firstly obtaining the information, testing its reliability and integrity before undertaking simple analysis to identify facts from fiction.

The information obtained from the analysis gives a good guide as to what has happened in the past and what would be the likely outcomes if the same circumstances prevail in the future.

It is pointed out that the inconsistencies in the information available:

- The information from government entities such as the NCNC and ACARA MySchool is incorrect despite the Chairman of the PMSA directly referring the public to these sources in the interview of 3 November 2017.
- The information provided by the PMSA by way of its own information such as the Consolidated Financial Reports, School Annual Reports etc is incorrect

It is important to note the following:

- Anyone can get the information referenced in this report. All they have to do is simply look it up.
- The fundamentals of any business success whether it be for profit or a not for profit are well known and are based upon simple principles.

The key issues identified in this report have been summarised below.

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.

4. 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?

A theme in the public records can be seen in the following two examples:

Example 1 – Activities being discussed at the operational level

SUNSHINE COAST GRAMMAR SCHOOL

Sunshine Coast Grammar School

1) Ways Christian ethos and links with the broader church developed

- In 2015, the School entered a formal partnership with the Presbyterian Church Maroochydore building a 150 place Early Learning Centre on Church land that the School has leased. Working in collaboration with the Church, the School has continued to forge connections with the Church. There is certainly the opportunity to build the congregation as a direct result of the families at Alexandra Headlands Early Learning Centre. The Centre officially opened on January 4 2016.

Source: “Schools and Residential Colleges Commission” of the Uniting Church in Australia, Queensland Synod – May 2016

and

Example 2 – At the strategic level it would be expected that an education business would have an educator on its “board”.

The 2016 Annual Report states the following:

The qualifications, experience and special responsibilities of Councillors in office at the date of this report are:

Mr Robert McCall, BA, MA - Council Member since 2002

- Chairman – PMSA (from June 2016), Chairman - Somerville House School Council (until June 2016), Member - Education & Pastoral Care Committee, Member - Appointment and Remuneration Committee, Member – Audit and Finance Committee
- Senior Public Servant
- Member, Presbyterian Church, Mitchelton

Mr Desmond Robinson, B.Com (Hons), FCPA, GAICD, AAUQ - Council Member since 1990 to June 2016

- Chairman - PMSA, Chairman - Appointments & Remuneration Committee, Member - Audit & Finance Committee
- Company Director
- Uniting Church Councillor, Treasurer Chapel Hill Uniting Church

Rev Guido Kettniss, BA, BD – Council Member since 1984 to June 2016

- Deputy Chairman - PMSA, Member – Clayfield College School Council, Appointments and Remuneration Committee, Education and Pastoral Care Committee
- Presbyterian Church Minister; Bookshop proprietor

Mr Gregory Adsett, B.Arch, MAICD – Council Member since 2011

- Deputy Chairman – PMSA (from June 2016), Chairman - Sunshine Coast Grammar School Council; Member – Appointments and Remuneration Committee
- Registered Architect, Director Elevation Architecture Studio Pty Ltd
- Member, Synod Governance Nomination Remuneration Committee
- Member, Redcliffe Uniting Church Council

Dr Anne Bennett, MBBS, MRACGP – Council Member since 2011

- Member – Clayfield College School Council, Member – Appointments and Remuneration Committee
- Medical Practitioner, Company Director
- Director Prescare Board, Director Pierson Services Board, Trustee Ann Street Church Trust
- Member, Ann Street Presbyterian Church

Mr Jim Demack, LL.B, LL.M, A.MUS.A – Council Member since 2013

- Member – Brisbane Boys' College Council
- Partner of Gadens Lawyers
- Member, Legal Reference Committee, Uniting Church Queensland Synod

Mr Gary Lynch, B.Bus (Public Administration), GAICD – Council Member since 2014 to December 2016

- Member - Somerville House School Council
- Company Director, Vice President Kings College
- Church Councillor and Elder, Bulimba Uniting Church

Mrs Jacqueline McPherson, LLB - Council Member since 1992

- Chairman - Brisbane Boys' College Council, Member – Appointment and Remuneration Committee
- Retired Solicitor
- Member, Ann Street Presbyterian Church

Mr Kevin Standish - Council Member since 2010

- Chairman – Clayfield College School Council, Member - Appointment and Remuneration Committee
- Solicitor
- Member, Scots Presbyterian Church Clayfield

Mr David Munro, BCom, Grad Cert Legal St, GIA (Cert) - Council Member since 2016

- Member – Audit and Finance Committee, Member - Somerville House School Council
- Risk and Insurance Manager, The Uniting Church in Australia, Queensland Synod
- Member, Moggill Uniting Church

Mr Greg Rodgers - Council Member since 2016

- Prescare Chairman
- Elder of Presbyterian Church Queensland

Mr Richard Niessl, BA Hons, MA, MMDS - Council Member since 2016

- Member – Brisbane Boys' College Council (from November 2016)
- Principal, Raymont Residential College
- Member, Mitchelton Presbyterian Church

Mr Richard Wilkinson B.Ed., Cert. Ed. - Council Member since 2007

- Chairman - Education & Pastoral Care Committee; Member - Sunshine Coast Grammar School Council; Member – Appointments and Remuneration Committee
- Retired School Principal
- Member, Maroochydore Presbyterian Church

Information on Councillors (continued)

Mrs Helen Murray Grad Cert IT, BNr, RN, MHN, MACN, MACMHN, MAICD – Council Member since 2014

- Member Clayfield College Council, Director Clayfield College Foundation Board
- Director, Clinical Program, Digital Solutions Delivery, eHealth Queensland, Project Director, Registered Nurse
- Member Australian Institute of Company Directors, Member Australian College of Nursing, Member Australian College of Mental Health Nursing, Women in Technology (WiT), Women on Boards
- Member, Mitchelton Presbyterian Church

Rev Murray Fysh Dip YEA; Bth, Grad Dip Min – Council Member since 2015

- Chairman – Somerville House School Council Chairman, Member – Appointment and Remuneration Committee, Coordinator of Chaplaincy
- Minister of the Word at Merthyr Road Uniting

Mr Greg Skelton B. Bus. (Accounting), CPA, MBA, MAICD – Council Member since 2015

- Chairman - PMSA Audit and Finance Committee, Member - PMSA Appointment and Remuneration Committee
- Chief Executive Officer, Prescare
- Member, Ann Street Presbyterian Church

Rev Christine Digby B.Soc, WK, BTh, MTh – Council Member since 2016

- UCA Minister of Word
- Member, St Lukes Hamilton Uniting Church

No educators appear to be on the PMSA.

The identification of records which document the reason for the PMSA existence is one thing however the way this mission is being implemented is a second issue.

What must be determined is the answer to a fundamental question.

Is the PMSA being run as

<u>an education business on business lines but supported by spiritual values and ethics underlying its operations</u>

or

<u>is it in the religious business endowed with the resources generated?</u>

If the PMSA is running an education business then it its competence or lack of competence can be assessed by way of its performance as measured in the public records.

If the PMSA is running a religious business then it appears to be in breach of the legal provisions which establish the PMSA and the schools in the first place.

Identification of this would place the PMSA Councillors in a difficult personal position given that the PMSA has potentially misled or deceived its customers (the parents) over the fundamental products and services it supplies to its parents and other stakeholders.

Either the PMSA is in a position of where its competence as a body is being questioned or whether it has acted unilaterally and changed its mission from an education business to a religious business. This places the PMSA in an unenviable position even before the moral and ethical issues associated with behaviour and conduct underpinning the way in which the organisation conducts its business.

4.2 Its Fundamental: No Money means No Mission and No Customers mean No Money

The issues which are impacting the PMSA today appear to have first manifested themselves in 2014. The events in 2017 at Somerville House appear to be similar to those which were impacting Clayfield College in 2014 with the issues associated with the tangible and intangible aspects of the Principal supporting the school brand.

Clayfield College Customers spoke with their wallets and the enrolment numbers declined markedly from 2015 and continued as the PMSA acted on the symptoms rather than the cause of the issue.

The customer feedback continued despite representations from the PMSA that they had a “Premium Principal” despite customers identifying from public records that the capabilities of the Principal were not as indicated by the PMSA. The customers saw their perceptions reaffirmed with the departure of this Principal in just over 10 months.

The doubt created in its customer’s minds by the PMSA not filling this position sent a signal to the market that the PMSA was unable to attract “Premium Principal” candidates. The delayed appointment of the new Principal confirmed that the PMSA had been unable to attract or appoint a candidate with the skills and capabilities. The continued loss in enrolments appears to support this conclusion.

The loss of revenue impacted directly on the operations and services that the PMSA sought to pursue and it appears that funds have been redirected from PMSA operations to cover the apparent losses at Clayfield.

> That the PMSA would publicly state on 3 November 2017 that all schools are viable,
>
> ABC – *Are the schools financially viable, all of them?*
>
> PMSA Chairman – *The schools all are financially viable*
>
> ABC – *And are they growing?*
>
> PMSA Chairman – *Steve.. they are all growing so ..so at Somerville House ..its a growing school and Sunshine Coast Grammar School is definitely a growing school as you said previously there are within the independent sector … it is low growth but our schools are very viable .. and .. are .. solid.*

That Grammar Early Learning donated monies not to the PMSA but the SCGS Foundation appears to indicate that management officers in the PMSA Schools were trying to limit the amount of funds generated “locally” being used to support other schools.

The lack of customer focus and understanding of the impacts to the PMSA business is self evident with the appointment of Richard Chesterman (an eminent lawyer) when in practical circumstances you would expect the brand manager of the PMSA to be dealing with what is in effect a customer revolt and associated boycott strategy.

The issue is not a legal or commercial dispute. It is simply a customer management issue where the customers are both users of the PMSA services but also shareholders in the individual church missions.

The issues created by the loss of enrolments and mismanagement of costs at Clayfield will be discussed below.

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

2015 and 2016 saw the continued rapid reduction in student enrolments at Clayfield but what is noticeable

- In 2015 while enrolments were “crashing” the number of teachers at Clayfield increased markedly contrary to reasonable management principles that revenue and costs should be moving in the same direction.
- Appointment of additional staff impacts normal budget approvals and as such it would be uncommon for the Business Manager, Principal, School Council and PMSA to be unaware of it through routine monthly meetings, Council meetings etc.
- The Clayfield College Business Manager, Principal, School Council and PMSA Council would have been aware of the loss of revenue in enrolments and the additional costs being incurred by increasing staff levels.
- It is clear that the PMSA was put into a serious financial position as one of the PMSA schools defaulted on a loan obligation but given the information above it appears that the PMSA didn’t recognise the risks to other parts of its business from the deteriorating business position which would have been showing up in the accounts.
- Contrary to prudent business practice the PMSA appears to be diverting valuable capital resources and management focus towards the much smaller Grammar Early Learning Limited (Refer Example 1 above.) Why it would do so when there appears no PMSA strategy to fully service this market and one of its large schools is effectively being mismanaged with dropping revenue and rising costs.
- The other PMSA schools would have been aware of the issues and the need to effectively subsidise their sister school but more importantly all of the accountants at management level would have been aware of the impacts to its current liability / current revenue KPI’s and the reduction in cash at hand.
- The issue of sending “local funds” from one school to another appears to have been identified by the Director’s of “Grammar Early Learning Limited”. Despite having been involved in requesting capital approval from the PMSA in 2015, it donated $400,000 in 2015 to the SCGS Foundation and not the PMSA whose business it appears was under significant financial pressure. (Refer Example 1 above.)
- If the PMSA was in financial difficulty then evidence of delays and the withholding of future major projects would be evident. Evidence of PMSA delays in finding the Capital to commence work on the BBC

Oxley Sporting Fields indicates the extent of the PMSA funding issues.

- Other evidence of potential capital issues in the PMSA and its schools is seen within correspondence between the organisation and the Brisbane City Council for Application No: A004485980 – 433 Cliveden Ave , Oxley QLD 4075. Assuming that the works were to commence in 2014 following completion of other building works it appears that the PMSA did not have the Capital at this time to commence works as required from the Development Approval. (Refer Appendix J)

> BBC sought a time extension (in late 2016) to the Development Application approval for the Oxley Playing Fields. The delay in commencing Stage 1 of the Oxley Development was due to the sizeable capital investment required for the construction of a new Middle School Facility (under the Queensland Government "Flying Start" educational initiative). In 2012, BBC commenced the building of a $16 Million, 4 level facility with 35 learning spaces which opened for the 2014 school year. The capital works were funded by substantial commercial borrowings, which precluded the opportunity to undertake in parallel, the commencement of Stage 1 of the Oxley Playing Fields.
>
> BBC has fast-tracked the reduction of commercial debt and is now poised to undertake prudently the significant capital costs associated with the development of the Oxley Playing Fields.

It appears that the reasons for not commencing the BBC works in 2014, 15 or 16 appear to be directly related to the inability of the PMSA to fund the works and not for the reasons stated by the BBC Principal.

The question of how could a loan condition could be breached when an organisation is rapidly paying back commercial debt requires further analysis.

The DA is attached to the land and improves its value.

- This value would have been recorded in the property valuations included in the audited PMSA reports.
- The PMSA had a major problem other than its financial problems. The DA for the Oxley Sporting fields was about to expire thus lowering the value of the land in 2016 and delaying further capital works which according to the Principal was required so that BBC could compete "*at the GPS Level*".
- In an attempt to obtain an extension to the DA the Principal's letter of sought to provide support for the extension request by giving reasons as to why the works had not commenced.

Unfortunately for the PMSA and BCC it appears that the PMSA's own financial records evidence that there was no such fast tracked reduction of commercial debt in the period 2013 to 2016 as described.

The PMSA consolidated financial reports for the 2014, 2015 and 2016 do not show any pay down of debt with the PMSA own information showing borrowings rising over the period 2013 to 2016 as shown in Table 4.2A below.

	2013 ("000)	2014 ("000)	2015 ("000)	2016 ("000)
Current Liabilities				
Borrowings	$ 6,032	$ 5,332	$ 12,682	$ 20,492
Non-Current Liabilities				
Borrowings	$ 44,356	$ 46,403	$ 39,633	$ 35,767
Total	**$ 50,388**	**$ 51,735**	**$ 52,315**	**$ 56,259**

Table 4.2 PMSA Current and Non Current Borrowings in the period 2013 to 2016 as shown in the PMSA Annual Report 2014-16

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

The current 2017 issues concerning the PMSA actions at Somerville House are similar but much worse than the past experiences at Clayfield College which have occurred since 2014.

- The value of the Principal to the school and its brand has already been objectively demonstrated by the PMSA actions at Clayfield College since 2014.
- The drop of enrolments at Clayfield College from 863 to 602 = 261 students or 30.2%
- The drop of enrolments at Somerville House of 30.2% would result in .302 x 1,362 students = 412 students.
- If each student brings with it revenue of say $20,000 per student the financial hit will be $8.3M at Somerville alone.
- This amount appears to be the lower limit as the losses are not just due to the Principal loss but also the conduct of the PMSA in dealing with its data breach and the inconsistency shown in the way it conducts its business and the way it represents its business.
- A more reasonable order of cost drop in revenue of $10M is probably more likely.
- A drop in student numbers of 412 means that the number of teachers to be made redundant would be in the order of 412 students/ 12 students per teacher = 35 teachers.
- Like Clayfield it is reasonable to expect that the new management at Clayfield would be as competent as that currently being utilised at Clayfield College.
- The "cash cow" Somerville and its "calf" can be expected to be in a season of drought withy both of these entities expected to repeat the lessons of the past. Without the cash flow from Somerville it is difficult to see how the loan agreements could now be completely satisfied without short term cash injection or guarantees being given by both Churches.
- What is concerning is the statement made by the Chairman of the PMSA who stated on Page 3 of the 17 November 2017

> The PMSA continues to provide a strong financial framework that supports current and future capital projects at each of our four schools. We expect to see nearly $30 million invested in our schools over the coming months.

- It appears that the PMSA wishes to ignore the concerns of its stakeholders, take a massive financial hit which results from lowered enrolments but focus on further capital works (rather than protecting the brand equity) at a time when its finances are restrained as demonstrated by the Auditors comments.
- The difference this time is that the "Cow" and "Calf" will both become dependent on the limited PMSA capability or additional church sustenance.

The PMSA has placed itself in a very difficult position –

- continue with its publicised capital works within a climate of significant revenue decline (due to Clayfield and the loss of the Somerville revenue) with the associated cash flow implications on loan agreements and the worsening position of the current liabilities and current asset position.
- Discontinue the planned capital works, break the public statements made by the Chair and put at risk any extension provided by BCC to develop the BBC playfields at Oxley.

These problems are very similar to a property developer who has limited short term cash issues, declining ability to make payments (as available revenue drops for reason of dropping property prices or increased costs). The usual result being a property portfolio fire sale which in this case would likely be one of the schools.

4.5 Breadth and Depth of the PMSA self created issues.

Perusal of the issues associated with the performance of the PMSA shows the following areas which would generate cause for concern

- Governance issues as evident form the words of the PMSA themselves, relationships such as with Grammar Early Learning Example but also the legitimate concerns raised about the performance of the PMSA appointed Auditors.
- Coordination and Management – All levels from Business Manager through to the PMSA Full Council would have had the information concerning the management failures yet nothing effective was done over three years to neither stem the damage nor prevent it from guessing worse.
- Financial Management – A major loan condition was allowed to be breached which in most organisations would be grounds for dismissal of the Manager and the Board given their knowledge and control of what would effectively be a PMSA loan.
- Operational Management as evidenced by the decisions to increase teacher numbers despite enrolments dropping, the demonstrated variation in student to teacher ratios, and the potential loss of the Development Approval over the Oxley playing fields etc.
- Skills and capabilities at Councillor Level as demonstrated by the lack of school expertise and professional educator knowledge, the clear and unambiguous conduct displaying that the difference between governance and

knowledge is not understood, risk management etc (Refer Section 4.1 above)
- HR Management – Removal of the most experienced and competent Principal, inability to obtain a competent and suitable principal for an elite school for over three years, taking management fees to undertake HR operations with a private company being Grammar Early Learning Ltd.
- Asset management – Inability to maintain up to date valuations of a large and extensive property portfolio
- Brand management – Inability to acknowledge the brand value of its Principal's as evident by the loss associated with its Principal decisions.

It is clear that the issues are simply not one off examples of simple errors but of such an extent to demonstrate broad systemic failure of the activities of the PMSA from the Business Manager level to the PMSA Full Council.

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.

4.6 "Property Matters"

Of the assets shown in the PMSA 2016 Consolidated Financial Report the value of property assets (Land and buildings less depreciation) is shown as being $410,499,000 which is 90% of the total non-current assets.

The issues identified in the analysis above are concerning for the following reasons.

- The property can reasonably assumed to provide the security for the Westpac loans.
- The loan value being directly related to the value of the properties and the income from these properties and the associated businesses generate.
- If the PMSA defaults on a loan then the properties may or may not be at risk.

What the PMSA's Auditor has placed on the public record is that

- The PMSA properties were due to be re-valued in 2016. – they were not
- The properties were proposed to be re-valued in 2017 – that is in the future so any attempt to value the properties requires the use of 6 year old valuations.
- The same auditor valued properties within the Grammar Early Learning Limited based on 2011 figures in the very year when a new centre (doubling the number of centres) opened for business.
- In 2015 the Auditor stated that a school breached a loan covenant however given that the asset is owned by the PMSA it appears that the loan was actually with the PMSA and that the breach involved a revenue condition from the school on which the loan would be secured. In other words the Auditor would know that if the loan was with the PMSA it was the PMSA which breached and not the school since the school would not be a party to the agreement. – Why the attribution of the breach to the school by the Auditor?
- Following the loan breach any reasonable property manager would seek to revalue the properties given it is highly likely that the property values would have increased since the last valuation in 2011. The higher the property value

the lower the risk of default and greater security amount offered. They did not do so after the breach or in 2016.

- Having once obtained the Development Approval for the BBC playing fields at Oxley the delivery was mismanaged not coordinated to such an extent that it put the DA at risk. Evidence being demonstrated by the documentation requesting an extension.
- The value of the DA for the BBC Playing fields must have been of such value that the School was prepared to offer reasons which at best were incorrect and at worst potentially misleading and deceptive as evident from the correspondence and the PMSA own audited financial statements.
- That the expiry of the playing fields DA would have likely expired in 2016 would suggest that it may not have been a coincidence that valuations were not done at the same time a property would have been losing its value.

The significant time period that the issues have been public would lead to an obvious property conclusion. The competitors would know of the position of Clayfield College and would seek to take advantage of the opportunities of potential financial distress by purchasing the property.

Also internal Church bodies such as “Prescare” would have seen this opportunity to develop further product in a similar way that they have developed other church assets such as Kingsford Terrace. (Construction started in 2014 on a development which was subsequently sold in 2016. Size and capability required to develop such a site is evident from this public information. Source: Prescare: https://www.prescare.org.au/about/prescare-history/)

It is important to note whether any entity has “passed” its eyes over development of the Clayfield College Site and so an RTI Application to the BCC is currently being drafted to obtain the BCC DART system register showing the unique DART number associated with any prelodgement meeting or development certificate requested for the Clayfield College site. This will allow the key question of whether the Clayfield College site is being looked at. If it is then this significantly raises the valuation issue and the risk that the property may be transferred at a price lower than true value.

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

It is important to note the patterns used by the PMSA when questions are raised about PMSA decisions.

This is demonstrated by:

- The Principal at Clayfield being appointed following a recommendation from a HR Consultant yet the appointment was fundamentally flawed.

- The purported improvements in governance being undertaken in 2014 by the Australian Institute of Company Directors yet little sign of corporate governance improvements have been seen indicating the advice has not been either heeded or implemented.

The results of Councillor performance reviews, at both School and PMSA Councillor levels, has continued to help inform the Council about what support and training is required on corporate governance and directorship issues. In 2014, the PMSA initiated a program to deliver customised Australian Institute of Company Director foundation training for Not-for-Profit boards to all PMSA Council and School Council members during 2015. Despite these initiatives, it continues to be difficult to attract appropriately qualified persons with the time to commit to the role and the Association is particularly grateful for the support and engagement of the two churches in this process.

- The stated assistance in correspondence of 26 October 2017 of Deloitte's in 2015 regarding operational efficiencies yet the public records show little evidence of strengthening the overall efficiency of the schools administration.

Two years ago, the PMSA Council commissioned international accounting and consulting firm, Deloitte, to identify possible opportunities to strengthen the overall efficiency of its schools' administration.

The Deloitte report was a step in an ongoing process, which will continue with the support of the Presbyterian and Uniting Churches and will also involve consultation with all stakeholders at the appropriate time.

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- The PMSA engagement of Cannings Strategic Communications yet the Chairman of the PMSA proceeds with an interview which could at best be described as poor and in error or at worst potentially misleading and deceptive given the purported facts stated on the program were inconsistent with the PMSA facts published in the PMSA annual reports and that information contained by the various statutory bodies.

- But more importantly it utilises the good name of the Uniting and Presbyterian Churches to give legitimacy to decisions when the information presented to the Churches by the PMSA can at best be described as suspect.

It is of a great concern that the PMSA appears to be paying for expensive consultant advice and not following it. It may be that the PMSA has either engaged other consultants which may not have been made public or that the scopes of the consultants brief / commission has increased.

It would seem highly unlikely that if Deloitte's were looking at overall efficiency of the school's administration then they would have observed the student to staff ratios, the disproportionate loss of teaching staff to other staff numbers let alone the major issues such as retrenchment payments which must have been occurring at Clayfield College as evident in the large reduction in numbers at the school.

It would seem highly unlikely that once the PMSA were informed of such information that they did not expand the consultant's brief to include the Clayfield College issues and report back on the status of Clayfield College.

That some consultant's would take advantage of either poorly informed or incompetent clients to "hop on board the gravy train" is a fact well known when dealing with the practicalities of business and it would be relevant to seek information as to how the PMSA managed it consultants from initial commission through to final discharge of the consultants obligations.

What appears consistent is that poor decisions are being made by the PMSA. When explaining the decisions it appears they rely upon the good name and professional image of the consultants they use rather than going to the integrity of the decision itself. The PMSA rely on the brand equity of its consultants when queried about the brand damage being done to the schools.

What is more important is the decisions made by the PMSA are of such poor quality that it is unreasonable to assume that the Councillors are following the advice of their consultants. If they are not following such advice it would appear that the Councillors may have placed themselves in a position of legal exposure which may not be covered by their insurances.

4.8 Non public records - Quantity and quality of information from the Business Managers up to PMSA Council

The breadth and depth of the issues associated with the PMSA conduct directly relate to officers in the levels from the Business Manager to the Full Council of the PMSA.

This includes the Audit and finance committee along with the professional consultants engaged by the various PMSA representatives.

The public records show what is happening within the PMSA but because of the extent of poor performance (at best) or potential breach of statutory provisions (at worst) is so broad then the questions must be asked:

1. Are all of the individuals incompetent and did not know what they were doing?
2. Are all of the individuals competent and deliberately did what they did resulting in damages occurring to the corporate entity?
3. Are most of the individuals directed by individuals with the power and authority but not the competence to do so.

It should be noted that irrespective of whether the individuals obtained advice from specialist consultants the objective evidence identified above indicates that the PMSA officers conduct demonstrates actions inconsistent with sound professional advice.

It simple terms

1. If the PMSA consultants were in error or provided advice that was negligent then the PMSA would have rights to recover damages from such advice. The Annual reports do not appear to identify any such proceedings.

2. If the PMSA deliberately ignored professional advice and acted contrary to what a reasonable person would do then the risk and exposure that the individual placed themselves in would be concerning to most managers of this size business.

The public records evidence that the PMSA will have in its possession the:

- documents and records relating to all of these major decisions.
- The documents and records for all of the PMSA and related entity meetings of the organisation and the various committees.
- The documents requesting submissions/ prices for the PMSA scope of works / brief to consultants.
- The submissions and quotations returned to the PMSA and others from the consultants.

- The use of legal entities to attract legal privilege to documents which may identify and incriminate officers who are involved in improper conduct etc privilege
- The financial accounts at the business level unit showing the revenue and expenses moved in and out of the accounts.
- Where monies came from, went to and for what.
- The way in which information and statistics were compiled for submission to the various government entities collating school and other financial information.
- The complaints and concerns lodged with the PMSA entities and the actions or inaction taken to address any reasonable concern.

4.9 Who is impacted by these issues?

Based on this information a reasonable person undertaking a specific role would have reasonable concerns generated from the public information available.

A brief example of this is shown in table 4.9A below.

Role	PMSA Words different to conduct and public information	Information inconsistency / Auditor Reports	Lack of customer focus	Lack of brand and marketing management.	Financial stability	Capability to pay short term liabilities	Unknown other revenues	Unknown risks and lack of control	Future drop in revenue	Lack of cost controls	Damage to own reputation by association
Customers / Parent	X	X	X	X	X	X	X	X			
Independent Director / Councillor	X	X	X	X	X	X	X	X	X	X	X
Teacher	X		X		X				X		
Audit and Finance Committee	X	X	X	X	X	X	X	X	X	X	X
Business Manager	X	X	X	X	X	X	X	X	X	X	X
Auditor	X	X	X	X	X	X	X	X	X	X	X
Consultant	X	X	X	X	X			X		X	X
Government Education Bodies	X	X	X		X	X		X			X
Regulator	X	X			X	X		X		X	X
Moderator	X	X	X	X	X	X	X	X			
Bank / Financier	X	X	X	X	X	X	X		X	X	X

Table 4.9A – Decision makers role and potential for impact from issues identified

Depending on the relevant role and decision to be made the public information which documents the competency (or lack of competency) displayed by the PMSA and its entities would have obvious detrimental impacts as described by the examples below:

- Parent – Goes to another school resulting in loss of drop and poor reputation.
- New Director / Councillor – Decision not to join or serve resulting in loss of key skill and capability which the PMSA desperately needs.
- Existing or Past Director / Councillor – Being placed in a situation of possible legal difficulty given the validity of statements made to parents, statutory bodies etc and loss of insurance protection by deliberate decisions made contrary to expert advice.
- Bank Financier – The basis of information at commencement and during loan periods may have been incorrect yet mortgagee and other risks mitigated by the PMSA giving guarantees and securities over the school properties.

5. RECOMMENDATIONS

5.1 Available Options

Based upon the information and analysis of the key issues above the following options would appear available to the stakeholders.

5.1.1 The do nothing option

This option is based upon allowing the circumstances to continue as is with the resultant being documented previously in Section 4.4. This option underestimates the additional costs associated with the Somerville House issues which are over and above that experienced at Clayfield College.

5.1.2 The Status and Reconciliation Strategy

The goal of the Status and Reconciliation strategy is to recreate a culture of accountability, and most importantly to uncover the current information and status of the schools and other businesses. It is essentially a strategy to reconcile the church and its stakeholders and move toward a better future.

The broad objectives of the strategy are to promote unity and reconciliation in a spirit of understanding which transcends the conflicts and divisions of the past by:

- Establishing as complete a picture as possible of the nature and extent of the issues impacting the PMSA Schools and other businesses including the antecedents, circumstances, factors and context from the perspectives of those impacted and the motives and perspectives of the persons responsible for the decisions.
- Facilitating and granting safety, protection and security of persons (by way of amnesty or similar legal relief) who make full disclosure of all the relevant facts relating to the establishment of the complete picture referred to above.

- Establishing and restoring the human and civil dignity of those negatively impacted by such conduct and recommending reparation measures in respect of them;
- Compiling an open and transparent report providing as comprehensive an account as possible of the activities, information, data and recommendations to support and underpin the organisations and prevent future violations of good governance, sound management and individual accountability.
- Using the information and insight gained to proactively move forward into the future acknowledging the past but working to make the future better.

To ensure the success of this strategy a willingness to work in an open, transparent and fact based way within an environment of goodwill.

A broad outline of the three stages supporting this option would be:

1. Immediate – 3S's – Focus on stability, security and safety to protect further damage and protect the legitimate interests of stakeholders.
2. Short Term – 3 Choices – Having provided the necessary immediate underpinning to prevent further harm it is going to be necessary for the stakeholders to make choices as to whether they will be:
    a. Future focussed – Establishing the best way of running the schools and organisations to meet their respective goals.
    b. Past focussed – Stakeholders may wish to fight the past battles and seek to legitimise past actions.
    c. Together – Which stakeholders will wish to work together to achieve the goals and which stakeholders would prefer to part ways and pursue the goals independently.
3. Long Term – 3L's – Implementing the strategies of learning (the purpose of the schools), living (how we live out the things we are teaching) and the legacy (the knowledge and wisdom of the students, the school brand etc?)

5.1.3 Nuclear Strategy

The goal of the Nuclear Strategy is for stakeholders to simply withdraw from the PMSA organisation and seek redress / prevent future conduct by overwhelming the organisation by using all resources and options available. It would not be uncommon for the Nuclear Strategy to contain the following generic strategies:

- Legal – all options – Corporations Law, Consumer Law etc.
- Financial – all options - withdrawal of all personal and business related funds from financial organisations etc.
- Commercial – withdrawal of all financial support whether it be by way of fees donations etc and claiming the return of fees and other payments for services which have not been delivered.
- Individual – taking actions against individual Councillors for damages etc for decisions outside the cover of the insurance policies such as the wilful breach of duties.

To ensure the success of this strategy the stakeholder taking the Nuclear option simply needs sufficient financial resources to develop and then implement the strategy given that there are sufficient professional resources that can be obtained to ensure its success.

This strategy is normally the last option because of the internal and external costs.

Not only is the party impacted by the strategies being implemented but third party regulatory viewers such as the Australian Taxation Office, ACNC etc will be able to view the court and other documents lodged as part of the proceedings.

5.2 Recommendation

The fundamental question that any reasonable person would ask is still the same:

Is the PMSA being run as

<u>an education business on business lines but supported by spiritual values and ethics underlying its operations</u>

or

<u>is it in the religious business endowed with the resources generated</u>

If the business the PMSA is one of education services then it would be a simple decision by all stakeholders to enter into the Status and Reconciliation strategy. It is hoped that the PMSA would see the value in undertaking this approach for the simple reasons that the stakeholders involved in the current issues are not only sufficiently resourced to undertake the nuclear strategy but there is a long history of discontent with the PMSA which has provided the emotional energy and commitment to address the PMSA issues once and for all.

If the business of the PMSA is religious and the assets of the schools are simply resources to promote these goals then you would expect conduct which would ignore sound professional advice, ignore reasonable and enlightening customer feedback with other feedback interpreted within a fundamentalist perspective. That the PMSA has not had an educator on its Council would tend to indicate that the religious aspect of the mission far outweighs the educational component of the PMSA mission.

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 the historical arguments and conduct shown in the past to be repeated in the future and so it would be far cheaper and effective in tangible and intangible ways to undertake the nuclear option so that the matters would be resolved once and for all.

6. CONCLUSION

The report identifies and analyses information relating to the PMSA and its schools so that a person can be in a position of being informed. This information is directly relevant to the any party (whether they be a Director, Independent Director, Parent or potential PMSA client) who wants to be considered informed.

To be considered informed it would be reasonable for a party to understand the way in which the PMSA conducts its business and in particular the PMSA's financial position and performance.

The Informed Person Report identifies and uses information which is freely available to the public. It is limited by the time available to obtain the information however additional information from the entities nominated will be required depending on the decision that a stakeholder is required to make. The long term nature of the property issues has identified one RTI submission being necessary now to identify the potential risk of a competitor or related party property scenario.

Where objective information is not available then industry information was used within the analysis to identify the key PMSA issues which any informed person would be expected to understand.

Eight key issues were identified and have been summarised below.

1. Education business underpinned by spiritual and religious values or a 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.

The extent and breadth of the competency issues of the PMSA impact differently on different stakeholders.

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 unable or either unwilling to address the issues which are clearly self evident.

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.

Although Option 1 would appear to most to be the most preferable, reasonable and logical outcome it should be noted that the public information appears to identify a fundamental question which will drive the choice of options. This question is summarised below:

Is the PMSA being run as

<u>an education business on business lines but supported by spiritual values and ethics underlying its operations</u>

or

<u>is it in the religious business endowed with the resources generated?</u>

The answer to this fundamental question would appear not in the public statements being made by any one stakeholder but by examining the actions and records of the PMSA whether they be public or private.

What is not beyond dispute is that: No Money means No Mission, No Customers mean No Money and No Customers irrespective of whether it is an educational or religious business,