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BRISBANE GRAMMAR SCHOOL

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10 December 2002

Education Queensland
30 Mary Street
BRISBANE Q.4000

Attention: David Hay

Dear David

BORROWING PROGRAM

Middle School Loan

On 5 December 2001, Education Queensland approved borrowing facilities totalling \$6.2million to cover:

- (a) the construction of a new Middle School facility (\$5.7million);
- (b) renovation of our old gymnasium as a Centre for Art (\$0.5million).

At that time, the total cost of the project was estimated to be \$7.8million. However, in the period prior to commencement of construction in May 2002, the escalation in the level of building activity in and around Brisbane, together with variations from the original design, led to a substantial increase in costs when the project was put to tender. On completion of the tender process, the cost of the buildings had increased by \$1.6million.

The School has attempted to reduce the impact of these cost increases by additional fundraising and by paying as much as possible of the relevant consultants fees from operating budgets. In total, these measures amount to approximately \$700,000.

There is, therefore, a remaining requirement of \$900,000 which the School needs to fund by way of additional borrowings. The School is continuing to closely monitor the project costs and will seek to minimise the above requirement. However, the cost increases have largely resulted from the effect of market forces in the building industry which we are unable to control.

Additional Requirement - \$2million

A new borrowing requirement has emerged with respect to the settlement of litigation arising from the activities of a former school counsellor, Kevin Lynch. A full briefing on the background to this issue can be provided if necessary, and the Minister's Office has been made aware of the matter by a letter from the Chairman of the Board of Trustees of even date (attached).

The requirement arises because the School's insurers have refused to provide full cover to the School under relevant insurance policies and require the School to make a contribution towards the settlements. Further explanation of the negotiations with insurers can be provided by our Chairman of Trustees, Mr Howard Stack. While the exact amount of this contribution will remain unknown until the last litigant settles, it is the view of the Board and our legal advisors that \$2million would be a prudent limit to provide for at this stage.



CCW.029.0189

I am aware that the nature of this proposed borrowing is outside the usual guidelines of the Grammar Schools' Borrowing Program. However, I have illustrated below that the School can comfortably service the debt. More importantly, the amount sought is the result of a judicial process and is beyond the means of the School to deal with as an unbudgeted outright payment without compromising physical facilities or day to day operations. The circumstances which gave rise to this cost were beyond the control of the present Board and Management as they occurred between 1976 and 1988.

Financial Analysis

I have enclosed the School's budget for 2003, together with updated financial forecasts. The Board of Trustees is of the view that the School can comfortably manage the additional requirement in the short term, with debt service capacity improving further over time.

A number of factors are highlighted here to demonstrate the School's capacity to maintain the proposed borrowings:

- the total surplus, including non operating income, is budgeted at just under \$0.9million in 2003, after allowing for all debt service costs, including those sought here.
- income from Commonwealth recurrent grants is higher than previously forecast due to increases in per capita rates.
- by 2008, this surplus shows a substantial increase to \$1.6million, and while not shown on the spreadsheets provided, improves dramatically in 2010 with the completion of repayment of the Indoor Sports Centre Loan.
- overall, the School's balance sheet remains in a very strong position, with the additional revenues provided by the Middle School adding substantially to future surpluses.
- enrolments remain very strong. Places for the Middle school (total 200) were filled from our existing Year 8 enrolment lists. It was not necessary to locate other enrolments. In other words, 200 of our existing clients have brought forward their enrolment to Year 6 or 7 to take up all available Middle School places.

In conclusion, the Board of Trustees regard the proposed borrowings as being manageable, and resolved to seek the borrowing. The Middle School requirement is an unavoidable consequence of construction activity. The requirement arising from the Lynch litigation will allow the School to deal with the settlements agreed with litigants without affecting the ongoing operations of the School.

Yours sincerely



STEPHEN TYRRELL
SECRETARY TO THE BOARD OF TRUSTEES

