

TE AUTE TRUST BOARD

ANNUAL REPORT

For the year ended 31 December 2017

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Ko te amorangi ki mua, ko te hāpai ō ki muri. Nā te Atua te kupu tuatahi, ko te kupu tuatahi nā te Atua.

Otirā, e ngā muka tangata ki tēnā taura, ki tēnā taura, anei mātau o te Poari o Te Aute e mihi ake nei ki a koutou katoa. Nō mātau te whakamīharo i tēnei wā tonu ki te tukuna atu ngā mihi aroha me te pūrongo-ā-tau. Nō reira, kia ita, kia mau, kia ū ki te kupu e kīia nei, kia mataara, e tū i runga i te whakapono whakatangata kia kaha kia meatia ā koutou mea katoa i runga i te aroha. Tēnā koutou, tēnā tātau katoa.

1. INTRODUCTION

- 1.1 On behalf of Trustees, it is my pleasure to present the Annual Report of the Te Aute Trust Board (the "Trust") for the year ended 31 December 2017.
- 1.2 This report summarises the activities of the fourth year since Trustees were appointed by Te Pihopatanga to assume the proprietorship of both the Te Aute and Hukarere kura.
- 1.3 This report is separated into sections reporting on the performance of the hostels, farming operations and the activities of the Trust itself. It should be noted that at the time of writing this report, the audit of the financial statements of the Trust is yet to be finalised.

2. THE HOSTELS AND SCHOOLS

- 2.1 A summary of the operating performance of the hostels for the year is as follows:

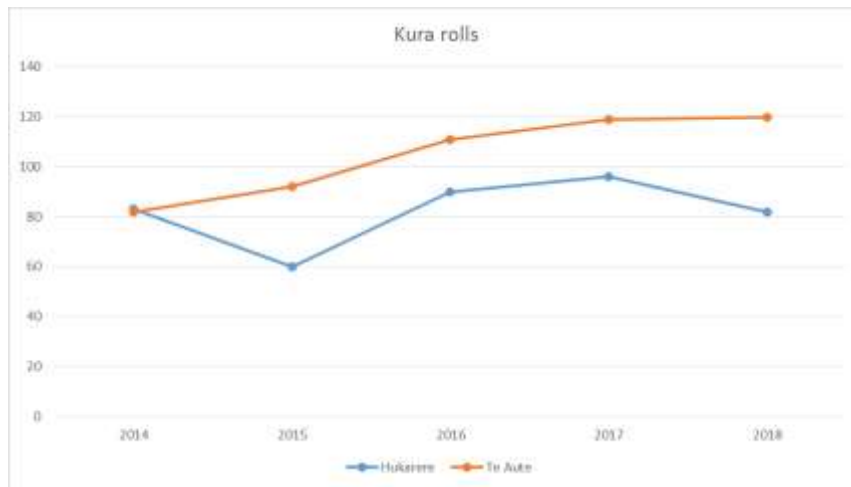
	Hukarere	Te Aute
Total income	533,000	1,038,000
Total expenditure	774,000	1,158,000
Deficit	(241,000)	(120,000)

- 2.2 The fees charged by the Trust partially cover the cost of rangatahi being housed, nourished and nurtured in the hostels and the maintenance of the Ministry owned school buildings¹. The current fees have not been increased for a number of years and remain at levels that are heavily subsidised, giving rise to the deficits as incurred.
- 2.3 The 2017 year saw a continued improvement in the collection of fees, to the point that it is hoped that this issue, that has plagued the kura, is now a thing of the past. While there will always be a small number of non-payments, these instances are pleasingly now in the minority.
- 2.4 The rolls of the kura and hostels are therefore now the single greatest determinant of the financial performance of the hostels.
- 2.5 The 2018 year has started with the roll of Te Aute stabilising at 120 students (84 in the hostel), very similar to the roll in 2017, whereas the roll at Hukarere has however dropped to 82 (59 in

¹ A requirement under the Integration Agreements

the hostel) the reduction as a consequence of the students that joined the kura following the closure of Turakina having now largely departed.

- 2.6 The rolls of both kura, most notably of Hukarere, continue to be a significant concern to Trustees especially as these rolls remain well below the capacities of each kura.



- 2.7 Importantly, from an academic viewpoint, the kura continue to perform extremely highly with NCEA results for 2017 again exceeding the averages for both Tikanga Maori and all schools nationally.
- 2.8 The 2017 year also continued the replacement and refurbishment of the infrastructure at each kura, most notably the start of a significant project to renew the laundry and kitchen facilities at Hukarere Girl's College. The Trust expended some \$290,000 on new assets and refurbishments during the year, a significant reduction on the \$1.6 million expended during 2016.

3. FARMING OPERATIONS

- 3.1 Representing its only endowment assets, the Trust relies on the performance of its farming operations to assist with the funding of the two kura, most significantly the costs of running the hostels.
- 3.2 These farming operations are represented by an 800Ha beef and sheep block at Pukehou, adjacent to Te Aute College, and a 188Ha dairy farm at Ngawapurua.
- 3.3 The performance of the farms for the year is summarised in the table below.

	Te Aute Farm	Ngawapurua
Income (net of stock purchases)	960,000	1,082,000
Expenditure	491,000	910,000
Surplus/(Deficit)	469,000	172,000

- 3.4 Both farms performed well during the year, due to increased commodity prices and the implementation of business plans that allowed for the timing of the purchase and sale of stock to take advantage of market pricing movements.

3.5 It is hoped this performance is able to be sustained during 2018 and the regular distributions of surpluses to be continue, albeit the quantum of these distributions will depend on market conditions prevailing at the time.

4. THE TRUST

4.1 The Trust's principal source of income is the rental earned on its 1,934 hectares of ground leases. The Trust continued to closely manage these leases during the year, including stipulating the completion of certain works before the Trust would consent to the sale/transfer of Lessees' interests.

4.2 The very low level of rental being generated from these Glasgow leases continues to frustrate Trustees especially given the significant sums for which Lessees' interests continue to change hands.

4.3 This indicates to Trustees that due to the punitive interpretation of the lease terms, the value of these properties sits with the Lessees. Trustees will be adopting a strong approach to the rebalance of this unfair advantage when these perpetual leases are renewed in 2021. Until then returns from these assets will remain depressed.

4.4 From the income earned the Trust has continued to fund the special character costs of each kura, meeting the cost of the chaplains of each school, a half share of the Te Reo teachers and other necessary pastoral and social worker costs.

4.5 Pleasingly a number of the historical legal issues that have plagued the Trust in the past have now been resolved, leaving only a small number of these issues outstanding. As a consequence the legal costs incurred by the Trust dropped dramatically during 2017.

4.6 The financial performance of the Trust, excluding the hostels and farms for the 12 months ended 31 December 2016 is summarised as follows:

	Te Aute Trust
Income	248,000
Total expenditure	475,000
Surplus/(Deficit)	(227,000)

5. CONSOLIDATED PERFORMANCE

- 5.1 On a consolidated basis, taking into account the individual performance of the Trust, hostels and farms the financial performance of the Trust can be summarised as follows:

	Te Aute Trust Consolidated
Income	3,861,000
Total expenditure	3,808,000
Surplus/(Deficit)	53,000

- 5.2 Taking into account all of its activities, the Trust generated a very modest operating surplus of \$53,000. In addition the Trust benefited from the positive revaluation of its farming and leased assets and recorded a net profit (unrealised) of \$802,000.
- 5.3 This performance is reflected in the financial position of the Trust as at 31 December 2017 with the Trust's capital having risen to \$12.6 million.

6. FUNDING

- 6.1 In accordance with understanding reached with Te Kotahitanga and the General Synod Standing Committee, the St John's College Trust Board has made funding of up to \$15 million available to the Trust, to be repaid without interest in 2024.
- 6.2 During 2017, with careful management of expenditure and with the strong performance of the Trust's farming operations, no additional funds were needed to be drawn on the funding facility provided by the St John's College Trust Board as at 31 December 2017 and the balance drawn remained at \$14.5 million.
- 6.3 With respect to this loan, the assets of the Trust have been independently valued at 31 December 2017 at \$28.2 million meaning the Trust has an excess of assets over its liabilities of over \$12.6 million at year-end.
- 6.4 As communicated by the Trust in previous years, a significant portion of the funding facility provided by the St John's College Trust Board has been utilised to fund liabilities and expenditures that were undisclosed or unforeseen when the facility was arranged. This has meant that some of the redevelopment work at the kura has not able to be completed and there has been limited ability to invest in increasing the rolls of the school.
- 6.5 The facility will likely be fully utilised during the 2018/19 period, as the costs necessary to subsidise the fees and cover the operating deficits of the hostels may exceed the returns available from the trust's farming operations.
- 6.6 The Trust is also under increasing pressure to repay the St John's loan from some quarters, despite this not being due for repayment until 2024. Obviously a repayment of this loan will place the Trust under significant financial pressure and necessitate the sale of the assets which produce income for the Trust thereby jeopardising the continued operation of the kura.
- 6.7 This is a matter that requires further strategic consideration by the Church and will be a matter for further discussion at the meeting of General Synod in May 2018.

7. CONCLUSION

- 7.1 While Trustees are very pleased with the academic performance of our kura, there remains a significant amount of work to resolve some of the legacy issues and achieve financial sustainability by investing in the growth in the rolls of each kura. This will only be achieved by way of the investment of time and financial resources.
- 7.2 The Te Aute Trustees are grateful for the work of all those associated with the kura, especially the Boards of Trustees, Tumuaki Lelie Pearcey and Shane Hiha and their staff and members of the Trust Board.
- 7.3 We congratulate all students for their hard work in 2017 and for their commitment to Tikanga and Whakaponono, which make up these iconic schools' Special Character.

Rt. Rev Donald Tamihere
Chair
Te Aute Trust Board

March 2018