

## TE AUTE TRUST BOARD

For the year ended 31 December 2016

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

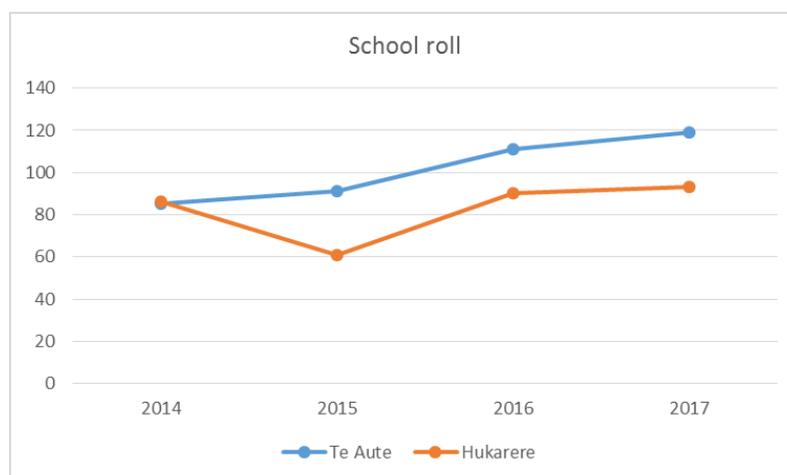
*Otirā, e ngā muka tangata ki tēnā taura, ki tēnā taura, anei mātau o te Poari o Te Aute e mihi ake nei ki a koutou katoa. Nō mātau te whakamīharo i tēnei wā tonu ki te tukuna atu ngā mihi aroha me te pūrongo-ā-tau. Nō reira, kia ita, kia mau, kia ū ki te kupu e kīia nei, kia mataara, e tū i runga i 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 our pleasure to present the Annual Report of the Te Aute Trust Board (the “Trust”) for the year ended 31 December 2016.
- 1.2 This report summarises the activities of the third year since new Trustees were appointed by Te Pihopatanga to assume the proprietorship of both the Te Aute and Hukarere schools.
- 1.3 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 It is with great pleasure to advise that as we commence the 2017 school year the roll of Te Aute has grown to 121 students (2016: 111) while Hukarere has increased to 93 (2016: 90) continuing the trend of modest increases in the rolls of both schools, but still well below their capacities.



2.2 In regard to academic performance I am also pleased to advise that the performance of our rangatahi exceeded national averages at all levels. The preliminary NCEA results for 2016 are as follows:

	Hukarere	Te Aute
Level 1	71%	85%
Level 2	86%	100%
Level 3	100%	90%

2.3 The year also saw the completion of the first stage of a number of significant refurbishment projects. In addition to greatly improved living conditions in the hostels, both kura and hostels now enjoy new water supplies, greatly enhancing the sustainability and quality of this valuable resource.

2.4 There remains more work to be undertaken, as funding allows, including the construction of a chapel at Hukarere. While it was hoped that this development could have been undertaken within the funding provided by the St John's College Trust, updated cost estimates and the need to fund other priorities has necessitated the deferral of this project.

2.5 However, funding by the H & W Williams Memorial Trust and donations from the local community have enabled the refurbishment of the chapel at Te Aute to be completed, achieving a goal of the Board to enhance the special character of the schools.

2.6 While the higher rolls of the kura and hostels have been pleasing, this growth has not been accompanied by any increase in the collection of Boarding and Attendance Due Fees from some whanau, meaning funding earmarked for the completion of the refurbishment of the hostels and construction of a chapel, has been needed to fund the fees shortfall and operating deficits of the hostels.

2.7 The fees charged by the Trust fund the cost of rangaitahi being housed, fed and supervised in the hostels and the maintenance of the Ministry owned school buildings<sup>1</sup>. The current fees have not been increased for a number of years and remain at levels that are subsidised by the Trust, so that the actual costs incurred per student exceeds the fees charged.

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<sup>1</sup> A requirement under the Integration Agreements

2.8 As the Trust cannot afford to cover the shortfall in fees, Trustees have needed to invoke a strict policy to exclude students for whom fees remain unpaid.

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

	<b>Hukarere</b>	<b>Te Aute</b>
<i>Total income</i>	<i>525,000</i>	<i>817,000</i>
Staff Expenditure	471,000	605,000
Property Expenditure <sup>2</sup>	47,000	200,000
Other operating costs	225,000	321,000
<i>Total expenditure</i>	<i>743,000</i>	<i>1,126,000</i>
<b>Deficit</b>	<b>(218,000)</b>	<b>(309,000)</b>

2.10 The combined net deficits of the hostels for the 2016 financial year was \$527,000 or approximately \$3,300 per rangatahi residing in the hostels.

### **3. FARMING OPERATIONS**

3.1 To a large extent the Trust relies on the performance of its farming operations to assist with the funding of the responsibilities of the Trust as Proprietor of the two schools, most significantly the costs of running the hostels.

3.2 These farming operations are represented by the 800Ha beef and sheep block at Pukehou and the 188Ha dairy farm at Ngawapurua.

3.3 The performance of the farms for the year is summarised in the table below.

	<b>Te Aute Farm</b>	<b>Ngawapurua</b>
Income (net of stock purchases)	500,000	964,000
Expenditure	494,000	847,000
<b>Surplus/(Deficit)</b>	<b>6,000</b>	<b>117,000</b>

3.4 2016 proved to be a difficult year for both farms due to volatile market conditions. The near drought conditions in the Hawkes Bay resulted in the need to reduce stock numbers and defer sales, while the dairy farm benefited from a late and unexpected increase in the milk solids price.

3.5 This improvement in dairy earnings later in the year, combined with improving conditions for the beef and sheep farm since year end, has pleasingly seen the farms distribute \$250,000 in early 2017 for the benefit of the hostels.

3.6 It is expected that the farms will continue to make regular distributions throughout the remainder of 2017, albeit the quantum of these distributions will depend on market conditions

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<sup>2</sup> Excluding refurbishment costs

#### **4. GROUND LEASE INVESTMENTS**

- 4.1 The Trust also continued to place significant focus on its ground lease interests (1,934 Ha) during the year.
- 4.2 A second full review of the compliance with the terms of the leases was undertaken, following the 2015 review, resulting in further notices being issued to a number of lessees to undertake specific rectification works and reminding all lessees of their obligation to protect the environment including the need to fence waterways.
- 4.3 The next renewal of the leases will take place in 2021, and Trustees anticipate that significant pressure will again be brought to bear on the Trust by lessees to renew the leases on this very valuable pastoral land at similarly low rates of return.
- 4.4 However, the Trust continues to consider remedies to address the low returns including taking advice on the terms of the leases and the basis of rental assessments of what appear to have been historical interpretations in favour of the lessees. Currently these leases return only approximately \$120/Ha per annum despite these properties being sublet and/or transferred at much higher values.
- 4.5 To resolve this anomaly, for the benefit of the kura, the Trust will continue to liaise with, and call on the assistance, of iwi, advisors and the Crown.

#### **5. THE TRUST**

- 5.1 As noted above, the Trust has completed a number of refurbishment projects at both Hukarere and Te Aute during 2016.
- 5.2 Over the past three financial years the Trust has expended some \$1.5 million on the refurbishment of the hostels and the development of new water supplies (albeit that by accounting convention the majority of this cost has been capitalised).
- 5.3 The Trust has also continued to meet the cost of ensuring the Anglican Special Character aspects of the schools are maintained, 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.
- 5.4 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 historical issues outstanding.

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

	<b>Te Aute Trust</b>
<i>Income</i>	<i>311,000</i>
Expenditure	
Property costs (incl depreciation)	300,000
Legal fees and costs	94,000
Professional fees	185,000
Other expenses	35,000
<i>Total expenditure</i>	<i>614,000</i>
<b>Surplus/(Deficit)</b>	<b>(304,000)</b>

## 6. FUNDING

- 6.1 In accordance with understandings 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 after 2024.
- 6.2 The funds drawn from the St John's College Trust Board as at 31 December 2016 amounted to \$14.5 million (2015: \$12.6 million). With respect to this loan, the assets of the Trust have been independently valued at 31 December 2016 at \$27.5 million meaning the Trust has an excess of assets over its liabilities of over \$12 million at year-end.
- 6.3 However, as mentioned earlier in this report, and as communicated by the Trust in prior years, a significant portion of the funding facility provided by the St John's College Trust Board has been utilised to fund unknown liabilities or unexpected expenditure that has arisen over the past three years.
- 6.4 Trustees have estimated that in excess of \$2.4 million has been expended on such items which has utilised the \$15 million funding facility much faster than expected (noting thatg this was a 10 year facility) and consequently limited the ability of Trustees to undertake some works that were seen as a priority, such as the continued refurbishment and construction of a chapel at Hukarere.
- 6.5 It has also become clear over the past three years that the running costs of the hostels have been higher than expected and that the collection of fees and the viability of the hostels remain a matter that requires consistent and careful management.
- 6.6 To this end, Trustees are of the opinion that the annual funding that was historically provided to each kura by the St John's College Trust Board needs to be urgently reinstated, this having been reallocated to other purposes by the Church in 2014 on the belief that this funding would no longer be required<sup>3</sup>.

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<sup>3</sup> The funding provided by the St John's College Trust Board was never intended to be utilized to fund the long term financial viability of the hostels, but rather to eliminate debt and undertaken much needed investment into the refurbishment and farms.

6.7 Therefore, despite the progress made and the positive outcomes achieved, Trustees remain concerned, especially given that certain sectors of the Church are calling for the early repayment of the funding provided by the St John's College Trust Board. There remains much work that needs to be done to ensure the survival of the Hukarere and Te Aute schools.

6.8 This can only be achieved with the continued support and co-operation of the Tikanga, Te Pihopatanga, St John's College Trust Board and General Synod/ Te Hinota Whanui.

## 7. CONCLUSION

7.1 While Trustees are very pleased with the performance of our schools, there remains a significant amount of work to resolve some of the legacy issues and achieve financial sustainability.

7.2 The Te Aute Trustees are grateful for the work of all those associated with the school, especially the Boards of Trustees, Tumuaki Lelie Pearcey and Shane Hiha and their staff and the members of the Proprietor's Board.

7.3 We congratulate all students for their hard work in 2016 and for their commitment to Tikanga and Whakapono, which make up these iconic schools' Special Character. We also thank whanau for their trust in us and for sending their Rangatahi to Hukarere and Te Aute.

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Stephen Jacobi  
Chair  
Te Aute Trust Board



Maui Tangohau  
Chair  
Te Aute Proprietors' Board

May 2017