

TE AUTE TRUST BOARD

ANNUAL REPORT

For the year ended 31 December 2019

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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 kiia nei, kia mataara, e tū i runga i te whakaponu 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 2019.
- 1.2 This report summarises the activities of the sixth year since Trustees were appointed by Te Pihopatanga to govern the Trust and 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 TRUST

- 2.1 The Trust’s principal sources of income are the rental earned on its ground leases, dividends received from its farming operations and distributions from the St John’s College Trust Board to fund the special character of ngā kura.
- 2.2 While the Trust’s farming operations have continued to perform strongly, the very low level of rental being generated from the leasehold lands, subject to the historic terms of old Glasgow leases, continues to frustrate Trustees especially given the significant sums for which Lessees’ interests continue to change hands.
- 2.3 This indicates to Trustees that due to the punitive interpretation of the lease terms, the value of these properties sits with the Lessees rather than the Trust as owner of the whenua. Trustees will therefore 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.
- 2.4 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.
- 2.5 Disappointingly the 2019 saw the Trust needing to intervene to settle further legal disputes and as a consequence the Trust underperformed its budget as a due to these settlements and associated professional fees.
- 2.6 The financial performance of the Trust, excluding the hostels and farms for the 12 months ended 31 December 2019 is summarised as follows:

	Te Aute Trust
Income	1,105,000
Total expenditure	709,000
Surplus/(Deficit) before depreciation	272,000

3. HUKARERE GIRLS' COLLEGE

3.1 A summary of the operating performance of the Hukarere Girls' hostel for the 2019 year is as follows:

	Hukarere Girls' College
Total income	498,000
Total expenditure	753,000
Deficit	(255,000)

3.2 Despite generating a deficit of \$255,000 for the year, Hukarere slightly outperformed its budget projection. While boarding fees were lower than expected, with an average roll of 63 during the year (against a budget expectation of 70), at the same time expenses were able to be carefully managed thereby limiting the projected deficit.

3.3 While the collection of boarding fees has improved markedly over the years, it remains a challenge to the extent that Trustees expect that during 2020, the Trust will need to write off at least \$50,000 of fees outstanding from rangatahi who have since left the kura.

3.4 While Trustees continue to grapple with this challenge, they are mindful of the need to reach a balance between the mission the Trust delivers on behalf of the Church, its commitment to the care of its students and their whānau and financial prudence.

3.5 As I am sure readers of this report will appreciate, this matter is not easy for Trustees to reconcile, especially when the outcome of resolving fee arrears is often the removal of the student from the kura, ceasing their contact with the Church.

3.6 As an Integrated State School the Trust also has the role as Proprietor of the kura, with Trustees, or their representatives, attending meetings of the Boards of Trustees of the kura. In recent months the Trust, having grown concerned with the academic performance of the kura, has increased its involvement with the Board of Trustees as ultimately the performance of the kura will be a significant determinant of the success of the hostel.

4. TE AUTE COLLEGE

4.1 A summary of the operating performance of the Te Aute College hostel for the 2019 year is as follows:

	Te Aute College
Total income	804,000
Total expenditure	1,179,000
Deficit	(375,000)

4.2 The Te Aute College hostel incurred an operating loss of \$375,000 for the year, a deficit against its budget of 10%.

4.3 Consistent with Hukarere Girls' hostel, a lower than expected roll of 76 was the main determinant of this outcome with a number of students being excluded from the kura due to fee arrears and disciplinary issues. Otherwise operating expenses were managed largely in line with the 2019 budget.

4.4 While also much improved, the Te Aute College hostel also has ongoing challenges with the collection of boarding fees, with Trustees anguishing over the same concerns noted in the commentary regarding the Hukarere Girls' College hostel.

- 4.5 In regards to the Trust's role of Proprietor of Te Aute College, during 2019 Trustees became alarmed at a breakdown between the Trust and Board of Trustees leading to an effective failure of the Integrated State School governance model.
- 4.6 Trustees became so concerned of the impact this would have on staff and students at the kura, that they requested the Ministry of Education to intervene in the governance of the kura. Following an extensive review by the Ministry, the Minister of Education resolved to suspend the Board of Trustees, appointing a Commissioner to govern the kura.
- 4.7 The Commissioner has now been appointed and Trustees are pleased to once again working in unison to improve the academic performance and governance of the kura to the benefit of the rangatahi, whānau and the Church.

5. FARMING OPERATIONS

- 5.1 Representing its principal endowment assets, the Trust relies on the performance of its farming operations to assist with the funding of the two kura, most significantly the operating costs of the hostels.
- 5.2 These farming operations are represented by an 870Ha beef and sheep block at Pukehou, adjacent to Te Aute College, and a 188Ha dairy farm at Ngawapurua.
- 5.3 The performance of the farms for the year is summarised in the table below.

	Te Aute Farm	Ngawapurua
Income (net of stock purchases)	1,224,000	1,108,000
Expenditure	484,000	735,000
Surplus/(Deficit)	740,000	373,000

- 5.4 Both farms continued to perform 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.
- 5.5 However, despite its strong performance, the Te Aute Farm has been subject to two Mycoplasma Bovis Notices issued by the Ministry of Primary Industries in respect to stock purchased from external sources. While impacting the day to day basis operations of the farm, this matter has been well managed by the Farm Manager and Advisor, to the extent that the farm has not suffered from any significant impact.
- 5.6 The Ngawapurua dairy farm has also benefited from increased production and a reasonably stable milk solid price. However, Trustees have made the decision that this farm is to be sold to free up capital to provide funding for the hostels and in expectation of the repayment of the debt owing to St John's College in 2024.
- 5.7 It is hoped this performance is able to be sustained during 2020 and the regular distributions of surpluses are able to be continue, albeit the quantum of these distributions will depend on market conditions prevailing at the time.

6. CONSOLIDATED PERFORMANCE AND FINANCIAL POSITION.

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

	Te Aute Trust Consolidated
Income	2,905,000
Total expenditure	2,765,000
Operating Surplus/(Deficit)	140,000

6.2 Taking into account all of its activities, the Trust generated a very modest operating surplus of \$140,000.

6.3 The financial position of the Trust, as at 31 December 2019, can be summarized as follows:

	Te Aute Trust Consolidated
Investment in livestock	1,627,000
Investment in Fonterra shares	662,000
Value of Lessor's interest	9,015,000
Value of property assets (excl. kura)	17,255,000
Working capital	2,325,000
Total assets	30,884,000
St John's College Trust Board Loan	15,195,000
Trust Capital	15,689,000

6.4 During the 2019 year, the Trust negotiated a new loan from the St John's College Trust Board of \$350,000 to allow for the purchase of the Lessee's interest in a leasehold block adjacent to the Trust's existing farming operations. This loan is on normal commercial terms. Otherwise the \$15 million facility provided by the St John's College Trust Board has been drawn on to \$14.8 million.

6.5 As at the time of preparing this report, the revaluation of the Trust's assets has not yet been finalized and recorded. However, based on draft financial statements the Trust continues to maintain a healthy positive equity position, albeit this equity is primarily represented by its endowment lands.

7. FUNDING

7.1 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 being charged, in 2024.

7.2 As at 31 December 2019 \$14.8 million had been drawn against this facility. Pleasingly, with the performance of the farming operations and careful management of expenditure, this facility has not needed to be drawn on to fund normal operating expenditure. However, disappointingly the facility has been required in order to settle further legal disputes.

7.3 As communicated in previous years, a very significant portion of the funding facility provided by the St John's College Trust Board has needed to be utilised to fund liabilities and expenditures that were either undisclosed or unforeseen when Te Pihopatanga made new governance arrangements and the facility was agreed. This has meant that some of the redevelopment and needed repair work at ngā kura has not been able to be completed.

7.4 As some of this work is now becoming urgent, it is therefore likely that this facility will be fully utilised in the next twelve months while at the same time Trustees strive to make the hostels financially feasible.

7.5 As noted in this report there are many challenges to achieving this outcome which in turn places Trustees in a difficult personal position given they have no indemnity, despite being appointed by the Church, for any liabilities incurred while they are in office.

7.6 Trustees request Members of the General Synod consider this matter with the seriousness it deserves, as the retention of trustees is likely to become an issue as the Trust continues to try and identify new funding sources and as the debt owed to the St John's College Trust Board becomes ever closer due for repayment.

8. CONCLUSION

- 8.1 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 in order to achieve the mission these kura represent for Tikanga Māori and the Church. This will only be achieved by way of the investment of time and financial resources that the Trust does not presently have at its disposal.
- 8.2 The Te Aute Trustees are grateful for the work of all those associated with the kura, especially the Kaihautu of the hostels, Tumuaki of ngā kura and in turn their staff.
- 8.3 We congratulate all students for their hard work in 2019 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

January 2020