

## **37/10 Future requirements and roles of the Archbishop's staff and 5 year budget of EOS costs**

(A report from the Endowment of the See Committee.)

### **Background**

1. Synod in 2010 passed the following resolution (37/10) –  
Synod –
  - (a) asks the Endowment of the See and the Archbishop's Commission to look at ways of realizing part or all of the Endowment of the See's interest in SAHC as contemplated by the Property Trust's report or any other source of funds,
  - (b) and in the event that the actions contemplated under (a) are not by 1/1/11 reasonably expected to inject adequate and long term cash into the EOS while maintaining the real value of the investment when completed, then –
    - (i) approves an assessment on parishes at a rate of 1.14% for the purposes of contributing to the EOS funding needs during 2011 only, and
    - (ii) requests that the EOS bring to Synod in 2011 a report on the future requirements and roles of the Archbishop's staff and a 5 year budget of projected costs, and
  - (c) requires Standing Committee to report to the Synod in 2011 about the options that exist to place the EOS on a financially sustainable footing, together with a recommendation. This report should be prepared in consultation with the Endowment of the See, the Archbishop's Commission and the Anglican Church Property Trust.

### **Structure**

2. The Endowment of the See (which is separate from the Diocesan Endowment) comprises property and investments which are held for the purposes of the Archbishop's office.
3. The Endowment of the See is subject to the Endowment of the See Ordinance 1977, as amended at various times until 2002. That ordinance provides for the management of certain property and to vary the trusts on which that property is held. The Ordinance itself is somewhat complicated.
4. Trusteeship of EOS property –
  - (i) Anglican Church Property Trust Diocese of Sydney is the trustee for EOS property.
  - (ii) GAB is the trustee for St Andrew's House (of which EOS has one-half share).
5. The current membership of the EOS Committee consists of –  
The Archbishop  
*Appointed by Standing Committee*  
Bishop Glenn Davies  
Mr Robert Bradfield  
Mr Jonathan Rochford  
  
*Appointed by the Archbishop*  
Mr Doug Marr  
Dr Philip Selden  
Mr Mark Payne
6. The functions of the Committee may be summarised as –  
To direct the investment policy of the property.  
To care for, repair, renovate and refurbish real property.  
To recommend to the Archbishop how he should exercise his discretions with respect to matters listed in (4) of the following clause.
7. Payments are to be made for –
  - (1) Stipend for the Archbishop, expenses in relation to his residence and travelling, secretarial and other expenses of his office,
  - (2) Other amounts in connection with the Diocese for such purposes as may be determined,
  - (3) Such other amounts for such purposes of the Diocese beyond the Diocese as may be determined by Synod or Standing Committee, but only insofar as those purposes include the provision of capital sum to endow of the see of another diocese,
  - (4) Such other amounts (not exceeding \$10,000 in 1984 and increased to \$25,000 in 1993, or such amount as may be determined by Standing Committee) for purposes in the Diocese specified by the Archbishop.

8. The amounts to be paid under subclauses (1) to (3) above shall be determined by Standing Committee and approved by the Archbishop. The amounts under subclause (4) are at the Archbishop's discretion, but the EOS Committee may make recommendations to the Archbishop.

9. ACPT, as trustee of the fund, must implement any investment instructions given by the EOS Committee and any determinations made by Standing Committee which are approved by the Archbishop, unless there are good reasons for not doing so. Any refusal to act must be notified to the Standing Committee and the EOS Committee.

10. It should be noted that under subclauses (3) and (4) payments to other dioceses and other bodies between 1974 and 2001 totalled just under 4 million dollars. This was at a time when there were surpluses in the fund, and it was possible to be generous.

## History

11. We quote from the Archbishop's Presidential Address to the 2010 Synod –

“One of the reasons for the current weakness of the Endowment of the See is that during the building of St Andrew's House in the 1970s, the builder's bankruptcy put the whole project in danger in an unfinished state. Archbishop Loane was persuaded, very unwillingly, to allow EOS money to be used to bail the building out; the money was meant to be a loan, but it was never repaid; it has meant that EOS has always had this somewhat lazy asset and it has been disadvantaged all these years and still is.”

12. The Committee met regularly from 1977 until 1996. The minutes record that very little of substance was discussed. The Committee did not meet from 1996 to 2000, but since then has met, usually quarterly, except for 2003 when it did not meet.

13. In 2002 a draft business plan was produced by the then CEO of GAB.

The report expressed three concerns –

- The EOS portfolio is dominated by St Andrew's House and therefore limited in liquidity and flexibility.
- There is little room to move in expenditure terms and the Archbishop has no real flexibility in applying his income,
- There is high risk associated with, effectively, a single entity portfolio.

14. In 2004 a report from the then CEO of GAB regarding the back block of Bishops court indicated that we should either sell the land for an estimated \$5.2 to \$7 million dollars, or develop it (as Greenoaks apartments) with an estimated net profit of \$8.7 to \$9.7 million dollars. In 2005, the EOS Committee was given a revised estimate of profit from development of \$8.5 to \$10.1 million dollars.

15. The EOS Committee was repeatedly advised that this development would provide a sufficient capital base to allow for balanced budgets.

Nevertheless, at the end of 2010, the Committee was advised that when all Greenoaks apartments have been sold, there is expected to be a deficit of several hundred thousand dollars (in addition to the value of the land which was given up). The reasons for this situation are –

- Delay in building
- The Global Financial Crisis
- Increased building costs
- Decreased sale proceeds
- Extra interest payments

16. In 2006, the investment strategy was outlined to the Committee as follows –

- Selling surplus housing and investing the proceeds
- Moving out of SAPF and investing in high yield stocks
- Developing and realising the back block
- Gearing the portfolio on all assets except Bishops court
- Restructuring asset allocation

It should be noted that some but not all of the above were undertaken (notably, that there was no gearing of the portfolio.)

17. In 2007 the EOS Committee appointed an investment committee and resolved that the EOS Committee, with the support and assistance of GAB/SDS, develop and implement appropriate investment policies and strategies for currently-invested funds. The Committee has met regularly, but in view of the fact that the EOS Committee has limited control over its funds (see also Clause 44) there has not been a great deal that this Investment Committee has been able to do.

18. In September 2008 the CEO of GAB presented a paper on the financial challenges confronting the EOS. His recommendations re the options were –

- Sell Bishops court
- Sell Bellevue Hill residence
- Sell other residences and supply housing allowances
- Dissolve a region
- Reduce support staff
- Alternative funding for costs of Dean
- Alternative funding for Archives
- Savings in other operating expenses

It should be noted that at this time, most of the recommendations have been acted upon, except for dissolving a region, and the fact that Synod in 2010 did not agree to the sale of Bishops court.

19. In March 2010 the Archbishop's Strategic Commission on Structure, Funding and Governance was established. The members are –

Mr Tony Clemens	Senior Tax Partner, PricewaterhouseCoopers
Bishop Glenn Davies	Member of the EOS Committee
Mr Robert Freeman	Owner & CEO of Finch Freeman, a property consultancy
Mr Peter Kell (Chair)	Chairman of the Mission Board Strategy Committee
Mr Simon Pillar	Founder and MD of Pacific Equity Partners, a private equity firm
Dr Laurie Scandrett	Deputy Chairman of GAB (until 25 May 2011)
Mr Robert Tong AM	Chairman of the Property Trust

20. The terms of reference for the Commission are –

“In light of the serious potential downturn in distributions from the Diocesan Endowment and the amount available to the Endowment of the See, and the effect this may have on the ability of the Diocese to fund some of its essential work and services, to recommend to the Archbishop and the Standing Committee –

- (a) What steps should be taken to maximise the funds available, consistent with prudent management, and in particular what can be done to sustain funding for the Endowment of the See in 2011 and beyond?
- (b) What changes need to be made to the operations and interdependence of the Endowment of the See, Glebe Administration Board, Sydney Diocesan Secretariat, St Andrew's House Corporation and Anglican Church Property Trust in order to maintain the essential work while lining within our means?
- (c) What changes should be made to the governance of these Diocesan bodies in order to improve their performance?

The Commission to offer an interim report within 3 months of its first meeting and a final report within 12 months.”

21. The Commission submitted an interim report in July 2010. The Executive summary suggested the following –

- “(a) EOS should sell Bishops court, as prior reports to the EOS and Standing Committee have consistently recommended. After application of a portion of the proceeds of sale to acquire alternative accommodation appropriate to the needs of the Archbishop (including entertainment facilities) there will be excess cash to be invested and a considerable reduction in property costs. The cumulative, positive impact of this will result in an additional amount of annual net income of between \$800,000 and \$1,000,000.
- (b) To meet the cash flow demands of the next three years, during which there will be accounting income, but not any cash flow:
  - Rental properties in Greenoaks should be sold as market conditions allow and as demand for cash requires;
  - Surpluses from the ACPT Insurance Fund of \$500,000 should be made available to EOS; and
  - The EOS should have access to the special, discretionary trust funds available to the Archbishop, which amount to a total of \$850,000. It should be noted that this fund, once spent, will be unable to be replenished
- (c) EOS should also consider selling a proportion of SAHC to a suitable fund within the portfolio of ACPT, which arguably is a more appropriate investment fund to hold a long-term property asset such as shares in SAHC.
- (d) Technically, the bishops' houses could also be sold and housing allowances be provided instead. This will have negligible financial benefit but is a last-resort means of generating cash flow.”

**Actions to date**

22. Since 2008, a number of significant savings in expenses have already been made. The most significant is in relation to staffing and salaries –

- Reduction in staffing from 27.3 to 18.7, with 13.7 fully funded by EOS
- Reduction in SDS fees from \$498k in 2008 to \$300k in 2010
- Changes to car policy to achieve savings
- Reduction in travel expenses
- Rent charged to groups which sublet part of the EOS offices
- Closure of the Parramatta Regional Office
- Sale of clergy residences
- General savings and austerity measures

23. Staffing levels in 2008 and 2010 are listed below.

2008	2010 - 2011
Archbishop	Archbishop
Regional Bishop (5)	Regional Bishop (4)
Archdeacon (5)	Archdeacon (2)
Assistant to Bishop	Assistant to Bishop
Registrar	Registrar
Registry Staff (2.8)	Registry Staff (2)
PAs (7)	PAs (4)
Dean	
Archivist	Archivist
Media (1/2)	
Bishopscourt (2)	Bishopscourt (2)
	Executive Assistants (0.7) (target 2)
Total = 27.3	Total = 18.7

24. On those figures, it can be seen that there has been a 1/3 reduction in staffing.

However, when we consider that the Assistant to the Bishop, the Executive Assistants, approximately 2½ of the PAs, half of the Archdeacon for Women and 1/3 of the Archivist are funded by other sources, there are only 13.7 positions fully funded by EOS. That means that approximately a 50% reduction in staffing paid for by EOS has been achieved. While staffing is the single biggest expense for EOS, the present levels are such that it is not considered possible or desirable to make any further changes in this area.

25. The next important saving in expenses relates to the reduction in fees charged by SDS from \$498k in 2008 to \$300k in 2010.

26. The car policy has been amended from early 2009 to provide for economies both in purchase and in running costs.

27. Travel was a significant expense in 2008, particularly because of the attendance of the Archbishop and Bishops at GAFCON. It is noted that the cost of that travel was less than would have been incurred had they attended the Lambeth conference. Travel expenses are expected to be a lot less from 2010 onwards, partly because of reduction in travel, and partly because much of the Archbishop's travel expense is sourced from the Work Outside the Diocese Committee.

28. Entertainment and hospitality have always been a large but necessary expense. The figure was higher than normal in 2009, largely due to the meetings of small groups of clergy at Bishopscourt in relation to Connect 09. It is not expected that entertainment of this magnitude will need to be incorporated in the budget in future, although there will be some such expenses necessarily incurred.

29. Rent is now being charged to those groups which sublet part of the EOS offices, namely MT&D, PSU and the Anglican Education Commission.

30. In 2009, the Parramatta Regional Office was closed with transfer of staff to St Andrew's House. This has resulted in a small saving in rental costs.

31. In 2008 the EOS had six residences for bishops and archdeacons, as well as that for the dean. In 2010, there are three such clergy residences. We still also own the dean's residence, but this is a matter for discussion with the Cathedral Chapter in anticipation that they will take over the responsibility next year. The sale of three residences has added to our capital, but has also meant a reduction in ongoing costs and maintenance.

32. On the other hand it should be noted that when residences were provided for Bishops and Archdeacons this meant that assets were tied up, but also there was no large outlay of expenditure. With sale of residences and with senior clergy providing their own accommodation, the expenditure levels have increased by the provision of a housing allowance.

33. General savings and austerity measures have been put in place for all other office expenses.

34. The matter of Bishops court remains an important issue for the Committee. Consideration of the future of Bishops court has been undertaken during the incumbency of each Archbishop, usually with a recommendation that it be sold, but no final decisions have ever been made. In their preliminary report in 2010, the Archbishop's Strategic Commission on Structure, Funding and Governance recommended that Bishops court be sold. Synod did not agree to the proposal. In the meantime, maintenance costs are being carefully monitored. It is clear that these costs are significant, even apart from the cost of more major repairs in 2009.

### The Current Situation

35. From the balance sheet of the EOS at 31 July 2011, the main assets may be summarised as –

<i>Income-producing (in \$000s)</i>	
Cash	2,780
Long term pooling fund	3,956
Greenoaks apartment	<u>2,324</u>
Subtotal	9,060
<i>Non income-producing</i>	
50% share St Andrew's House	32,854
Bishops court	22,000
Senior Clergy housing	5,390
Other	<u>(43)</u>
Subtotal	<u>60,201</u>
Total	<u>69,261</u>

36. As significant savings have been made in expenses since 2008, and some additional sources of funding subsidy have been achieved, until early in 2010 the EOS Committee considered that the budget would be a balanced one.

37. The single issue which has impacted most heavily on EOS is the abolition of distributions from St Andrew's House. In March 2010, the Committee was advised by St Andrew's House Corporation that there would be no further distributions from SAH for 2010-2013, in order to pay off the debt to GAB (\$23 million) and provide for essential refurbishing.

38. It can be seen from the assets listed above, that without any income from SAH, only 13% of assets are now income-producing.

For this reason, when synod failed to agree on the sale of Bishops court in 2010, it approved an assessment on parishes at a rate of 1.14% for the purposes of contributing to the EOS funding needs during 2011 only. This has been of great assistance to the EOS, but it is not expected to continue beyond 2011.

### Five Year Projection

39. It was noted under clause 24 that staffing levels are now approximately  $\frac{2}{3}$  of those in 2008, and with the provision of other funding subsidies outside of EOS, only  $\frac{1}{2}$  of the former staff are now paid for directly by EOS.

Where previously each of the 5 regions had a bishop and archdeacon and a PA, at present each region has 1 Episcopal staff member (bishop or, in the case of Georges River an archdeacon) provision for a half-time executive assistant, although not all regions currently have employed such a person, and a part-time PA. In the Wollongong region, the roles of EA and PA are combined.

The Archbishop and the EOS Committee consider that it is not possible to further reduce staffing for the regions. While on economic grounds alone, some have argued that we should only have 4 regions, for reasons of equipping and facilitating ministry, it is considered desirable to retain 5 regions.

40. The future staffing which is anticipated for EOS is as follows –

Archbishop
Regional Bishop (5)
Archdeacon for Women's Ministry (or similar arrangement)
Assistant to the Bishop of Wollongong
Executive Assistants (2f/t equivalents)
PAs (3f/t equivalents)
Registrar
Registry Staff (2)
Archivist (funding partly by EOS and partly by Parishes)
Depending on the future of Bishops court, 1-2 positions as housekeeper/gardener may be required.

41. The following chart provides a simplified 5 year income and expenditure indicative budget (if no other source of income is found –

INCOME (\$000s)	2011	2012	2013	2014	2015
Interest	207	232	180	132	96
LTPF	224	192	170	155	147
St Andrew's House				1400	1400
Parish Levy	896				
Grants	211				
Support of Bishops	200	300	300	300	300
Wollongong Support	146	153	161	169	177
Sundry	22	22	22	22	22
Rent	66	50	52	54	55
Bequest Income	49	49	49	49	49
<b>TOTAL</b>	<b>2021</b>	<b>998</b>	<b>934</b>	<b>2281</b>	<b>2247</b>

EXPENSES (\$000s)	2011	2012	2013	2014	2015
Staff	1753	1841	1933	2029	2130
Archbishop, Staff & Registry	551	579	608	638	670
Regional Bishops & Archdeacon	606	636	668	701	736
All other EOS Staff	596	626	657	690	724
SDS	300	409	422	434	447
Rent & Occupancy	527	543	559	576	593
Marketing	144				
Other	265	277	285	294	302
<b>TOTAL</b>	<b>2989</b>	<b>3070</b>	<b>3199</b>	<b>3333</b>	<b>3473</b>

CASH OPERATING SURPLUS/(DEFICIT)	(968)	(2072)	(2265)	(1052)	(1226)
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42. As indicated earlier the major reductions in expenses have already been undertaken, and further reductions are not possible without severely curtailing ministry.

- (a) Expenses 2008 \$7.2m
- (b) Expenses 2009 \$5.3m
- (c) Expenses 2010 \$3.1m
- (d) Expenses 2011-2015 \$3m – \$3.4m

43. The huge reductions in income faced by EOS are outside the control of EOS.

- (a) St Andrew's House – St Andrew's House Corporation has advised that there will be no distributions from 2010 – 2013 inclusive, with the exception of \$100k in 2010.
- (b) Long term pooling fund – Anglican Church Property Trust has advised that percentage distributions from this fund will be progressively reduced over the next few years in order to build up capital.
- (c) Synod Allocations – Synod grant for Archives is proposed to be funded through PCR instead, but Synod has yet to agree to the ordinance.

44. Until such time as distributions from St Andrew's House recommence, currently anticipated to be 2014, it will be necessary for EOS to apply the proceeds of the sale of the remaining Greenoaks Apartments towards meeting the EOS budget. (It is noted that the proceeds of the earlier sales were applied to meet the costs of building, interest etc). Unless other sources of funding can be found, those Greenoaks funds will be largely expended by the end of 2015. The Committee recognised that this is not a desirable situation as it depletes capital, but is necessary under the present circumstances until such time as EOS can be placed in a more sustainable financial situation.

45. In order to function from 2015 on, three things will be necessary –

- (a) An increase in distribution from St Andrew's House to \$2m per annum or more. This is higher than the amount currently advised by SAHC, but in discussions with SAHC seems reasonable and achievable once tenancy for levels 3, 4 and 5 of St Andrew's House has been achieved.
- (b) Sale of the EOS share in St Andrew's House and invest the funds in different and more diversified income-producing assets.
- (c) The sale of Bishops court, purchase of a more modest Bishops court and investment of the remaining funds.

46. The following chart provides an amended five year income and expenditure table taking in the following factors –

- (a) Use of the proceeds of Greenoaks during 2011 to 2013 (leaving a balance of over \$2,000,000 for investment.)
- (b) Increase in St Andrew's House distributions (this possibility indicated by SAHC so long as tenancy is secured).
- (c) Sale of Bishopscourt in 2013 with partial use of interest from invested proceeds in 2014 and 2015.

INCOME (\$000's)	2011	2012	2013	2014	2015
Interest	207	232	180	132	96
LTPF	224	192	170	155	147
St Andrew's House			1200	2000	2000
Parish Levy	896				
Grants	211	110			
Support of Bishops	200	300	300	300	300
Wollongong Support	146	153	161	169	177
Sundry	22	22	22	22	22
Rent	66	50	52	54	55
Bequest Income	49	49	49	49	49
Greenoaks Proceeds	968	1962	1065		
Bishopscourt Proceeds				452	626
TOTAL	2989	3070	3199	3333	3473

EXPENSES (000s)	2011	2012	2013	2014	2015
Staff	1753	1841	1933	2029	2130
SDS	300	409	422	434	447
Rent & Occupancy	527	543	559	576	593
Marketing	144				
Other	265	277	285	294	302
TOTAL	2989	3070	3199	3333	3473

CASH OPERATING SURPLUS/(DEFICIT)	0	0	0	0	0
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47. This information is consistent with the recommendations of the Archbishop's Commission.

### **Recommendation**

48. The Synod receive this report.

For and on behalf of the Endowment of the See Committee

PHILIP SELDEN  
*Diocesan Registrar*

22 August 2011