

7/10 Work of the Archbishop's Strategic Commission

37/10 Financial sustainability of the Endowment of the See

(A report from the Standing Committee.)

Background

1. By resolution 7/10, the Synod expressed its thanks to the Archbishop for establishing the Archbishop's Strategic Commission for Structure, Funding and Governance (the Commission) and –

- (a) noting the ongoing work of the Commission in bringing recommendations to the Archbishop and the Standing Committee about ensuring the sustainability of the Endowment of the See (EOS) and changes that need to be made to the operation and inter-dependence of diocesan bodies to ensure that the essential work and services of the Diocese are maintained while living within our means, and
- (b) noting that the Standing Committee has endorsed the general direction proposed by the Commission in an interim report provided to the Archbishop and Standing Committee and requested that the Commission progress its work with relevant diocesan agencies,

requested that –

- (i) Synod members be afforded the opportunity to provide comments to the Commission by 31 December 2010, and
- (ii) the Standing Committee provide a report to the Synod in 2011 about the steps that have or still need to be taken to ensure that diocesan finances are placed on a sustainable footing and the implications such steps will have on the funding of diocesan infrastructure and activities in 2012 and beyond.

2. By resolution 37/10, the Synod requested that the Standing Committee report to the Synod in 2011 about the options that exist to place the EOS on a financially sustainable footing, together with a recommendation. Synod requested that this report should be prepared in consultation with the EOS, the Commission and the Anglican Church Property Trust (ACPT).

3. The purpose of this report is to provide a response to the Synod's request for reports in resolutions 7/10 and 37/10.

4. The first part of the report provides specific comments on the options that exist to place the EOS on a financially sustainable footing. In accordance with resolution 37/10, these comments have been prepared in consultation with a Working Group comprising representatives from the EOS Committee, the Commission and the ACPT.

5. The second part of the report addresses the broader diocesan perspective in resolution 7/10 by indicating the action taken by the Standing Committee to enable the Synod to consider its response to the report of the Commission. The Commission's report was circulated to members of the Synod in materials for pre-Synod briefings held on 8 and 9 September 2011.

Options for placing the EOS on a financially sustainable footing

6. The Synod did not define the phrase 'financially sustainable footing', or how its achievement might be assessed for the purpose of resolution 37/10. It is considered that the most appropriate interpretation of the phrase in the context of an endowment like the EOS would be that it requires as an objective for the medium to long term that expenditure be limited to the income available after providing for the maintenance of the real value of the endowment. The EOS structure, functions and therefore funding could be more radically altered (requiring ordinance changes as well as other steps) by Standing Committee and Synod, but such considerations are outside the scope of resolution 37/10.

Financial background

7. At present the functions of the EOS Committee are to "direct the investment policy" and "to care for...the real property" of the Endowment of the See "upon trust to pay the stipend of the Archbishop, the expenses in relation to his official residence, and travelling, secretarial and other expenses in respect of his office".

8. The EOS has not been operating in a financially sustainable manner for a number of years. Even with the benefit of what has now been shown to be unsustainably high distributions from St Andrew's House, the EOS Committee was using the proceeds of assets sales to fund recurrent expenditure. The level of annual expenditure has now been reduced from approximately \$7m in 2008 to \$3m in 2010, but the suspension of distributions from St Andrew's House for 2010-2013 (apart from \$0.1m in 2010) has left the EOS with a substantial deficit for each of those years, which has been only partly offset by the parish levy of \$0.9m in 2011.

9. At 31 July 2011 the EOS had total assets of \$69.3m, but of that only \$9.0m (13%) was producing income. The major assets held by the EOS can be summarised as follows –

| | |
|-------------------------------|-----|
| <i>Income producing –</i> | \$m |
| Cash | 2.8 |
| Long Term Pooling Fund (ACPT) | 3.9 |

| | |
|--|-------------|
| One Greenoaks apartment (presently leased, but being offered for sale) | 2.3 |
| | <u>9.0</u> |
| <i>Non-income producing –</i> | |
| 50% share of St Andrew's House | 32.9 |
| Bishopscourt | 22.0 |
| Senior clergy housing (1 Greenoaks apartment and 3 other residences) | 5.4 |
| Other (office equipment, furniture and motor vehicles <u>less</u> leave provisions) | <u>0</u> |
| | <u>60.3</u> |
| | <u>69.3</u> |

10. The EOS currently faces annual expenditure of approximately \$3.0m, of which more than 60% is directly staff-related. After making significant reductions in staff numbers since 2008 the EOS Committee considers that it is not possible or desirable to make any further reductions in that area. The EOS Committee also believes that general austerity measures already implemented have minimised the cost of motor vehicles, travel, entertainment, and office expenses. A summary of the major expense categories for 2011 is shown below –

| | |
|---|------------|
| | \$m |
| Staff (stipends and on-costs) | 1.8 |
| Rent and occupancy (rent of SAH offices, maintenance of Bishopscourt & residences) | 0.5 |
| SDS fee (paid for accounting, payroll, IT and secretarial services (less than actual cost)) | 0.3 |
| Other (entertainment, telephone, computers, insurance, stationery, audit, etc) | <u>0.4</u> |
| | <u>3.0</u> |

11. The income generated by the EOS in 2011 is only expected to be about \$0.4m (which will be supplemented by the parish levy of \$0.9m, various grants totalling about \$0.6m and some \$1.0m of the proceeds of recent Greenoaks apartment sales). However, if most of the assets of the EOS were to be converted to an income-producing form, an endowment of, say, \$60m might reasonably be expected to produce an annual income of around \$2.7m (assuming a return of 4.5%, after maintaining the real value of the endowment). By comparison the Standing Committee recently authorised a distribution from the Diocesan Endowment for 2012 based on a formula recommended by the Glebe Administration Board which included a 5% return from its investment portfolio. The ACPT representatives on the Working Group believe that 4% is a realistic long term return.

Overview

12. The obvious and most critical problem facing the EOS at present is its lack of income with which to meet the payments determined by the Standing Committee and the Archbishop, in large part due to the abrupt suspension of all distributions from its 50% share of St Andrew's House. The final report of the Commission states that – “the bare facts are that the EOS cannot fund its projected cash flow requirement over the next two years without asset sales or a continuation of the parish levy authorised by the 2010 Synod for 2011”.

13. It is therefore concluded that, given –

- (a) the total value of assets held by the EOS,
- (b) the current level of annual expenditure (which is accepted, on the advice of the EOS Committee, as the realistic minimum for its present functions), and
- (c) the substantially increased income available once distributions from St Andrew's House resume, probably in 2014,

the EOS faces only a short period of significant deficits if it continues with its current operational structure. The Working Group was advised that the Archbishop believes that the EOS is now operating on its “bare bones”. While the prospect of using capital to pay recurrent expenses is not something either the Standing Committee or the ACPT would normally support, in the short term the EOS has little choice, unless Synod is prepared to cover the deficit by an ongoing parish levy.

14. At present the EOS is a very long way from financial sustainability. For 2011 the income expected from the assets of the endowment is only \$0.4m with expenses of \$3.0m.

15. However, in the medium and longer term financial sustainability for the present EOS functions is achievable if there is a genuine commitment to decisive action to rectify the underlying issues. In addition to the recommendations relating to the EOS contained in the final report of the Commission (commended by a majority of the Working Group), there are a number of other suggestions below in relation to the options for placing the EOS on a financially sustainable footing.

Actions to improve financial sustainability

16. There is no one simple fix. Indeed to achieve financial sustainability the EOS will need to adopt a range of changes designed to increase income and limit expenditure. Some of the measures recommended will take a couple of years to bear fruit, and so a diminution of the asset base is inevitable unless income from another source, such as a parish levy, is used to ‘balance the books’ in the short term, or the EOS expenditure is reduced through other structural change.

17. In 2010 Synod was presented with the facts concerning the EOS's financial situation, and approved a parish levy for the purposes of contributing to the EOS funding needs during 2011 only. No new facts have emerged since then, but it is a matter for Synod to decide if there should be a further such levy. A continuing levy on parishes of the same amount as in 2011 does not place the EOS on a fully financially sustainable footing, but it could assist through a period of abnormally low income in the spirit of Christians "carrying each other's burdens" (Galatians 6:2).

18. A number of other possible actions were considered to improve the EOS financial position such as directly soliciting gifts and donations (of either capital or income) or varying the trusts over other funds to apply them to the EOS. However each of these is considered impractical.

19. The following actions are considered options to help place the EOS on a financially sustainable footing (*where applicable, references in italics are to the final report of the Archbishop's Strategic Commission*). It should be noted that although these options are listed as ones which could be considered by Standing Committee or Synod, they are not necessarily endorsed by the bodies represented on the Working Group and in particular the ACPT does not currently support the sale of either Bishops court or St Andrew's House.

Increase income

20. To increase the proportion of income producing assets –

- (a) Sell Bishops court, acquire a suitable alternative residence with more modest entertainment and guest facilities, and apply the balance of the proceeds in diversified income producing investments. (*ASC 3.1.1*)
- (b) Sell the whole or part of the EOS's share of St Andrew's House (once rental returns have been maximised) and apply the proceeds in diversified income producing investments. (*ASC 3.1.2*)
- (c) Sell the remaining senior clergy housing and apply the proceeds in diversified income producing investments.

21. To increase the income from St Andrew's House (many of the following are now being actively addressed by St Andrew's House Corporation) –

- (a) Maximise rental income from St Andrew's House office block with new commercial tenant for levels 3 & 4 and vigorous marketing of level 5. (*ASC 2.3.1*)
- (b) Apply critical control and management of the NABERS (National Australian Built Environment Rating System) upgrade to ensure all work is cost effective. (*ASC 2.3.1*)
- (c) Rationalise property management of St Andrew's House to reduce SDS 'coal face' involvement. (*ASC 2.3.1*)
- (d) Compress 'church use' of St Andrew's House levels 1 & 2 and lease surplus space commercially. (*ASC 2.3.1*)
- (e) Relocate some EOS functions and staff from St Andrew's House to cheaper suburban office space, freeing up space which could be commercially leased at a higher rate of return.
- (f) Outsource St Andrew's House carpark operation (while retaining 'church use' privileges) to a commercial operator to maximise income. (*ASC 2.3.1*)
- (g) Refurbish and refocus the shop mix in St Andrew's House arcade to maximise income, with church tenants vacating or moving to full commercial rent. (*ASC 2.3.1*)

22. To increase the value to be realised from any full or partial sale of St Andrew's House, approval should be obtained to strata title the property. Approval to strata will open the way to enable the extinguishment of the 'put option' over levels 5 and 6, the repayment of the 'soft' loan from the Glebe Administration Board, and the external refinancing of the balance of the current debt. (*ASC 2.3.1*)

23. To increase distributions available from SAH in the short term the EOS Committee should be encouraged to negotiate with St Andrew's House Corporation and the Glebe Administration Board to see if some short term loan or other arrangement can be found to provide an (appropriately discounted) advance on the EOS's share of future rental income. It is recognised that while the Glebe Administration Board, as 50% owner, may want to see any cash that becomes available from St Andrew's House applied first to reduce the size of its loan, the EOS, as the other 50% owner, has very different priorities and clearly an early resumption of some form of distribution to the EOS would be its first priority. The steps described in the preceding paragraph should result in a substantial alignment of the two owners' priorities, but it would also be possible for Synod to resolve the issue by ordinance.

Reduce expenditure

24. To reduce the level of recurrent expenditure –

- (a) Reduce the number of assistant bishops (noting this is a matter for the Archbishop and EOS Committee). (*ASC 2.1.3*)
- (b) Reduce the number of administrative support staff (noting this is also a matter for the Archbishop and EOS Committee). (*ASC 2.1.3*)
- (c) Shift responsibility for funding some or all of the assistant bishops and/or their administrative staff, the Registrar and his administrative support, or the Archives to the Synod or parishes (noting this is

a matter for Synod). (ASC 2.1.3) While this could be seen as 'robbing Peter to pay Paul', it may be more appropriately viewed as a logical application of the principle in Galatians 6:2.

Maintain financial sustainability

25. To ensure that the EOS Committee takes effective responsibility for maintaining financial sustainability once it has been achieved, the EOS ordinance should be amended along the lines recommended by the Commission. (ASC 3.2.3) It should be noted that the ACPT seeks some clarification of the proposed EOS restructure.

Standing Committee's response to the work of the Archbishop's Strategic Commission

26. As part of its broader consideration of the Commission's report, the Standing Committee received an initial response to the recommendations of the Commission from the Glebe Administration Board (GAB)/Sydney Diocesan Secretariat (SDS) and further responses to the report from the ACPT and the St Andrew's Cathedral School. These responses are set out in full in Annexures A, B and C to this report.

27. In order to progress consideration of what steps need to be taken to ensure that diocesan finances are placed on a sustainable footing and the implications such steps will have on the funding of diocesan infrastructure and activities in 2012 and beyond, the Standing Committee has requested that the following motion be moved at Synod "by request of the Standing Committee" –

"Synod welcomes the report of the Archbishop's Strategic Commission on Structure, Funding and Governance and requests the Standing Committee to –

- (a) undertake consideration of the possible ways in which the recommendations may be implemented, and
- (b) in the light of (a), pass such legislation as may be desirable or practicable, or otherwise report to the next session of the Synod on any future proposals."

28. Subject to any decisions of the Synod in relation to this matter, the Standing Committee has also agreed in principle to establish a further working group after the 2011 session of the Synod, including representatives of the GAB/SDS, the ACPT and the EOS Committee, to consider the implementation of the recommendations of the Commission.

Recommendation

29. It is recommended that the Synod receive this report.

For and on behalf of the Standing Committee.

ROBERT WICKS
Diocesan Secretary

20 September 2011

Initial response of Sydney Diocesan Secretariat and Glebe Administration Board to the report of the Archbishop's Strategic Commission

Introduction

1. Sydney Diocesan Secretariat ("SDS") and Glebe Administration Board ("GAB") have discussed the report of the Archbishop's Strategic Commission ("ASC") and resolved to send their initial comments to the Standing Committee to assist it in its deliberations on 19 September 2011 about the report and its recommendations.
2. The comments of SDS and GAB are restricted principally to the recommendations of the ASC set out in section 3 of its report as they relate to matters within the knowledge and expertise of SDS and GAB. While SDS and GAB consider that there are a number of comments made by the ASC in sections 1 and 2 of its report which are inaccurate and fail to appreciate what has already been done over the last 2 years, SDS and GAB believe that they best serve the Standing Committee by limiting their comments to the ASC's recommendations.
3. References in this report to paragraph numbers are references to paragraph numbers in the ASC's report.

Paragraphs 3.1.1 to 3.1.3

4. SDS and GAB have no comment on the recommendations contained in these paragraphs, as these are ultimately matters for the Synod to decide.

Paragraph 3.2.1

5. SDS and GAB believe that further consideration needs to be given as to the way in which the recommendation in paragraph 3.2.1 is to be implemented before the recommendation is adopted.
6. The diagram on page 22 of the report suggests that it is intended that the proposed Central Investment Management Board ("CIMB") be a rebadged GAB. The ASC states that it proposes that the board would consist largely of those within the Diocese who have investment and financial acumen, particularly from the existing GAB and SDS. We welcome what appears to be recognition of the abilities of the present GAB.
7. GAB is currently the trustee of the Diocesan Endowment. It appears that the ASC does not intend that the trust structure be changed, and that the CIMB become the trustee of the Endowment.
8. If this is the case, then the CIMB (as trustee of the Diocesan Endowment) would be the half owner of St Andrew's House, the lender to St Andrew's House and also the manager of St Andrew's House.
9. With this respect, if this is what is intended, the proposed structure gives rise to the same conflicts of interest which GAB has had in recent years when it has sought to manage and lend to the same fund in which it has an ownership interest. Indeed, the suggested structure exacerbates the conflicts that GAB sought to partially address by relinquishing management responsibilities for St Andrew's House. But it appears that the ASC is recommending that the ownership, management and lending functions be again concentrated in the one body.
10. Accordingly, SDS and GAB suggest that further consideration be given as to how St Andrew's House is best managed, and whether it is best managed by a body other than the CIMB. GAB would be happy to provide a separate detailed paper setting out our specific recommendations in that regard, in the context of the CIMB, if requested.
11. Initial consideration by staff of SDS of the proposal to create a CIMB also suggests that the proposal would be difficult to implement. It is intended that further comment about the difficulties be provided to the Standing Committee at its meeting in November 2011.
12. It is also unclear as to whether the CIMB would assume the functions of the Finance & Loans Board. If it is intended that it do so, there are technical and policy issues to be considered, bearing in mind the attempt to combine GAB and the Finance & Loans Board which failed a few years ago. Again, if required, a separate detailed paper setting those out can be provided if requested.

Paragraph 3.2.2

13. SDS and GAB agree with the thrust of the recommendation contained in paragraph 3.2.2, namely that there needs to be appropriate accountability in relation to the management of investments.
14. However, SDS and GAB consider that there will be major practical and governance issues in having the members of the Standing Committee (most of whom do not have relevant expertise) understand the issues sufficiently to give an informed approval about the matters referred to in the recommendation. The same issues will arise with the members of the Finance Committee of the Standing Committee, as presently constituted.
15. There are also important issues of responsibility and accountability involved in this proposal. If the CIMB is to be responsible for managing the investments and making key decisions it must have authority to make those decisions and bear responsibility for them. If the Standing Committee takes on the discretions which are properly the responsibility of the CIMB, the principles of accountability and responsibility would be undermined. If these recommendations are adopted it may be difficult to hold and attract members to the proposed CIMB with the required skills as they would effectively be redundant. There may also be substantial risk of shadow directorship for both the Standing Committee generally and the members of the Finance Committee. Before the recommendation in paragraph 3.2.2 is adopted further consideration should be given to the risks of shadow directorship and the potential for members of the Standing Committee and the Finance Committee to personally assume liabilities in connection with the management of the CIMB, including liabilities incurred in the deposit taking business and for risk of non compliance with the Corporations Act.
16. In terms of governance, a better approach may be for the Standing Committee to ensure that the board has the relevant expertise (which GAB currently has), that the investment strategy is regularly reviewed (as the strategy of the investment of the Diocesan Endowment is regularly reviewed currently) and that the Standing Committee receives regular reports about the investment of the relevant property (as happens now in relation to the Diocesan Endowment). If the Standing Committee is not satisfied that proper investment decisions it should make its views known to the CIMB and, if not satisfied with the response, it should consider making changes to the membership of the board of the CIMB.

Paragraph 3.2.3

17. SDS and GAB have no comment on the recommendation contained in this paragraph except to say that in accordance with good governance practice the financial statements of all major organisations (including the EOS) should be published annually as the financial statements of the Diocesan Endowment are published.

Paragraph 3.2.4

18. SDS and GAB suggest that the recommendations in paragraph 3.2.4 are best considered after the Standing Committee has reviewed a detailed strategic plan for the future of SDS. There has been significant change in SDS over the last 2 years and SDS considers the preparation of a strategic plan would be timely for 2012.
19. The preparation of a strategic plan will involve a review of the objectives of SDS, an assessment of what SDS does well and does not do well, a review of SDS's comparative advantages in service delivery, and a review of opportunities for the future. The preparation of the strategic plan will almost certainly include the undertaking of a quantitative and qualitative survey of parishes and research of the needs of the CIMB and the EOS to clarify the role of SDS and determine the services to be provided.
20. Issues such as the services to be provided by SDS and the degree of contestability for such services are only some of the issues to be considered in relation to the ongoing role of SDS. SDS is an important diocesan resource and a certain scale and capacity is required if SDS is to remain viable. There are important strategic issues to consider on the question of contestability. For example, and without presently expressing a view on the merits or otherwise of contestability, if decisions are made which do not enable that scale and capacity to be maintained an important diocesan resource will be lost and that would have serious consequences for the Diocese and the organisations SDS presently services. There are staffing and cost implications which would need to be considered. A strategic plan for SDS would address such issues and, it is submitted, will allow the Standing Committee to make better informed decisions about the future of the organisation.

21. Until such time as the strategic plan is completed it is suggested that changes should not be made to the board membership of SDS, especially at a time when major changes are being managed and other recommendations of the ASC are being considered and implemented.

Paragraph 3.2.5

22. SDS and GAB have no comment in relation to the recommendation in paragraph 3.2.5 in relation to the composition of ACPT.

Paragraph 3.2.6

23. While SDS and GAB have no in principle comment about the establishment of a Chairmen's Committee, consideration may need to be given as to whether it is intended (or desirable) that the Committee constitute another layer of control within the Diocese and, if so, how this will impact on the legal responsibilities of boards imposed by ordinance or law. There are also questions about how such a Committee would function. In particular, what executive function is required to support the Committee? Who would provide that function? How would it be paid for? It is also uncertain how the Chairmen's Committee will "manage" financial risk as distinct from monitoring it. Perhaps the Committee would best function as a Chairmen's Consultative Committee.

Paragraph 3.2.7

24. SDS and GAB have no comment on the recommendation in this paragraph, except to note that it follows submissions made by SDS and GAB to the ASC.

Paragraph 3.2.8

25. SDS and GAB have no comment on the recommendations in paragraph 3.2.8, except to note that comments about conflicts of interest were made by SDS and GAB in their submissions to the ASC.

Paragraph 3.2.9

26. SDS has very serious concerns with the recommendation in paragraph 3.2.9, particularly insofar as it may impact SDS in its capacity as a service provider.
27. In its report, the ASC notes that a Diocesan body often retains SDS to staff all its needs and expects SDS to do so on a basis that retains confidentiality of the information of the particular Diocesan body. It is said that this leads to the conundrum that staff of SDS deal with the affairs of several bodies, without being able to disclose this knowledge to the other body.
28. One of the consequences, the ASC states, is that the advice provided to each Diocesan body is suboptimal, since a broad Diocesan perspective is not always present in the advice provided.
29. SDS and GAB submit that these comments reflect a misunderstanding of the Diocesan structure and culture. The Diocesan is comprised of a large number of parishes and Diocesan organisations. The object of each organisation is prescribed by ordinance. Regularly, those organisations contract or otherwise have dealings with each other, often on commercial terms.
30. When SDS provides advice to an organisation, it does so to the best of its ability in the interests of that organisation. SDS believes that providing advice in this way is "optimal" rather than "sub optimal". To be effective SDS maintains strict confidentiality in relation to the business of its clients (as they are entitled to expect).
31. One difficulty in trying to impose an overriding "broad Diocesan perspective" is that it frequently does not exist and cannot be ascertained unless stated in an ordinance or a resolution of the Synod or the Standing Committee. To require that SDS staff seek to determine or ascertain such a perspective would involve SDS staff in the political processes of the Diocese, and this is not a function which they should exercise.
32. Rather, SDS considers that the better approach is for it to act in the interests of each of its clients (as it currently seeks to do so) and, where those interests conflict, ensure that the conflicts are identified and are resolved via agreement between the relevant parties, or by political process. We would recommend instead that the taking of a broad diocesan view is better a matter for the proposed Chairmen's Committee.

33. SDS considers that the best way to ensure that organisations served by SDS are acting in the “broad Diocesan perspective” is to have a program for an ongoing review of the objects and activities of the organisations.

Paragraph 3.2.10

34. SDS has no comment about the recommendation in paragraph 3.2.10.

Generally

35. This is the initial response of SDS and GAB to the report and recommendations of the ASC. As mentioned earlier, SDS and GAB believe that there are major practical, governance, responsibility and accountability issues to be considered in relation to the recommendations of the ASC. SDS and GAB are undertaking a detailed review and intend reporting further to the Standing Committee at its meeting in November 2011. The Standing Committee should also note that the implementation of changes of the nature and extent proposed by the ASC would require significant time and resources. Any decision to adopt the changes should only be made if accompanied by a fully costed project plan to implement them, together with appropriate authorities to incur the necessary cost. Further, the implementation will require an adjustment of corporate rights and responsibilities. It may be desirable for any changes to be under the auspices of a temporary body under suitable management and control, with a specific mandate and reporting obligations. We would be happy to provide further advice and views in respect of these matters.

13 September 2011



Anglican Church Diocese of Sydney

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ACPT Response to the Archbishop's Strategic Commission

The ACPT has considered the Final Report of the Archbishop's Strategic Commission and responds to each element of the Report as set out below. The principal elements the ACPT wishes to identify within its response are as follows:

Executive Summary

- **Search for cash or living within our means:** The Commission's analysis of the Endowment of the See is a search for cash. The ACPT considers it more prudent to first establish what the capital assets can fund and establish a budget within these limitations and not deplete inter-generational capital further to cover short-term expenses.
- **Endowment of the See (EOS) governance:** It is the view of the ACPT that the proposed structure for the Endowment of the See is flawed.
- **EOS:** The Commission's analysis in respect of the EOS proceeds in the reverse order of what the ACPT believes should happen. We consider there should first be a review of governance, then proper funding and then the prudent holding of capital assets.
- **Bishopscourt:** The present levy produces approximately the same cash as the income from the fund proposed to be created from the sale of Bishopscourt. The proposal does not appear to provide much potential for capital growth as its yield would be wholly spent on expenses. The ACPT view is that recurrent income should fund recurrent expenses whilst maintaining the inflation adjusted value of assets. Accordingly, the desirability of selling Bishopscourt at present is questioned.
- **St Andrew's House:** The proposal for St Andrew's House raises governance issues relating to St Andrew's Cathedral School and St Andrew's House Corporation. Further restructuring is needed.
- **Trustee investment:** The Commission's proposal to have one investment strategy for the investment of liquid funds (including some which are to be held on a trustee basis with different criteria apparently for that investment) and a separate trustee arrangement for other assets is questioned (and the desirability doubted).
- **Investment with borrowing:** The Commission's proposal replicates many of the features of the structure which lead to the previous disastrous GAB investment outcome. Pressure to seek capital (and income) growth rather than maintain real capital value for the benefit of current and future generations, would still risk the prospect of inappropriate borrowing.

- **ACPT:** The various elements of the trustee role of the ACPT are logical and coherent and careful consideration should be given if they are to be altered. (But the ACPT agrees that its management fee arrangement should be reviewed).
- **Diocesan Structure:** The Diocese is a voluntary association of interconnecting entities and the governance processes should be viewed with that in mind.
- **Conflict of interest:** The key in relation to remedying conflicts of interest is to deal with cross membership rather than reviewing mandates of organisations, although declaration of interest of particular items of business is of course important.
- **Outcome:** The Commission uses the word "trifecta" in order to describe the events which have happened. It appears to the ACPT that the proposals could have a similar outcome as the drive for growth encourages living beyond our means.
- **Synod:** It is the ACPT view that more than one model for restructuring should be put forward. Otherwise, is the choice: further deplete capital (beyond that lost in the GFC), have parishes contribute more to recurrent expenses or reduce the Episcopal numbers?

ACPT Response to the Final Report dated 15 August 2011 ("Final Report") of the Archbishop's Strategic Commission on Structure, Funding and Governance ("Commission")

Note:

The Archbishop, who is a member of the ACPT and the Chairman of the ACPT, Mr Robert Tong AM, who is a member of the Commission, did not participate in the formulation of this response.

The response uses the headings including subheadings of the Final Report.

Section 1: Introduction

1.1 Background

The use of the word "trifecta" is a telling observation on the risks run by the Diocese in the way in which it had managed investments and also in the way in which it had endeavoured to embark upon property development and borrowings as a means of achieving capital growth.

1.2 The Role of Commission

Noted.

1.3 Diocesan Mission

Indisputably the goal of the Diocese is growth of people in faith in the Lord Jesus. However, how that is measured against prudent and appropriate management of assets and living within one's means is another matter.

1.4 The Challenges of 'Getting it Right'

The Diocese is a voluntary association of interconnecting entities and needs to be viewed in that way and its governance processes applied accordingly. If it now has "\$190m of net assets at its Centre", after having lost \$140m, we must expect a corresponding degradation of services supplied by the Centre.

1.5 Diagnosis of the Current Situation

It is not for the ACPT to comment directly on the processes by which the Commission has sought to inform itself, save in respect of the comment made about the ACPT ("limited engagement with the Board, but helpful engagement with the Chairman").

As noted at the beginning of this response, the Chairman, Mr Robert Tong AM is a member of the Commission.

The extent of engagement by the Commission with the ACPT was a matter of choice for the Commission.

It is regrettable, in the context of requesting access to strictly confidential information that the Commission chose not to enter into confidentiality agreements with the ACPT and its adviser (an actuary) as is conventional.

1.6 Options for a Way Forward

There are a number of possible options and whilst the extremes might be noted by the Commission, there is more than one option in the middle ground. We believe the Synod is best served by a presentation of more than one option as to the way forward.

Section 2: Analysis and Recommended Actions

2.1 Funding Needs of the Endowment of the See

Before proceeding with consideration of the funding needs of the Endowment of the See, consideration should be given to the people requirements of the Endowment of the See. That is, what roles should be performed under the Archbishop in terms of Assistant Bishops (including their role relating to clergy), Archdeacons or equivalent (including their role in relation to property) and other support staff. There will be more than one model for this.

These models could then be considered in order to determine what financial resources ought to be applied in order to enable the model chosen by the Synod to operate effectively.

If you start the other way round, inevitably you are lead to a search for cash rather than a consideration of the prudent holding of capital assets on the one hand and the funding of ongoing operations on the other.

Viewed from this perspective, governance is the starting point and you then proceed to proper funding and finally to prudent holding of capital assets with an eye to inter-generational fairness.

For some years the ACPT (as a bare trustee only of the EOS assets) has expressed concern at the absence of effective governance steps and also the EOS's desire to sell long term capital assets in order to meet recurrent expenditure (and expenditure that has been accrued). From a trustee's perspective this is an unsound approach.

We note that the Commission assumes that the current Episcopal structure is the optimum and therefore has not considered a further reduction in the EOS cost base. It could be that the next Archbishop will have a different view on the best way to arrange the Diocesan Episcopacy.

2.1.1 Bishopscourt

From a trustee's perspective it is noteworthy that the proposed outcome of selling the property is to achieve an income stream that approximates the present Parish levy but appears to achieve little, if any, capital growth.

Ignoring cash considerations, the increase in value (it varies up and down over periods of time) of Bishopscourt over the years shows that it has appreciated in value better than most other investments. Again, from a trustee's perspective one queries the prospect of realising a long term capital asset that has appreciated in that way, in order to generate cash for relevant operating expenses.

In relation to the projected cash flow impact of selling Bishopscourt, we note that:

- (a) it appears to invest the residual \$15m in cash, the real value of which will deteriorate over time, thereby eroding the purchasing power of the See's assets, and so curtailing the options open to future Archbishops; and
- (b) the expected 'Saving from net reduction in average annual maintenance / operating costs' has not been detailed.

The heritage, suitability and perception flaws of Bishopscourt can equally be applied to most local parish churches and many rectories. Indeed, there are precedents whereby local parishes have divested themselves of real property and contributing some of those funds to the Centre.

Unfortunately, the publicity that arises from any discussion of a proposed sale will always make it difficult to sell Bishopscourt at the best price.

The Report states that "concerns about financial administration [of the EOS] have now been addressed". The ACPT is not entirely clear how this has occurred.

2.1.2 Half Share in St Andrew's House

The ACPT would support a rearrangement of the ownership holding of St Andrew's house but it is not for the ACPT, but rather for the Synod to consider alternatives that should be put forward including direct Synod ownership in place of the present ownership.

2.1.3 Immediate Prospects for Endowment of the See

If the parish levy continued the funding concerns for the EOS would abate. One way or another, the costs of the EOS need to be met: either in the prudent way of meeting recurrent expenses out of recurrent income (i.e. the levy) or by depleting capital assets which, from a trustee's perspective, is imprudent.

The comment concerning different models for Episcopal oversight is a matter for Synod to determine.

The ACPT reasserts the adequacy of the size of the Church Insurance Fund, based on its actuarial reports, and declines to make such details available for proper commercial reasons, including attracting claimants.

The ACPT commends the Archbishop's stance in not appropriating a portion of some of the Archbishop's Discretionary Trusts as to do so would be a sign that our current missional needs are more deserving of funding than those of future generations.

2.2 Structural and Governance Issues

(1) Investment functions:

The Diocese will need to live within its means and its investment function should reflect this including the prudent management of its assets.

(2) Accountability of Diocesan Organisations:

Regular review of governance and internal controls of various organisations is always appropriate.

(3) Conflict of interest:

The comments made by the Commission focus on the mandate of organisations although it notes cross membership. The conflict of interest arises from cross membership where organisation activity intersects; whether or not a mandate needs to be reviewed is a different question.

Whilst the ACPT notes the multiple benefits that inevitably flow when duplications of effort are removed, one issue to be grappled with is the loss of diversification that comes with the centralization of investment functions. Any loss of diversification serves to increase risk.

For example, the ACPT is grateful that the funds of which it is trustee were not under the management of the GAB in recent years (and so not geared), nor under the auspices of the EOS Committee (and so its capital reserves were not liquidated to fund recurrent expenditure).

2.2.1 Glebe Administration Board (GAB) and Changes to the Investment Function

(a) Centralised Investment

Synod should consider more than one model in respect of investment. From a trustee perspective, consideration should be given to having funds held with investment managers who follow the index rather than attempt to beat it. This would obviate much of the proposed structure (and its costs).

The Commission proposal segregates liquid funds from other assets for the purposes of having a Central Investment Management Board (CIMB) and also seeks to include within its compass the liquid assets of entities such as Anglicare and Anglican Retirement Villages (ARV).

The ACPT is concerned that the aggregation of investment funds, as contemplated by a CIMB, would not enable the distinct investment objectives of the DE/EOS (consumers of their own investment earnings) and the ACPT (as trustee of funds invested for third parties) to be adequately weighed and served. See further comments under 2.2.3 below.

It would be odd (and opposed by the ACPT) to repeat the present EOS structure (ie the ACPT as a bare trustee only) resulting in the ACPT being a bare trustee of liquid funds which are then managed by another board with the ACPT being no more than a passive observer but having the responsibility of being the trustee.

(b) Investment Strategy

As noted above at paragraph (a), an option that the Synod could consider is a more prudent approach to the investment of liquid funds with investments managers who largely follow the index. Naturally, this would have an impact on ambitions for growth and would require the Diocese to live within its means.

(c) Borrowing Limits

"Clearly the CIMB will need to borrow." It is not clear to the ACPT why the CIMB will need to borrow.

The pressure to grow is the force which resulted in the previous disastrous investment strategy and the Synod would need to give serious consideration to the extent to which any borrowing at all is permitted. If it is allowed to a meaningful degree, will the result lead to another "trifecta"?

(d) GAB Banking Function Review

The ACPT notes the review presently being conducted by the GAB and, from a trustee perspective, makes no other comment.

(e) GAB Ordinance Review

The role of the GAB should be assessed once the nature of the investment strategy has been determined by the Synod.

The ACPT supports the recommendation to secure the primacy of maintaining the real value of capital.

2.2.2 Endowment of the See Committee

From a trustee perspective, whether or not the EOS should manage assets including investments at all is a matter for the Synod to determine. This comment is not intended to have any impact on the discretion of the Archbishop in relation to the several trusts of which he is the trustee.

2.2.3 Anglican Church Property Trust

See above at 1.5 as to the response made concerning the limited degree to which the Commission has chosen to engage with the ACPT.

The proposed segregation of assets between liquid and illiquid would have a direct bearing on the management fee and the ACPT would welcome its review in any event. There is much to be said for a small fixed amount to be included in parish cost recoveries to enable all parishes, without additional cost, to consult as appropriate with the ACPT concerning various property related matters that arise from time to time. A fixed amount would be an equitable way of sharing the cost of these services and may well be viewed as preferable to a more fee for service basis of charging.

Although the ACPT is described as having several distinct roles which are set out in the Final Report, each of those roles is an aspect of the function of a trustee. It is logical and prudent to have the roles under the trustee umbrella of property management, investment of trust assets and effecting insurance (which is a major task of the ACPT). This is a role which reflects the fiduciary responsibility of the ACPT to the Parishes and other organisations on whose behalf it holds assets as trustee.

It is important to note that, although for reasons of management convenience, the overall assets can be presented in a management report in an aggregated fashion; each fund is a separate trust with separate terms requiring individual and specific fiduciary requirements to be fulfilled. It is a fallacy to regard the ACPT as a central fund; rather, it is a centrally managed trustee holding of many trusts, protected by Act of Parliament.

In the last paragraph, the ACPT assumes the Commission's reference to the Diocesan Investment Management Board is, in fact, to the CIMB.

2.2.4 Sydney Diocesan Secretariat

It is not for the ACPT to comment on the manner in which support arrangements are provided to Diocesan organisations other than itself, in relation to which there is a service level agreement.

2.2.5 Chairmen's Committee

There may be a benefit it having a consultative body of this kind, particularly if the problem noted in respect of conflicts of interest is remedied by the elimination of cross membership where organisation activity intersects (excluding membership of the Standing Committee or the Synod in the notion of cross membership).

2.2.6 Governance and Conflicts of Interest

Whilst conflict of interest in some circumstances can be managed by declaration in respect of the business before a committee, declaration of interest itself without more does not remedy the issue of cross membership.

Presumably the reference to the sharing of confidential corporate information in the Commission's report is a reference to confidential information held by the ACPT in respect of which the Commission declined to enter into conventionally worded confidentiality agreements (see above at 1.5).

If the second recommendation in this section concerning the disclosure of 'confidential' corporate information is a reference to the Church Insurance Fund, then the ACPT welcomes any opportunity to explain its thinking concerning the disclosure of certain information about that Fund. Otherwise, the ACPT supports the recommendation in the interests of greater transparency in governance.

As to the comment: "Only the GAB has been subject to a review...", it needs to be recorded that the ACPT had already initiated and completed a review of its investment practices before the market collapsed.

2.2.7 Overview of Restructuring of Central Diocesan Bodies

Whilst the diagrammatic outline of the existing structure looks more complex than the proposed structure, this is affected by the relevant lines concerning payments for services and distribution of funds appearing on the existing structure diagram which have not been included on the diagrammatic outline of the proposed structure (although they will exist).

The ACPT does not support having the EOS Committee both as trustee and beneficiary/manager as this departs entirely from a trust structure, effectively merging those interests. The governance consequences of this need clarification.

2.3 Other Strategic Assets

2.3.1 St Andrew's House

The involvement of the ACPT is limited to holding the interest of the EOS in SAHC. While the comments of the Commission are noted, the reference in item (6) to the St Andrew's Cathedral School's "put option" over levels 5 and 6 needing to be extinguished raises governance issues which should be appropriately addressed, including considering the School's interest. Perhaps the Synod should be the direct owner of SAHC?

2.3.2 Other Diocesan Resources

The only comment from a trustee perspective is that if illiquid Parish assets are realised, the extent to which the proceeds of sale would be available will be governed by the ordinance authorising the sale and the investment of the resulting liquid assets falls within the proposal of the Commission, commented on above at 2.2.1 (a), to be invested by the CIMB.

The prospect of levying those entities that benefit from the Anglican name (but not parishes and schools) is flawed philosophically, theologically and possibly politically.

Philosophically, the entities that benefit the most from the Anglican name are the parishes, and yet the Commission rejects the idea of parishes making 'a contribution to the Diocese as a whole'. A more compelling case could however be made vis a vis ARV, Youthworks and Anglicare in this respect.

Theologically, if we look only to, say, residents of ARV and parents of school children to lift the current financial burden from the EOS and Diocesan Endowment we are not giving structural expression to the fact that when one part of the body of Christ suffers, every part should suffer with it: Paul's command to the Galatians that each one is to carry their own load (Galatians 6:5) but sharing the weight of any extraordinary burdens being shouldered by others in the body (Galatians 6:2).

If we consider looking to unbelievers (some parents at our schools and some residents of our aged care facilities) to fill the EOS budgetary shortfall, it is right that we first look to the saints, namely, our parishes, but not in a way that unduly compromises our conviction that the heart of our Diocese is the parishes.

Politically, the ACPT wonders what damage would accrue to the 'Anglican brand' if parents of our schools and residents of our aged care facilities were to hear that we want them, in some way, to pay for our \$140m investment losses.

Section 3: Recommendations

3.1 Asset Reconfiguration

- 3.1.1 See comments above at 2.1.1 concerning Bishopscourt and the meeting of expenses out of the proceeds of sale of capital assets. Are the three decisions: deplete capital (beyond that lost in the GFC), have parishes contribute more to recurrent expenses or reduce Episcopal numbers?
- 3.1.2 The reference to strata title approval intersects with the proposal of the Strategic Commission to extinguish the St Andrew's Cathedral School's "put option" because approval of strata title would trigger that put option, giving the School title to several floors of St Andrew's House. The ACPT supports this and appropriate debt reduction and management.
- 3.1.3 Noted in relation to "Anglican brand name". As any such review is conducted, the ACPT urges consideration be given to protecting the "Anglican brand name" if cross-subsidies are to be imposed on a minority of Diocesan organisations. See comments above at 2.3.2.

3.2 Structural and Governance Issues

- 3.2.1 See above at 2.2.1 (a) and (b) concerning options for the Synod to consider in respect of investment of liquid funds. The ACPT records that its investment sub committee has the benefit of advisers (who are volunteers) with relevant executive experience.
- 3.2.2 See above at 2.2.1 (c) including in respect of any borrowing by the CIMB.
- 3.2.3 See above at 2.2.2 and 2.2.7 concerning the EOS managing assets.
- 3.2.4 Noted.
- 3.2.5 See above at 2.2.3 in respect of the ACPT's investment function. Note that if the CIMB was investing funds on a trustee basis where those funds are presently held by the ACPT, which, it appears, would then be a bare trustee of them, how the approach to that investment might differ from decisions about investing other funds, when all funds, from an asset allocation and overall investment perspective are aggregated, needs to be considered.
- 3.2.6 Noted in respect of a Chairmen's Committee including above comments at 2.2 (3) and 2.2.6 concerning conflict of interest.
- 3.2.7 Noted in respect of review of governance and internal controls.
- 3.2.8 The ACPT response in respect of conflicts of interest differs from the way in which that is proposed to be dealt with as set out in the Final Report.
- 3.2.9 See above ACPT comment at 1.5 and 2.2.6 concerning confidential information (in other words, there may be good reason why the information is confidential and helpful to a segment of the Diocesan structure not to have that information more widely shared).
- 3.2.10 Noted in respect of review in respect of fundamental reform after a number of years.

3.3 Conclusions

The Synod is encouraged to consider alternatives to the proposals put forward by the Commission in its Final Report in order to have a choice beyond acceptance or rejection of the proposals in the Final Report.

In particular, the Report is predicated on the current Centre cost base being maintained into the future. Given that a new Archbishop will soon be elected, the ACPT wonders if the new Archbishop, when he is identified, should not have particular input into the shape (and therefore cost base) of the Centre.

Continuing (if need be, increasing) the levy would enable measured steps to be taken without undue pressure at a difficult economic time.

The ACPT advocates a model which accepts the prudent limits of what is achievable and avoids another "trifecta".

The level of risk to achieve sustained capital growth when the yield is largely expensed should not be underestimated. The ACPT cautions against too much risk and suggests Synod members may wish to reach the same conclusion. But if not, the ACPT will continue to apply all proper fiduciary requirements in relation to the assets which it holds as trustee on behalf of parishes and organisations.

Dated: 7 September 2011

On behalf of the ACPT:



Richard Neal (Deputy Chairman)



David Nelson



Rev Canon Christopher Allan



Rev Craig Roberts



Rev Andrew Bruce



Peter Rusbourne



Roger Collison



Melinda West



Glynn Evans



**ST ANDREW'S
CATHEDRAL
SCHOOL**

Founded 1885

16 September 2011

Dear Members of Standing Committee

The Archbishop has requested a statement from the School in response to the release of information from the Archbishop's Strategic Commission on Structure, Funding and Governance. This information has been conveyed in writing to Synod members, and verbally in pre-Synod briefings in Chapter House on Thursday 8th September and St Peter's Campbelltown on Friday 9th September 2011. These briefings have caused considerable concern to the Chapter of St Andrew's Cathedral and the School Council of St Andrew's Cathedral School as the information contained in the report to Synod is incorrect and may be misleading to the Synod.

The briefings have conveyed the impression that the School has received financially favourable treatment from the St Andrew's House Corporation and Glebe Administration Board, in a manner which has exacerbated the financial situation of the Diocese. The briefings were not sufficiently cognisant of the history of the relationship between the Diocese and the School, nor that the relationship has always been at arms-length (as well as being adverse to the School's interest on some points.)

The Chapter, School Council and Senior Management of the School are grateful for the comments made by both the Archbishop and Dr Laurie Scandrett to these briefing meetings, in an effort to correct this impression. The intention of this letter is to set out the facts of the matter, which can be confirmed by reference to Ordinances and to minutes of various Standing Committee and Synod meetings.

IN SUMMARY

- The School in effect owns Levels 6, 7 and 8 of St Andrew's House.
- The School's loan from the Glebe Administration Board is on commercial basis and in no sense 'soft'.
- Rental of other facilities within St Andrew's House is on a fully commercial basis.
- St Andrew's Cathedral School is part of the Christian ministry of the Cathedral and Diocese.

IN HISTORICAL PERSPECTIVE

- St Andrew's Cathedral School has existed in this precinct as a ministry of the Cathedral since 1885. Far from being separate to and external from the Christian ministry of the Diocese, it is part of that ministry. The School Council is appointed largely by the Cathedral Chapter; the Head of School's appointment is confirmed by Chapter. Chapter is Chaired by the Archbishop.
- After construction and demolition of various buildings, St Andrew's Cathedral 'New School' was erected on the present site in 1965 from its own funds.

Dr John Collier

BA DipEd DipBibSt EdD FACE MACEL

HEAD OF SCHOOL

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- While not being to the advantage of the School, and indeed to the School's disadvantage, in 1972, the School consented to the demolition of its building, in order to provide ample office space for the Diocese in a tower that has subsequently been erected on the site. The proviso was that this was to be in exchange for suitable housing for the School within the Cathedral precinct on a lease basis to 2016 (contrary to the more permanent occupation which the School enjoyed until that time). After demolition, the School was housed temporarily in the CENEF building on the corner of Kent and Bathurst Streets until the building was completed.
- The St Andrew's Cathedral School and Site Commission (the 'Dixon Commission') in its July 1970 report recommended the continuance of the School on the site, as a component of the new building. Late in 1971, all parties reached agreement that the School would be housed in the top two floors of St Andrew's House. The School occupied these floors in 1976.
- The St Andrew's Cathedral School ordinance No.56, 1979, Second Schedule, finalised the occupation agreement. This gave the School a lease of this space until 2016 at a reduced rental.
- On 16th February 2001, a formal lease was signed between the Glebe Administration Board and the Council of St Andrew's Cathedral School, which had now been incorporated. This was because in or about 1999, it became clear to the School that it needed to have clarity as to its future occupancy of these areas if the School was to expand and develop as had been proposed by its then Head and School Council. The document leased the 6th, 7th and 8th floors, the Roof and the Entrance from Kent Street to the School for 120 years at a notional rate of \$1 per year. However, **it is important to note that in a building in which strata title had not yet been undertaken, this was the equivalent of ownership, for which the School paid full commercial value (as assessed by an independent valuation) of \$11, 237, 000.** This is why the School pays in effect no rent. In recognition of the chequered history of the School's tenure at the site and its moral and legal right to be present within the building, clause 10.4 of the lease provided for the School to leave the building with three months' notice, and require the Glebe Administration Board to pay the School market value for floors vacated from the building. This established the School's occupancy on a free-hold basis, on the assumption that it was a separate lot on the strata plan (clause 10.6 (g) (II)).
- It is incorrect to assert that St Andrew's House Corporation contributes to School expenses in tenancy of the building. The flow of funds is in the other direction. In fact, the School has in the last 10 years contributed \$3.5 million to the St Andrew's House sinking fund, and has additionally paid a substantial share of the additional outgoings of the building.
- It is also not the case as asserted that the loan to the School is 'soft' (pre-Synod briefing papers 2.3.1 (6)). The School was required by the Glebe Administration Board to undertake its loan through GAB to acquire the long term lease for Levels 6, 7 and 8, and to do so had to pay penalty clauses to a major bank for an early exit from that loan. Currently the interest rate of the GAB loan held by the School is well in excess of the rate on offer from a major bank. The loan is at a commercial rate and is actually disadvantageous to the School and is advantaging the Diocese due to the higher interest rate being paid.
- Any recommendations to Synod should recognise the historic, moral, legal and commercial nature of the School's occupancy as part of St Andrew's House. They should also accept that St Andrew's Cathedral School is a school of the Diocese's own Cathedral, the governing Chapter of which is Chaired in person by the Archbishop. They should also acknowledge that the Christian ministry of the School is not separate from, but part of the Christian ministry of the Cathedral and Diocese. There should also be recognition that the School has not been advantaged by these arrangements, which have always been carried out on an arms-length commercial basis.

Regards



Dr John Collier

HEAD, ST ANDREW'S CATHEDRAL SCHOOL

MEMBER, CHAPTER OF ST ANDREW'S CATHEDRAL

MEMBER, ANGLICAN EDUCATION COMMISSION OF SYDNEY DIOCESE

MEMBER, 2011 SYNOD