

## **Progress report on the work of the Archbishop's Strategic Commission on Structure, Funding and Governance**

(A report from the Standing Committee.)

### **Background**

1. In March 2010, the Archbishop informed the Standing Committee about the creation of the Archbishop's Strategic Commission on Structure, Funding and Governance (the Commission). The Commission's terms of reference are as follows –

“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 –

- (1) 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?
- (2) 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 and any other Diocesan resources that might impact upon the task of the Commission in order to maintain the essential work while living within our means?
- (3) 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.”

2. The Commission provided its interim report to the Standing Committee at its meeting in August 2010. The Commission has begun its work on realigning structure and governance, and on the re-engineering that will be required to maximise an outcome for Diocesan finances, but this will be the subject of further reports. The focus of the interim report was the Endowment of the See (EOS).

3. The purpose of this report is to outline progress in the work being undertaken by the Commission in relation to the EOS and the Standing Committee's response to this work to date.

**Present circumstances of the Endowment of the See**

4. The EOS has two fundamental problems facing it, its balance sheet and its income stream. These have been long term problems which have been recognised for some time by the members of the EOS Committee and Management.

5. The Greenoaks unit development on the backblock of Bishops court was an activity taken to increase the assets of the EOS to enable income to increase. However this has not proved to be as successful a development as first planned. The substantial cost cutting in 2009, especially the reduction of staff levels by 50%, was another action taken undertaken to balance the budget.

6. Notwithstanding these significant interim steps, there are still some fundamental changes needed to enable satisfactory results in the short and long term.

7. The assets of the EOS consist of a 50% shareholding in St Andrew's House Corporation (SAHC), Bishops court, rental properties, the bishops' housing and some equity investments which collectively carry a total value of about \$68 million. However the accounting income arising therefrom is only 2.5% pa and the actual cash yield is a totally unsatisfactory 0.4% pa.

8. The EOS must manage its cash flow on the assumption that its investment in SAHC will generate accounting profits (relating to its notional share of the net rentals of SAHC) but no cash flow for at least 3 years. SAHC has over-distributed its cash flows in prior years to the EOS and the GAB, its two equal shareholders. As a result of such over-distribution, SAHC does not have the financial means to bear the cost of refurbishment or to renegotiate the reletting of 5 office floors, including 3 office floors that will become vacant as a result of the Australian Bureau of Statistics not extending its lease beyond 2011. The only means for SAHC to bear these costs will be out of the next 3 years' rental cash flow. Accordingly neither EOS or GAB can expect to receive any cash distribution from SAHC over the next 3 years.

9. The EOS has over the years assumed responsibility for many costs beyond the Archbishop's own costs of staff, office and accommodation. These costs, which relate to the servicing of the Diocese overall, would be more appropriately borne by the Diocese. The Commission noted that the costs of the EOS have already been aggressively reduced. The Commission sees no significant additional cost savings that could be achieved by the EOS without a fundamental reduction in its scope as an organisation. Any such reduction,

however, would need to be met by corresponding increase in expenditure by Synod taking responsibility for this activity.

**Commission's recommended action**

10. The Commission has urged significant short term and medium term action to turn the EOS's financial situation around, including asset realignment and taking action to achieve income enhancing opportunities.

11. The Commission has recommended that the EOS should pursue the active realisation of its "lazy" assets, reinvesting the funds with the aim of seeking a positive cash flow within 3 years. To this end the Commission has recommended that –

- (a) Bishops court should be sold and a suitable and more modest residence for the Archbishop acquired with the balance invested, and
- (b) the remaining 3 Greenoaks apartments should be sold, and
- (c) discussions should commence with relevant diocesan bodies to reduce the excess of property weighting in the EOS portfolio, principally due to the EOS's 50% interest in SAHC.

12. In order to address the short term cash flow needs of the EOS, the Commission has recommended that the temporary use of income from operational and discretionary funds held by the Property Trust and the Archbishop be investigated.

13. The Commission is also working with the SAHC to maximise the medium to long term rental income flow from SAH.

**Response of the Standing Committee to the interim report**

14. The Standing Committee endorsed the general direction proposed by the Commission in its interim report and requested that the Commission progress its work with relevant Diocesan agencies.

15. The Standing Committee requested that a motion to enable the Synod to express its support for the sale of Bishops court be moved at the Synod. This is the subject of a separate report.

16. The Standing Committee requested that the Commission together with the Mission Board review the role and number of regional and assistant bishops by the year 2020 and investigate alternative sources of funding for such bishops.

17. The Standing Committee requested that the following motion be moved at the Synod "by request of the Standing Committee" –

"Synod expresses its thanks to the Archbishop for establishing the Archbishop's Strategic Commission on 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 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 of the interim report of the Commission provided to the Archbishop and Standing Committee and requested that the Commission progress its work with relevant diocesan agencies,

requests that 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."

For and on behalf of the Standing Committee.

ROBERT WICKS  
*Diocesan Secretary*

16 September 2010