

St Andrew's House Corporation

Annual Report to the Synod for 2014

In accordance with clause 14 of the *Accounts, Audit and Annual Reports Ordinance 1975* the Council of the St Andrew's House Corporation ("the Council") provides the following information for the members of the Synod.

Clause 14(d) Matters

Constitution and Charter

The Council of the St Andrew's House Corporation (the "Council") was constituted a body corporate by the *St Andrew's House Ordinance 1975* for the purpose of governing and controlling the management and use of the St Andrew's House Trust (the "Trust"), the principal asset of which is the building known as St Andrew's House (including Town Hall Arcade).

Glebe Administration Board ("GAB") and Endowment of the See ("EOS") have equal interests in the capital of the Fund.

Access

The principal office of the Council is Level 2, St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office, NSW 1230). Telephone (02) 9265 1555. The hours of access are between 8.30am and 5.00pm Mondays to Fridays.

Management and Structure

Sydney Diocesan Secretariat ("SDS") provided administrative services to the Council under an agreed Service Level Agreement ("SLA") during 2014. The SLA is reviewed by the Council on a semi-annual basis and the following year SLA is approved by the Board together with the management fee charged by SDS.

The Council consists of 4 persons appointed by the Standing Committee (the "EOS nominees") and 4 persons appointed by the GAB (the "GAB nominees").

The members of the Council and their attendance at meetings of the Council during 2014 were –

Council Members	No. of Meetings Eligible to Attend	No. of Meetings Attended
<i>EOS Nominees</i>		
Mr R Bradfield (to 31 July 2014)	2	2
Mr C Watson	4	4
Mr R Freeman	4	4
Mr D S Marr	4	4

Council Members	No. of Meetings Eligible to Attend	No. of Meetings Attended
GAB Nominees		
Mr J S Pascoe	4	4
Dr L A Scandrett (Chairman)	4	4
Mr C L Cotman	4	3
Mr R Smith	4	3

The Council uses the services of the SDS for its accounting, administrative, investment, managerial and secretarial work. Mr Steve Lucas is Secretary and is an employee of SDS.

Colliers International ("Colliers") under a fee for service agreement manage the day to day operations and facilities management of St Andrew's House.

Annual Financial Statements - clause 14 (b)

The 2014 Annual Financial Statements are attached which were reviewed by the Council's external auditor PricewaterhouseCoopers ("PwC") There were no matters raised by PwC in relation to the 2014 accounts of the Trust.

Charity Group Status - clause 14 (c)

The Council is registered as a charity with the Australian Charities and Not-for-profits Commission ("ACNC"). The Annual Information Statement for 2014 has been completed and lodged with the ACNC.

Liquidity - clause 14 (f)

The Council has in place policies to maintain adequate liquidity to fund the activities of the Council. These policies are reviewed at least annually and the liquidity position is reported to the Council monthly. The Board is not aware of any matter that would prevent it from meeting its liabilities.

In 2014, the Council engaged an independent consultant to review its existing insurance cover. The Council is satisfied as a result of that review that it has adequate levels and type of insurance for the activities it undertakes. The Council has agreed to undertake an independent of its insurance cover every 3 years.

No other matter has arisen since the end of 2014, which could have a significant effect in the current financial year.

Risk Management – clause 14(g)

The key risks of the Trust are associated with the operation of St Andrew's House. A risk register is maintained by the Council and is reviewed at least annually.

The key risks identified by the Council are –

- (i) Financial Sustainability – policies are in place to maintain sufficient liquidity to fund future capital works, rental void and leasing costs and income distributions. These matters are reported on a regular basis and the policies are reviewed at least annually. A Sinking Fund is in place to fund certain capital works that is shared with the St Andrew's Cathedral School.

- (ii) Investment Management – St Andrew’s House – reports are provided to the Council in respect of financial and building performance, capital works, tenant lease compliance and building compliance matters such as fire safety. Colliers manage the facilities of St Andrew’s House and provide strategic retail advice in respect of Town Hall Arcade.
- (iii) Insurances - the Council undertakes an annual review of its insurance cover and has agreed to engage an external consultant to review the adequacy of the policies every 3 years, including the replacement value of St Andrew’s House.
- (iv) Operational Risk – appropriate security and safety measures (e.g., fire evacuation procedures, CCTV) are in place for St Andrew’s House which are reviewed on an ongoing basis.
- (v) Regulatory and Contractual obligations – the Council has in place policies for managing its contractual and statutory obligations. Colliers provides facilities management services that includes meeting certain building code certifications.
- (vi) Reputation – policies are in place to mitigate the risk of reputational risk
- (vii) Strategic Risk – the Council is developing a long term strategic plan to mitigate the risk that it fails to meet the objectives of its Ordinance. A retail strategic plan is in place that is reviewed on an ongoing basis.

Colliers have risk management procedures in place for the functions they exercise.

Key Achievements in 2014

The activities of the Council are conducted in accordance with the terms of the *St Andrews House Ordinance 1975* and the *St Andrews House Income Ordinance 2011*. The key achievements in 2014 were –

- There was no lease activity within the commercial office tower in 2014. A number of capital works were undertaken, including zoned smoke exhaust works, electrical switchboard upgrades, upgrade of the fire stairs, replacement of the car park lift and energy efficiency works toward achieving a National Australian Built Environment Rating System (NABERS) energy rating for the building.
- In March 2015, the NABERS government agency provided a 5 star NABERS rating to St Andrew’s House. The NABERS rating will be reviewed later in 2015 and it is possible that when the building is next rated a rating higher than 5 stars will be obtained.
- Progression was made toward further developing the long term strategy for the retail arcade.
- 2014 was a relatively stable year in the Arcade, with 2 new tenants leasing space and a number of lease renewals. As at 31 December 2014 there was one vacancy in the Arcade which was fully leased.
- The number of pedestrians passing through the Arcade has remained stable over the last 12 months (about 11.5 million p.a.) and is one of the highest pedestrian traffic retail centres in Sydney.
- The Council was appointed the trustee of the Trust in place of Glebe Administration Board on 22 June 2015 to simplify the current governance arrangements.
- The Council adopted a policy to ensure that sustainable income distributions from the Trust can be made.

Financial results for the St Andrew’s House Trust

In summary, the net surplus of the Trust for 2014 was as follows –

\$000's	2014 Actual	2014 Budget	Variance	2013 Actual
Net rental income from property	9,106.5	8,625.0	441.8	8,578.7
Interest Income	80.8	134.0	(53.2)	94.0
Other Expenses	(1,063.6)	(954.6)	(95.0)	(953.6)
Net Surplus	8,123.7	7,804.3	319.4	7,719.1

The net rental income generated from St Andrew's House was above budget primarily due to higher than anticipated rentals from the retail arcade and lower building expenditure. Interest income was lower than budgeted due to an additional 'special' income distribution of \$1.0m being paid. Additional expenses were incurred in relation to a number of ad hoc projects undertaken in 2014.

The Net Surplus of \$8.2 million for 2014 excludes the increase in the value of St Andrew's House and the net income in respect of the St Andrew's House sinking fund.

In summary, the balance sheet of the Fund as at 31 December 2014 was –

\$000's	As at 31 December 2014	As at 31 December 2013
Assets		
Cash	3,287.2	2,910.8
Receivables	133.6	299.6
St Andrew's House – Market Value	114,000.0	109,000.0
Other	606.0	606.5
Total Assets	118,026.8	112,816.9
Liabilities		
Payables	524.5	799.9
Loan from GAB	17,600.0	19,300.0
Other	135.0	144.1
Total Liabilities	18,259.5	20,244.0
NET ASSETS	99,767.3	92,572.9

The Council has a loan facility with the GAB for \$17.6 million (2013 \$19.3 million). During 2014 debt repayments totalling \$1.7 million were made.

Jones Lang LaSalle ("JLL") undertook the valuation of St Andrew's House for 31 December 2014. JLL assessed the market yield rate for St Andrew's House to be 8.50 % (2013 – 9.00%) for the commercial office tower and car park and 7.50% (2013 – 7.20%) for the retail arcade, based on market conditions and sales of secondary (B grade) commercial buildings and retail arcades over the last 12 months.

The value of St Andrew's House increased from \$109.0 million in 2013 to \$114.0 million in 2014. In brief, the movement in the value of SAH from 2013 can be summarised as follows –

- (a) Higher adopted market income for the Tower combined with lower capitalisation and discount rates resulting in an increase in value.
- (b) Higher capitalisation and discount rates adopted for the Arcade, in particular the leasehold component resulting in a decrease in value.

Income Distributions

Income distributions made from the St Andrew's House Fund during 2014 were \$4.8 million (2013 \$3.8 million).

STEVE LUCAS
Secretary

10 June 2015