

St Andrew's House Corporation as Trustee of St Andrew's House Trust

Annual Report to the Synod for Year Ending 31 December 2018

Purpose

1. In accordance with clause 14 of the *Accounts, Audits and Annual Reports Ordinance 1995* the Council of St Andrew's House Corporation (the "Council") provides the following information for the members of the Synod in respect of St Andrew's House Corporation ("SAHC") as trustee of St Andrew's House Trust ("SAHT").

Constitution and Charter

2. The Council of SAHC (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 land on which stands the building known as St Andrew's House (including Town Hall Arcade). The current ordinance constituting and governing St Andrew's House is the *St Andrew's House Corporation Ordinance 2018*. The land and some other assets held in relation to the management of the land are held in a trust known as the St Andrew's House Trust ("the Trust") (ABN 81 498 954 541).
3. Pursuant to the *St Andrew's House Trust Ordinance 2015*, as at the date of this report, the Synod of the Anglican Church Diocese of Sydney and the Anglican Church Property Trust, as trustee of the Endowment of the See Capital Fund ("EOS") each have a 50% interest in the income and capital of the Fund. During 2018 a 50% interest in St Andrew's House formerly held by Glebe Administration Board as trustee of the Diocesan Endowment was transferred to be held for the Synod.

Management and Structure

4. During the year, the Sydney Diocesan Services ("SDS") provided administrative services to the Council under an agreed Service Level Agreement ("SLA"). The SLA is reviewed by the Council on a semi-annual basis and the following year SLA is approved by the Council together with the administration fee charged by SDS.
5. At the start of the 2018 year, the Council consisted of 4 persons appointed by the Standing Committee (the "EOS nominees") and 4 persons appointed by the GAB (the "GAB nominees").
6. In May 2018 governance of the Fund was changed by the *St Andrew's House Ordinance 1975 Amendment Ordinance 2018*. A new Council of 11 members was created under the relevant transitional provision. The existing Council members were taken to continue in office. The new Council consists of 9 members elected by the Synod and 2 members appointed by SAHC.
7. The members of the Council and their attendance at meetings of the Council during 2018 were –

Council Members	Meetings Eligible to Attend	Meetings Attended	Appointer (for members appointed prior to 14 May 2018)	Notes
Mr C Watson	5	5	EOS	
Mr R Freeman	5	5	EOS	
Mr D S Marr (Chairman)	5	5	EOS	
Ms M Yacoel	5	5	EOS	
Mr J S Pascoe	2	2	GAB	Resigned 22 May 2018
Mr C L Cotman	3	3	GAB	Resigned 5 July 2018

Council Members	Meetings Eligible to Attend	Meetings Attended	Appointer (for members appointed prior to 14 May 2018)	Notes
Mr R Smith	2	0	GAB	Resigned 16 May 2018
Rev L Symons	3	3	N/A	Appointed 14 May 2018
Rev J Sneddon	3	2	N/A	Appointed 14 May 2018
Mr C Bertinshaw	1	1	N/A	Appointed 15 October 2018
Mr M Firek	3	3	N/A	Appointed 4 June 2018
Mr A Buckley	0	0	N/A	Appointed 10 December 2018
2 Vacancies	-	-	SAHC	-

8. The Council uses the services of SDS for its accounting, administrative, investment, managerial and secretarial work. Mr Steve Lucas was Secretary of the Council until 27 June 2018, on which date Mrs Briony Bounds was appointed as Secretary. Mr Lucas and Mrs Bounds are employees of SDS.
9. Colliers International ("Colliers") manage the day to day operations of St Andrew's House and provide facilities management services.

Annual Financial Statements – clause 14 (b)

10. The 2018 Annual Financial Report is attached (Attachment 1). The report has been audited by PricewaterhouseCoopers ("PwC"). PwC raised no matters of concern in relation to the Annual financial report.

Charities Group Status Report – Clause 14 (c)

11. SAHT (ABN 81 498 954 541) is registered as a large charity with the Australian Charities and Not-for-profits Commission ("ACNC"). The Annual Information Statement for 2018 has been completed and lodged with the ACNC.
12. SAHT is a Basic Religious Charity under the ACNC Act which means it is exempt from the financial reporting requirements under the ACNC Act.

Access

13. The principal office of SAHT is Level 2, St Andrew's House, Sydney Square, Sydney NSW 2000. PO Box Q190, QVB Post Office NSW 1230.
Telephone 02 9265 1555
The hours of access are Monday - Friday between 8.30am and 5.30pm.

Other Matters

14. The Council has policies and procedures in place to address the following matters.

Liquidity

15. The Council has in place policies to maintain adequate liquidity to fund the activities of the Trust. These policies are reviewed at least annually and management reports are prepared quarterly. The Council is not aware of any matter that would prevent it from meeting its liabilities. No other matter has arisen since the end of 2018 which could have a significant effect in the current financial year.

Risk Management

16. 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.
17. The key risks identified by the Council are –
 - (a) *Financial Sustainability* – policies are in place to maintain sufficient liquidity to fund future capital works, rental void and leasing costs and income distributions. 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.
 - (b) *Operational Risk* – appropriate security and safety measures (e.g., fire evacuation procedures, CCTV and security guards) are in place for St Andrew's House which are reviewed on an ongoing basis. 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.
 - (c) *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.
 - (d) *Reputation* – policies are in place to mitigate reputational risk
 - (e) *Strategic Risk* – in 2018, the Council approved a strategic plan for 2019-2023 to mitigate the risk that it fails to meet the objectives of its Ordinance. Regular meetings occur with retail leasing agents from the arcade, the Council of the City of Sydney and St Andrew's House Cathedral School.
18. Colliers have risk management procedures in place for the functions they exercise.

Key Achievements in 2018

19. The activities of the Council were conducted during 2018 in accordance with the terms of the *St Andrew's House Ordinance 1975* and the *St Andrew's House Trust Ordinance 2015*. The key achievements in 2018 were –
 - Net property income for the year was approximately 4% above 2017 net property income (after adjusting for the extraordinary 'one off' payment arising out of the assignment of the Red Cross lease over Levels 3 and 4 to SACS in 2017). This was primarily due to fixed annual rent reviews plus a market rent review in relation to the Ground Floor South lobby and former library area leased to SACS.
 - The office tower was 100% leased during Q2 2018 with the lease up of 549 sqm suite on Level 1 to Shelde Pty Ltd a private IT security company on a new four year lease following the vacation of the suite by Youthworks in October 2017. The new lease was struck at a substantially higher rental than the former lease reflecting strong market leasing conditions for office space.
 - Town Hall Arcade continues to require very intensive management and much of Colliers time is devoted to this task. During the year one new lease was negotiated, two new short term licences and two lease renewals were completed. Fixed rent reviews were also carried out on 26 tenancies resulting in an average uplift of ~3.8% over passing rent. At year end the occupancy level was 97% and there were 2 vacancies in the Arcade. Net income of the Arcade was approximately ~9% higher than 2017. The improvement in 2018 was due to a combination of fewer voids, fixed rent reviews and a full lease-tail surrender payment of ~\$106,000 from Student Flights to exit their lease over Shop 21B.
 - A new traffic counting system was introduced into the Arcade and the number of pedestrians passing through the Arcade showed an increase from 11.43 million (moving annual traffic count) to 12.34 million as at December 2017, an increase of ~8%. In part this is thought to be due to the

leasing of Shop 1 to Coco Fresh a bubble tea operator at the Town Hall Station entrance to the Arcade which has attracted significant new patronage to the Arcade.

- The ground lease of the northern side of the Arcade from City of Sydney expires on 1 February 2020. During Q4 2018 the option for a further term of 10 years was exercised giving security of tenure through to 2030.
- A new 5 year Strategic Plan for St Andrew's House was adopted and work commenced on a number of action items including planning for a cosmetic refurbishment of Town Hall Arcade in 2019.
- During the year a number of capital works were undertaken, including Level 1 balcony compliance and accessibility, Level 1 server room strip out and make good, planned life cycle equipment replacements and installation of a platform lift in the car park to meet BCA compliance standards.

Financial results for the St Andrew's House Trust

20. In summary, the net surplus¹ of the Trust was as follows –

\$000's	2018 Actual	2018 Budget	Variance	2017 Actual
Net rental income from property ²	9,703.1	9,301.4	401.7	12,094.3
Interest Income ³	210.0	180.6	29.4	146.2
Other Expenses ³	(671.6)	(816.4)	144.8	(589.1)
Net Surplus¹	9,241.5	8,665.6	575.9	11,651.4

¹ excluding fair value adjustment

² excluding sinking fund movements

³ net of sinking fund income

21. The net rental income generated from St Andrew's House was greater in 2017 primarily due to unbudgeted revenue received for a lease assignment.
22. The Net Surplus of \$9.24 million for 2018 excludes the increase in the value of St Andrew's House.
23. In summary, the balance sheet of the Fund (including the sinking fund) as at 31 December was –

\$000's	As at 31 December 2018	As at 31 December 2017
Assets		
Cash	10,307.4	9,361.6
Receivables	1,464.7	688.9
St Andrew's House (market value)	175,500.0	165,500.0
Other	399.8	422.4
Total Assets	187,671.9	175,972.9
Liabilities		
Payables	754.3	748.0
Loan from GAB	9,400.0	11,400.0
Other	404.3	330.8
Total Liabilities	10,558.6	12,478.8
NET ASSETS	177,113.3	163,494.1

24. The Council has a loan facility with GAB for \$9.4 million (2017 \$11.4 million). During 2018 debt repayments totalling \$2 million were made.
25. Jones Lang LaSalle (“JLL”) undertook the valuation of St Andrew’s House for 31 December 2018. JLL assessed the market yield rate for St Andrew’s House to be 6.75% (2017 – 7.00%) for the commercial office tower and car park and 6.00% (2017 – 6.00%) for the retail arcade, based on market conditions and sales of secondary (B grade) commercial buildings and retail arcades over the last 12 months.
26. The value of St Andrew’s House increased from \$165.5 million in 2017 to \$175.5 million in 2018. In brief, the movement in the value of SAH from 2017 can largely be attributed to the following factors –
 - (a) Slightly higher adopted net market income for the Tower (up 4.4%%) combined with a slightly lower capitalisation rate (down 0.25% to 6.75%) and discount rate (down 0.25% to 6.75%) resulting in a \$10.5 million increase in value.
 - (b) Very slightly lower net market income for the Arcade and an unchanged capitalisation rate of 6%, resulting in a slight decrease in value of \$0.5 million.
 - (c) No material change in building outgoings.

Income Distributions

27. Income distributions made from the St Andrew’s House Trust during 2018 were \$5.298 million (2017 – \$5.169 million).

Adopted by the Council of SAHC on 11 June 2019.