

10/11 Archbishop's Strategic Commission on Structure, Funding and Governance

(A report from the Standing Committee.)

Purpose of this report

1. The purpose of this report is to advise to the Synod of the action taken by the Standing Committee in response to resolution 10/11 which is in the following terms –

Synod welcomes the report of the Archbishop's Strategic Commission on Structure, Funding and Governance together with the responses thereto of the Glebe Administration Board ("GAB") and Sydney Diocesan Secretariat ("SDS"), Anglican Church Property Trust Diocese of Sydney (the "Property Trust") and St Andrew's Cathedral School ("SACS"), and requests the Standing Committee to –

- (a) undertake consideration of the possible ways in which –
 - (i) the concerns raised in the responses from the GAB/SDS, the Property Trust and SACS may be addressed, and then
 - (ii) the recommendations may be implemented, and
- (b) in the light of (a), pass such legislation as may be desirable or practicable, excluding any sale ordinance, or otherwise report to the next session of the Synod on any future proposals.

Executive Summary

Recommendation of Archbishop's Strategic Commission	Standing Committee's response
Recommendation 1 – Future of Bishops court	Standing Committee requested that an ordinance for the sale of Bishops court be promoted to the Synod this year and recommended that Synod pass such ordinance.
Recommendation 2 – Strategic plan for St Andrew's House	<p>Standing Committee noted that St Andrew's House Corporation (the "Corporation") has –</p> <ul style="list-style-type: none"> (a) undertaken significant work to enhance the financial return from the St Andrew's House building, and has developed policies for the long term financial future of the Corporation, and (b) obtained conditional development approval for the subdivision of St Andrew's House. <p>Standing Committee also requested that the Corporation prepare for the Standing Committee's consideration a report about the consequences of proceeding with the subdivision of St Andrew's House, and the Corporation's recommendations in relation thereto, to enable the Standing Committee to fully review the matter before any decision to proceed with the subdivision is made.</p>
Recommendation 3 – Strategic review of the benefit of the Anglican brand name	Standing Committee determined that no further work be undertaken at this time in relation to the strategic review of the Anglican brand name.
Recommendation 4 – Creation of a central investment management board	<p>Standing Committee resolved –</p> <ul style="list-style-type: none"> (a) to reconsider the proposal for a central investment management board ("CIMB") after the end of 2013, being the end of 3 years after the implementation of the arrangements recently put in place (namely, the separate management of St Andrew's House, and the outsourcing of the investment management of GAB and the Property Trust's trusts) to allow those arrangements to be fully evaluated against considerations such as risk, performance, cost and administrative efficiency, and (b) to request that, in the meantime, GAB, the Property Trust and the Corporation provide the Standing Committee with reports each 6 months in terms of those performance indicators, the first of such reports to be provided before the end of 2012.

Recommendation of Archbishop's Strategic Commission	Standing Committee's response
Recommendation 5 – Investment strategy and related matters	Since recommendation 5 was tied to the creation of a CIMB, the Standing Committee determined that this recommendation also be deferred and reconsidered when the proposal for a CIMB is reconsidered.
Recommendation 6 – Endowment of the See	Standing Committee passed the <i>Endowment of the See Capital Ordinance 2012</i> and the <i>Endowment of the See Expenditure Ordinance 2012</i> to provide a new regime for the governance of the Endowment of the See.
Recommendation 7 – Sydney Diocesan Secretariat	Standing Committee resolved – (a) to reconsider the proposals concerning the SDS after the end of 2013, being the end of 3 years after the major reforms to SDS, including the operation of service level agreements with diocesan organisations, to be evaluated against service delivery and internal cost controls, and (b) to request that, in the meantime, SDS keep the Standing Committee informed of its operations and plans for the future.
Recommendation 8 – Property Trust's investment function	Since recommendation 8 was tied to the creation of a CIMB, the Standing Committee determined that this recommendation also be deferred and reconsidered when the proposal for a CIMB is reconsidered.
Recommendation 9 – Chairmen's Committee	Standing Committee invited the Archbishop to appoint a Chairmen's Advisory Committee comprising the chairmen of the major Diocesan organisations, as a forum for organisations to discuss common matters of interest and share information, and provide advice to the Archbishop, with such Committee to operate on the basis that discussions and information shared is confidential and cannot be disclosed outside of the meeting.
Recommendation 10 – Governance and internal controls	Standing Committee agreed to establish a Governance and Audit Committee ("G&A Committee") on the following terms – (a) the G&A Committee should comprise members with appropriate experience appointed by the Standing Committee with membership not limited to persons who are also members of the Standing Committee, (b) the function of the G&A Committee is to monitor the compliance, governance and risk management processes of the central diocesan organisations (SDS, GAB, the Property Trust, the EOS Committee and the Corporation), and the way in which any conflicts of interest of members of those organisations are managed, (c) the reasonable costs of the G&A Committee (including any required costs of administration support) are to be recovered from those organisations, and (d) the G&A Committee be required to report regularly to the Standing Committee and annually to the Synod about its work.
Recommendation 11 – Conflicts of interest	Standing Committee noted that its response to recommendation 10 also dealt with the matters raised by recommendation 11.
Recommendation 12 – Amend constituting ordinance of central diocesan bodies	Standing Committee, subject to the appointment of a Chairmen's Advisory Committee, determined that no further action be taken in relation to recommendation 12 of the Archbishop's Strategic Commission.

Background

2. In December 2011, in response to resolution 10/11, the Standing Committee established a Working Group to consider the recommendations of the Archbishop's Strategic Commission ("ASC") and make recommendations to the Standing Committee. A copy of the recommendations of the ASC is set out in the Annexure to the report. The Working Group consisted of 9 members, comprising 5 persons appointed by the Standing Committee, the chairman of the ASC, and one member appointed by each of the Property Trust, GAB/SDS and the Endowment of the See Committee (the "EOS Committee").

3. The membership of the Working Group was –

Members appointed by the Standing Committee

Neil Cameron

James Flavin

Raj Gupta

Geoff Kyngdon

Stephen Semenchuk

Chairman of the ASC

Peter Kell

Appointee of the Property Trust

Richard Neal

Appointee of SDS/GAB

Bruce Ballantine-Jones

Appointee of the EOS Committee

Philip Selden

4. The Working Group met on 8 occasions and provided 5 reports to the Standing Committee. The remainder of this report summarises the recommendations of the Working Group and the Standing Committee's response to those recommendations.

5. The Standing Committee thanked the members of the Working Group for their efforts in completing this work in time for the Standing Committee to report to the 2012 session of the Synod.

Recommendation 1 – Future of Bishops court

6. Recommendation 1 of the ASC was that Bishops court be sold and that part of the proceeds be applied towards acquiring suitable alternative accommodation for the Archbishop.

7. The EOS Committee has prepared an ordinance for the sale of Bishops court which is being promoted to the Synod by request of the Standing Committee. The Standing Committee has recommended that the Synod pass the ordinance.

8. The Working Group recommended that if the Synod was to be asked to consider the proposal for the sale of Bishops court it should be asked to consider an ordinance for the sale which is accompanied by a suitable statement of evidence as to the reasons for the sale. It advised the Standing Committee that in its opinion the Synod may be unwilling to consider the sale of Bishops court if the proposals for the review of governance of the Endowment of the See (as to which see Recommendation 6 below) were not addressed beforehand.

Recommendation 2 – Strategic plan for St Andrew's House

9. Recommendation 2 of the ASC was that a strategic plan be developed for St Andrew's House to maximise short term yield while creating the option to realise (wholly or partly) the equity value of the asset.

10. The Working Group, in considering this recommendation, received a report from the Corporation about the work it has undertaken in relation to St Andrew's House. This work included –

- (a) the leasing of levels 3, 4 and 5 on long term leases on commercial terms,
- (b) the leasing of the car park to a commercial car park operator for an initial 5 year period,
- (c) the outsourcing of the property management to a commercial property manager,
- (d) the development of policies for the reserving of funds for future capital works, rental voids and incentives from the St Andrew's House fund, and
- (e) obtaining conditional approval for the subdivision of St Andrew's House.

11. The formalisation of the policies referred to in (d) of the preceding paragraph is intended by the Corporation not only to ensure the long term financial sustainability of the Corporation but also to ensure sustainable levels of distributions to the stakeholders of St Andrew's House (the Diocesan Endowment and Endowment of the See).

12. The Working Group was also advised by the Corporation that it has obtained conditional development approval for the stratum subdivision of St Andrew's House. The Corporation has engaged consultants to address the conditions of the approval, and it is expected that the conditions will be met

over the next few months. Then, the question of proceeding to formally undertake the subdivision will need to be considered.

13. In light of the work undertaken by the Corporation the Working Group did not consider that there was any additional work which it, or another committee, ought take in relation to the development of a strategic plan for St Andrew's House. Rather, the Working Group considered that the Standing Committee should now monitor the ongoing work of the Corporation by way of the periodic reports to the Standing Committee. The Standing Committee adopted this recommendation of the Working Group.

14. The Working Group also recommended that the Standing Committee undertake a full review of the consequences of the subdivision of St Andrew's House before any decision to proceed with the subdivision is undertaken. It noted that there are significant issues, including the potential loss of rate and tax exemptions and the loss of control of the building, that need to be considered before any decision to proceed with the subdivision is made. The Standing Committee has adopted this recommendation.

Recommendation 3 – Strategic review of the benefit of the Anglican brand name

15. Recommendation 3 of the ASC was that the Standing Committee commission a strategic review of the benefit to Diocesan organisations of the Anglican brand name.

16. During the course of its consideration of this recommendation the Working Group considered –

- the legislative framework for the use of the word “Anglican” in the name of organisations, and
- recent experience within the diocese of seeking to have organisations make a financial contribution to the work of the Diocese, and
- the experience of other dioceses in seeking contributions from organisations which use the Anglican name, and
- an assessment of those organisations in the Diocese which are thought to have the capacity to contribute financially to the work of the Diocese.

17. The Working Group noted that proposals for asking diocesan organisations which use the Anglican name to contribute funding to the Diocese have been raised before. However, other than in relation to providing funding for specific purposes (such as schools providing funding for the Anglican Education Commission), the Working Group was not aware that such proposals have been pursued. The Working Group noted that there is likely to be significant objection at the Synod to such proposals. Further, those organisations which are likely to have the greatest capacity to contribute financially to the work of the Diocese are usually recipients of Government funding grants or tax concessions. However, the terms upon which that funding is provided or those concessions are made available are likely to constrain the organisation from providing funding for general diocesan purposes.

18. The Working Group advised the Standing Committee that it did not consider that this recommendation of the ASC should be pursued further at this time. The Standing Committee has agreed that the recommendation not be pursued further at this stage.

Recommendation 4 – Creation of a central investment management board

19. Recommendation 4 of the ASC proposed the establishment of a central investment management board (“CIMB”) and that diocesan bodies be encouraged to work towards ensuring that all investment activity for assets in excess of \$5 million in aggregate be undertaken through the CIMB or an external manager appointed by CIMB.

20. In its Final Report dated 15 August 2011, the ASC made the following comments in support of the proposal –

- The ASC observed that the greatest financial expertise serving the Diocese was within SDS and GAB and, while it was evident there were some very able and financial aware people serving on other boards, there was (in the ASC's view) a general scarcity of committed Christians with a genuine depth of financial management experience and insight who were willing to serve. In the ASC's view, this meant that this limited resource was spread too widely, too thinly and ineffectively. The ASC believed that a CIMB would consolidate this limited resource and would consist largely of those within the Diocese who have investment and financial acumen, particularly from GAB and SDS.
- The ASC noted that if the CIMB was the sole body making investment decisions, there would be no need for other boards to have investment expertise. There would be no reason (in the ASC's view) why the investment assets of other diocesan bodies (such as Anglicare and Anglican Retirement Villages) could not be invested by the CIMB on behalf of those bodies. Indeed, the ASC considered that there would be a strong preference for this to occur.

- The ASC considered that while the recommendation that diocesan bodies undertake investments through a CIMB is contrary to the recent tendency for division of effort, the division of effort was not justifiable from the perspective of the overall diocesan financial interests.

21. The ASC acknowledged the significant reforms undertaken by GAB since late in 2009 to reform its investment processes. In the ASC's view, the creation of the CIMB would further enhance the investment processes in the Diocese.

22. The Working Group noted that since early 2010 GAB had undertaken a series of major reforms to enhance its investment processes for the Diocesan Endowment. Those reforms included reviewing the investment objective of the Diocesan Endowment, reviewing the strategic asset allocation and investment policies (particularly having regard to risk), and outsourcing the investment management and investment accounting functions to professional external service providers. These reforms had been reported to the Standing Committee and to the Synod. The Property Trust has undertaken similar reforms in relation to the investment processes for its Long Term Pooling Fund ("LTPF").

23. There is now a high degree of co-operation between GAB and Property Trust in relation to their investment processes which allows the relevant expertise on both boards to be pooled. For example, both GAB and Property Trust have appointed the same asset consultant and investment manager for the funds they respectively manage and joint meetings are held with the consultant and manager to discuss investment strategy and performance. However, while there is a high level of co-operation, the processes allow GAB and Property Trust to each adequately weigh and serve the distinct investment objectives of the funds they respectively manage.

24. GAB has also enhanced its reporting to both the Synod and the Standing Committee. By way of example, GAB now reports to the Standing Committee quarterly about the investment performance of the Diocesan Endowment, and those reports are widely available.

25. The Working Group understood that this co-operative model adopted by GAB and the Property Trust has reduced the complexity and cost of their investment management processes. Previously, GAB and the Property Trust undertook the investment of their funds through a central investment vehicle known as the Glebe Group. Among other things, that vehicle required an Australian Financial Services Licence ("AFSL") to undertake the investment management function. However, the Glebe Group has subsequently been effectively closed because of the burdensome and costly administrative and external regulatory requirements associated with holding such a licence. The present co-operative model minimises those burdens and costs.

26. The reforms which GAB has undertaken have also sought to address conflicts of interest which existed in relation to St Andrew's House. Prior to early 2010 GAB was the manager of St Andrew's House (on behalf of the Corporation), as well as being the lender and the "beneficial owner" of part of that property. This created a number of conflicts which are likely to have contributed to many of the recent issues associated with the management and finances of St Andrew's House. GAB sought to deal with these conflicts by initiating the withdrawal of its authority to undertake the day to day management of the building (which has been assumed by the Corporation).

27. The Working Group advised the Standing Committee that the ASC's proposals for a CIMB required more thought if some of the complexities, costs and conflicts of past processes were to be avoided –

- The Working Group advised that it is likely that a CIMB, in the form proposed, would need to hold an AFSL. As mentioned, holding an AFSL is burdensome and costly.
- Care needed to be taken to ensure that a CIMB was aware of, and effectively manages, the distinct investment objectives of the underlying funds invested in it.
- A CIMB would also need to ensure that conflicts (such as the conflicts associated with the management, financing and ownership of St Andrew's House) are avoided or effectively managed. In relation to St Andrew's House, the model proposed by the ASC appeared to the Working Group to reinstate the structure which GAB sought to unwind, which gave rise to the conflicts of interest.

28. If it was only the funds of GAB, the Property Trust and the Corporation which were invested through a CIMB the Working Group was doubtful, at the present time, that the benefits of a CIMB would outweigh the benefits of the present arrangements which involve a high level of co-operation between these bodies. Rather, the Working Group was concerned that a CIMB would add to the cost and complexity with little net benefit. The Working Group acknowledged that there would be greater force in the argument for a CIMB if it was a diocesan investment vehicle through which all organisations invested. However, the Working Group understood that informal soundings with members of other diocesan

organisations suggested that it is unlikely that those organisations would want to utilise the investment services of a diocesan entity such as a CIMB.

29. Accordingly, while the Working Group recognised the possible merits of a CIMB, it did not support the creation of a CIMB at this time. In coming to this view it was influenced by the significant reform in existing investment processes which appeared to have been effective and ought to be further encouraged. But the Working Group was conscious that such reforms may not be maintained and, over time, unhelpful practices of the past might re-emerge.

30. Accordingly, the Working Group recommended that the proposal for the CIMB be reconsidered after the end of 2013, being 3 years after the initial reforms, to allow such reforms to be assessed against performance indicators such as risk, performance, cost and administrative efficiency. This recommendation was adopted by the Standing Committee.

31. The Working Group also recommended that, in the meantime, GAB, the Property Trust and the Corporation should be requested to report to the Standing Committee each 6 months in terms of such performance indicators to enable the Standing Committee to monitor the ongoing effectiveness of the reforms until such time as the proposal for a CIMB is reconsidered. This recommendation was also adopted by the Standing Committee, and the first of such reports is to be provided by the end of 2012.

Recommendation 5 – Investment strategy and related matters

32. Recommendation 5 of the ASC proposed that –

- the Standing Committee approve the CIMB's investment strategy at the level of asset allocation and material variations of asset mix, and
- the CIMB be subject to a borrowing limit approved by the Standing Committee, and
- the constituting ordinance of the CIMB be amended to clarify that the objective should be to first preserve the real value of the assets invested, and then provide a reasonable income.

33. Since Recommendation 5 was tied to the creation of a CIMB the Working Group considered that this recommendation ought also to be deferred and reconsidered when the proposal for a CIMB was reconsidered. The recommendation of the Working Group that further consideration of Recommendation 5 be deferred was adopted by the Standing Committee.

34. However, in relation to the specific issues raised in this recommendation, the Working Group flagged that at the appropriate time further consideration needs to be given to the major practice and governance issues which would arise if members of Standing Committee were to be involved in decisions about asset allocations and asset mixes.

35. The Working Group considered that it was questionable whether the members of the Standing Committee would have expertise in such complex matters, and whether the Standing Committee's involvement would diminish the responsibility and accountability of the CIMB for undertaking the investment function. It was noted that questions as to whether members of Standing Committee so acting may be 'shadow directors' (with responsibilities under the *Corporations Act*) needed further reflection.

36. In the meantime, the Working Group considered that the present approach whereby the Standing Committee appoints the members of boards, regularly reviews investment strategy, and if not satisfied informs the relevant body, remains a good one. If still not satisfied, Standing Committee can change the members of the board. The Working Group's suggestion that GAB, the Property Trust and the Corporation report regularly to the Standing Committee was thought to assist the Standing Committee in monitoring the work of those bodies, particularly in relation to reviewing investment strategy.

37. The Working Group also flagged that enshrining the principle that the real value of the capital of a fund must be preserved before any distributions can be made by the fund is not without difficulty. This issue required more detailed consideration at the relevant time. Taken to the extreme the principle could mean that no distributions can be made from the fund if, for example, capital levels declined because of a decline in investment markets as has been experienced in recent times. An alternative approach, and one which GAB and the Property Trust have followed in recent years, is to recognise that there is risk inherent in investment activities, but the key issue is not to try and eliminate risk (as a requirement to maintain the real value implies) but to identify acceptable risk tolerances for the maintenance of the real value, and manage the investments according to those tolerances. GAB reported in some detail to the Synod in 2011 about its approach to maintaining the real value of the capital of the Diocesan Endowment. The Working Group believed that the proposed periodic reports to the Standing Committee will continue to allow this issue to be discussed.

Recommendation 6 – Endowment of the See

38. Recommendation 6 of the ASC was that the *Endowment of the See Ordinance 1977* be amended to –

- Insert a clause that establishes the objective to preserve the real value of the EOS.
- Enable the trustee of the CIMB to be responsible for managing the EOS investments and allocate income from those investments to the EOS Committee.
- Enable the EOS Committee to be responsible for budgeting and expenditure, within the amount allocated (as determined by the CIMB, on the recommendation of the Archbishop).
- Clarify that all real property transactions, including mortgages, sales or leases are to be endorsed by the Synod or the Standing Committee.

39. On the basis that the ASC's recommendations for a CIMB are not being further pursued at this time, the Working Group considered that the Property Trust was the appropriate trustee for these purposes.

40. The Working Group proposed that the 1977 Ordinances be repealed and that 2 ordinances, namely the *Endowment of the See Capital Ordinance 2012* and the *Endowment of the See Expenditure Ordinance 2012*, be passed to address the governance matters raised by the ASC and other related ordinances. Both the EOS Committee and the Property Trust were consulted in the course of the preparation of these proposed ordinances.

41. The Standing Committee adopted the recommendation of the Working Group and has passed the 2 ordinances.

42. The basic framework of the ordinances is as follows –

- (a) There are now 2 funds. The existing EOS fund (Fund 301) is now the Capital Fund. A new fund has been created which is known as the Expenditure Fund.
- (b) The Property Trust is the trustee of the Capital Fund. The principal objects of the Capital Fund are –
 - to maintain the real value of the investments of the EOS, and
 - to receive distributions from the St Andrew's House fund (in respect of the EOS's 50% interest in that fund), and
 - to care for, repair, renovate and refurbish the real property of the Endowment of the See to an appropriate standard having regard to the age and use of that property (the real property of the EOS consists of the residences of the Archbishop and those assistant bishops provided with housing owned by the EOS).
- (c) The Property Trust is to provide for distributions from the Capital Fund to the Expenditure Fund in accordance with the Capital Ordinance.
- (d) The mechanism for the calculation and payment of the distributions is as follows –
 - The Property Trust is to determine before 30 June each year the amount which may be distributed to the Expenditure Fund after taking into account its costs and expenses of administering the Capital Fund, the retention of an appropriate amount from the returns of the Invested Property to maintain the real value of that property, and the retention of an appropriate amount to undertake the repair of the real property of the Fund.
 - The Property Trust is to give notice of its determination to the EOS Committee as soon as is practical after the making of the determination and, in any event, by 30 June.
 - The amount determined by the Property Trust is to be paid to the Expenditure Fund by 4 equal instalments due on 1 January, 1 April, 1 July and 1 October in the calendar year following the year in which the determination is made.
- (e) The Expenditure Fund comprises an initial sum of \$3 million, the distributions made by the Property Trust from time to time, and other sums paid into the Fund from other sources. The purpose of the Expenditure Fund is to pay the expenses of the Endowment of the See. The Endowment of the See Committee will administer the Expenditure Fund.
- (f) The purpose of providing an initial sum for the Expenditure Fund is to provide adequate working capital for the EOS Committee.

- (g) The Property Trust will report each year about the Capital Fund under the *Accounts, Audits and Annual Reports Ordinance 1995*. The EOS Committee will provide a copy of the financial statements of the Expenditure Fund each year to the Standing Committee.
- (h) The 1977 Ordinance has been repealed.

Recommendation 7 – Sydney Diocesan Secretariat

43. Recommendation 7 of the ASC proposed the following in relation to SDS –
- that a degree of contestability be introduced in the provision of services by SDS, and
 - that SDS be headed by a board different from that of GAB, comprising individuals with experience in the service industry, and
 - that SDS be rebadged as “Sydney Diocesan Services”.
44. In its Final Report the ASC made the following comments in support of its recommendation –
- SDS should supply administrative, secretarial and accounting services to the parishes, to the CIMB and to the Endowment of the See, as well as other diocesan organisations from time to time. The scope of services that SDS provides to its clients should be reviewed. In particular a quantitative and qualitative survey needs to be undertaken of the parishes and the needs of the CIMB and the EOS also researched.
 - To ensure high quality services being delivered at the lowest cost, a degree of contestability should be introduced in the provision of services by SDS. The principles which should be considered include –
 - fixed term service contracts (3 to 5 years)
 - “opt out” provisions for client organisations at the time of tendering – so that the SDS does not have monopoly provision status
 - clear service level agreements and appropriate incentives and sanctions
 - Because SDS operates as a specialist service provider it ought be headed by a different board from that of GAB.
45. The Working Group was aware that, since early 2010, SDS has undertaken a series of major reforms to its operations. Central to those reforms had been the negotiation of service level agreements with the organisations served by SDS. These agreements specify the services which SDS is to provide, and the requisite service standards. They form the basis of negotiations between the organisation and SDS about the fees to be charged for the provision of those services. There is significantly more transparency around the costs of SDS and fee levels than was previously the case.
46. The performance by SDS against those service standards is reviewed by SDS and the relevant organisations every 6 months. New service level agreements (and fee levels) are discussed each year. Accordingly, there is periodic opportunity for SDS and the organisations it serves to review SDS's services. Given this, the Working Group thought that further surveys or research was not needed for SDS to understand the services required to be provided.
47. The ongoing process for reviewing the services provided by SDS has resulted in the outsourcing of services previously provided by SDS, particularly in those areas where SDS could no longer draw on economies of scale to provide those services effectively and efficiently. Examples of services which have been outsourced are the St Andrew's House tenant management (in 2010), the investment management and investment accounting for GAB and the Property Trust (in 2010), the St Andrew's House building management (in 2011) and the St Andrew's House car park management (in 2011).
48. The reforms to SDS have resulted in substantial reductions in its costs, primarily through substantial reductions in the number of staff members. The evidence is that the recent reforms have resulted in SDS becoming a more efficient and focussed organisation. The Working Group considered that the present focus of SDS on service quality at a reasonable cost ought to be encouraged.
49. The proposal that SDS be headed by a board which is different from that of GAB assumed that the present members of SDS do not have adequate experience and expertise in the service industry. However, the Working Group noted that the majority of the current members of SDS have substantial experience in professional service organisations. Such experience has been significant in overseeing the substantial reforms to SDS since 2010 to enhance service.
50. The Working Group understood that SDS and GAB have recognised that common membership creates the potential for conflicts of interest but that, on examination, the only area where this could become an issue concerns the fees charged by SDS for services provided to GAB. To address this, GAB has initiated a third party review process to ensure that the fees charged by SDS to GAB were the

reviewed externally. This year the review process was undertaken by the Finance Committee of Standing Committee which concluded that the fees charged by SDS were reasonable given the work to be undertaken for GAB.

51. Since nearly half of the SDS staff workload relates directly to GAB, there are significant synergies in the common board membership. These include greater consistency in the development of board policies and practices, and greater consistency in reporting lines and arrangements. These enhance the efficient use of staff time and energy.

52. Accordingly, in light of the reforms which have been undertaken and these other matters, the Working Group advised the Standing Committee that it did not consider that the recommendations of the ASC in relation to SDS should be pursued at this time. Rather, the existing members of SDS ought to be encouraged to continue with the reform process commenced in 2010. However, the Working Group was conscious that such periodic reviews of an organisation such as SDS are desirable and, accordingly, recommended that the proposals be reconsidered after the end of 2013, being 3 years after the major reforms, to allow the operation of service level agreements with diocesan organisations to be evaluated against service delivery and internal cost controls. In the meantime, SDS should be requested to keep the Standing Committee informed about its operations and plans for the future.

53. The Working Group's advice and recommendations were accepted by the Standing Committee.

Recommendation 8 – Property Trust's investment function

54. Recommendation 8 of the ASC proposed that the Property Trust's investment function be passed over to the CIMB, and that the board of the Property Trust be comprised of members with the skill set to conduct its core business.

55. Since Recommendation 8 was also tied to the creation of a CIMB, the Working Group recommended that Recommendation 8 ought to be reconsidered when the proposal for a CIMB is reconsidered. In any event the Working Group said it was not aware of any suggestion that the present membership of the Property Trust does not collectively possess the skill set required to conduct its core business. The Working Group has been informed that a review of the skills of the members of the Property Trust is part of the annual review of board performance undertaken by the Property Trust.

56. The Standing Committee accepted the recommendation of the Working Group to reconsider Recommendation 8 when the proposal for a CIMB is reconsidered.

Recommendation 9 – Chairmen's Committee

57. Recommendation 9 of the ASC proposed the creation of a chairmen's committee.

58. The Working Group supported the establishment of a Chairman's Committee as a forum by which chairmen of the major diocesan organisations may share information about organisations and provide advice to the Archbishop. To reflect the role of the Committee, the Working Group suggested that it is best called the "Chairmen's Advisory Committee" (or Consultative Committee). It also considered that to enhance the work of this Committee it should be made clear that the Committee is to operate on the basis that discussion and information is confidential and cannot be disclosed outside of the meeting.

59. The Standing Committee adopted the recommendations of the Working Group and invited the Archbishop to appoint a Chairmen's Advisory Committee comprising the chairmen of the major diocesan organisations, as a forum for organisations to discuss common matters of interest and share information, and provide advice to the Archbishop, with such committee to operate on the basis that discussions and information shared are confidential and cannot be disclosed outside of the meeting.

Recommendation 10 – Governance and internal controls

60. Recommendation 10 of the ASC was that a process of review of the governance and internal controls of central diocesan organisations be undertaken by the chairmen's committee.

61. The Working Group agreed that a formal process for the review of the governance and internal controls of central diocesan organisations (SDS, GAB, the Corporation, the EOS Committee and the Property Trust) ought be established, but it did not think that the Chairmen's Advisory Committee was the most appropriate group to undertake this task. Among other things, the Chairmen's Advisory Committee comprises representatives of the organisations being reviewed (thus creating conflicts of interest), the accountabilities of the Chairmen's Advisory Committee to the Synod are unclear, and reviewing governance and internal controls would give the Chairmen's Advisory Committee a more significant role than is appropriate for that Committee.

62. Rather, the Working Group considered that the Standing Committee should establish a new sub-committee, the Governance and Audit Committee ("G&A Committee"), to undertake the role of undertaking ongoing review of the governance and internal controls of the central diocesan organisations.

63. The Working Group recommended that the G&A Committee comprise persons appointed by the Standing Committee, but not necessarily members of the Standing Committee, who have appropriate experience in reviewing governance and internal controls of organisations.

64. The Working Group acknowledged that there are likely to be costs involved in the G&A Committee undertaking its work, particularly the costs of administrative assistance. The nature of the assistance required, and hence the costs, will be for the G&A Committee to determine (perhaps with the Standing Committee's approval). The Working Group recommended that such costs ought be recovered from the relevant organisations on a basis to be recommended by the G&A Committee to the Standing Committee.

65. The Working Group recommended that the G&A Committee report on an ongoing basis to the Standing Committee, and also report annually to the Synod about its work.

66. The Working Group's recommendations were accepted by the Standing Committee.

Recommendation 11 – Conflicts of interest

67. Recommendation 11 of the ASC was that the Standing Committee be requested to draft and implement appropriate policies and protocols to minimise the risk of conflicts of interest arising from volunteer cross membership of boards and committees, and that members of all diocesan boards annually declare to their own board their membership of other diocesan boards.

68. The Working Group noted that the Synod Governance Committee is presently considering a range of issues, including conflicts of interest, and intends in due course to bring proposals for the consideration of the Standing Committee and the Synod.

69. In the meantime, the Working Group considered that the G&A Committee ought to include in its work of reviewing the governance of the central diocesan organisations consideration of the way in which any conflicts of interest of members of those organisations are managed.

70. The Working Group noted that an issue which should be further considered by the Synod Governance Committee is whether when someone is nominated for a position on a board or committee that person's membership of any other related organisation should be provided to the electing body. A further issue to be considered is whether whenever an item of conflict arises, the person with the conflict should declare the interest and leave the meeting while it is being discussed.

71. The Standing Committee noted that its response to Recommendation 10 also dealt with the matters raised by Recommendation 11.

Recommendation 12 – Amend constituting ordinance of central diocesan bodies

72. Recommendation 12 of the ASC was that the Standing Committee examine whether it is possible to amend the constituting ordinance of the central diocesan bodies to permit the sharing of confidential information between those bodies for the better financial health of the Diocese.

73. The Working Group was advised that the concerns of the ASC giving rise to Recommendation 12 would be substantially addressed by the establishment of the Chairmen's Advisory Committee (see Recommendation 9).

74. Accordingly, the Working Group recommended that if the Chairmen's Advisory Committee was established no further action should be undertaken in relation to Recommendation 12. In light of its invitation to the Archbishop about the appointment of a Chairmen's Advisory Committee, the Standing Committee does not propose any further action in relation to Recommendation 12 at this stage.

For and on behalf of the Standing Committee.

ROBERT WICKS
Diocesan Secretary

21 August 2012

Recommendations of the Archbishop's Strategic Commission on Structure, Funding and Governance

Recommendation 1
The EOS should sell Bishops Court and apply part of the proceeds to acquire suitable alternative accommodation for the Archbishop.
Recommendation 2
That a strategic plan be developed for St Andrew's House to maximise the short term yield while creating the option to realise (wholly or partly) the equity value of the asset.
Recommendation 3
The Standing Committee commission a strategic review of the benefit to Diocesan organisations of the Anglican brand name.
Recommendation 4
A new centralised investment body, the Central Investment Management Board ("CIMB") be established. Diocesan bodies should work towards ensuring that all investment activity of assets in excess of \$5 million in aggregate is undertaken through the investment management expertise of the CIMB or an external manager appointed by them.
Recommendation 5
Standing Committee should approve the CIMB's investment strategy at the level of asset allocation – <ul style="list-style-type: none"> • material variations of asset mix should require the approval of the Standing Committee, • the CIMB be subject to a borrowing limit approved by the Standing Committee, • the constituting ordinance be amended to clarify that the objective should be to first preserve the real value and then provide a reasonable income.
Recommendation 6
The EOS Ordinance be amended to – <ul style="list-style-type: none"> • insert a clause that establishes the objective to preserve the real value of the EOS, • enable the CIMB to be responsible for managing the EOS investments and allocate income from those investments to the EOS Committee, • enable the EOS Committee to be responsible for budgeting and expenditure, within the allocated amount (as determined by the CIMB, on the recommendation of the Archbishop), • clarify that all real property transactions, including mortgage, sale or lease, are to be authorised by the Synod or the Standing Committee.
Recommendation 7
That a quantitative and qualitative survey of parishes and research of the needs of the CIMB and the EOS be undertaken to clarify the role of SDS and determine the services to be provided. That a degree of contestability should be introduced in the provision of services by SDS that SDS be headed by a board different from that of GAB, comprising individuals with experience in the service industry. That SDS be rebadged as Sydney Diocesan Services.

Recommendation 8
That the ACPT's investment function be passed over to the CIMB and that the Board of ACPT be comprised of members with the skill set to conduct its core business.
Recommendation 9
That a Chairmen's Committee be established.
Recommendation 10
That a process of review of governance and internal controls of the central diocesan organisations be undertaken by the Chairmen's Committee.
Recommendation 11
Standing Committee be requested to draft and implement appropriate policies and protocols to minimise the risk of conflicts of interest arising from volunteer cross memberships of boards and committees. That members of all Diocesan boards annually declare to their own board, their memberships of other Diocesan boards.
Recommendation 12
The Standing Committee examine whether it is possible to amend the constituting ordinance of the central diocesan bodies to permit the sharing of confidential corporate information between those bodies for the better financial health of the Diocese.
Recommendation 13
That a more fundamental reform of the central diocesan bodies be re-visited after the other recommendations are implemented and have been in place for a number of years.