

Annual Report for 2007

Sydney Diocesan Secretariat Glebe Administration Board Sydney Anglican Church Investment Trust

(Being bodies corporate under the Anglican Church of Australia (Bodies Corporate) Act 1938 and constituted to manage, govern and control church trust property for the Anglican Church Diocese of Sydney.)

Contents	Item
Constitution and Mission	1
Membership	5
Sydney Diocesan Secretariat	9
SDS Financial Performance	11
2007 Highlights	16
Human Resources	46
Conclusion	48
Glebe Administration Board	50
Attribution Analysis	56
Asset Class Returns	57
Gearing Strategies	64
Asset Allocation	68
Managed Entities	69
Investment Management	74
Strategic Issues	80
Conclusion	82

Appendix: SDS Organisation Chart

Abbreviations used in this Report

'ACPT'	means Anglican Church Property Trust Diocese of Sydney
'DAWN'	means Diocesan Area Wide Network
'DR'	means Disaster Recovery
'EOS'	means Endowment of the See
'GAB'	means Glebe Administration Board
'GAM'	means Glebe Asset Management Limited
'GIA'	means Glebe Income Accounts

'SACIT'	means Sydney Anglican Church Investment Trust (dormant)
'SAH'	means St Andrew's House
'SAHC'	means St Andrew's House Corporation
'SAPF'	means Sydney Anglican Property Fund (dormant)
'SDS'	means Sydney Diocesan Secretariat
'SJH'	means St James' Hall

Constitution and Mission

1. SDS is constituted by the Sydney Diocesan Secretariat Ordinance 1973 to care for the property of the Standing Committee and administer the affairs of the Anglican Church within the Diocese of Sydney. It provides services through its personnel to parishes and Anglican organisations.
2. The GAB is constituted by the Glebe Administration Ordinance 1930 to manage and control the Diocesan Endowment, being the capital from sales of certain glebes granted to the Church in the 19th century.
3. Distributions to the Synod from the Diocesan Endowment are made each year to fund diocesan Mission activities. The formula used to calculate the amount of the distribution is being transitioned to a new basis which will be fully effective from the year 2009. The new formula is calculated as to 30%, being 4.2% of the net assets of the Endowment averaged over 3 prior years, and as to 70% being the prior year's distributed adjusted by the movement in the consumer price index.
4. The GAB is also trustee and manager of the SAPF and St James' Hall and also manages St Andrew's House for SAHC.

Membership

5. The members of SDS, who are also the members of the GAB and SACIT, are appointed by the Standing Committee. One-third retire each year, being the longest in office since their last appointment. The names of the members in office on 31 December 2007 and their meeting attendance records in 2007 follow.

	<i>Meetings Attended</i>	<i>Last Appointed</i>
Canon B A Ballantine-Jones OAM	9 out of 10	2006
Mr P R Berkley	7 out of 10	2005
Mr P P Driscoll	8 out of 10	2005
Bishop R C Forsyth	9 out of 10	2007
Dr S E Judd	7 out of 10	2007
Mr R H Y Lambert	8 out of 10	2006
Mr N R Lewis	5 out of 10	2005
Mr D B McDonald AC	8 out of 10	2005
Mr I C Miller	5 out of 10	2007

Mr W H Olson AM	6 out of 10	2007
Dr L A Scandrett	9 out of 10	2006
Mr P R Shirriff (Chairman)	9 out of 10	2006

6. Meetings are held at St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office NSW 1230): telephone (02) 9265 1555. Normal business hours are 8.30 am to 5.30 pm.

7. SDS and GAB have several board committees –

- (a) The Board Asset Liability Committee (“ALCO”) is responsible for monitoring and reviewing the investment and balance sheet management policies, strategies, transactions and performance of the GAB. The ALCO is currently focussed on increasing the diversification of the Diocesan Endowment’s investments and other aspects of risk management.
- (b) The Board Audit Committee oversees the audit and financial reporting functions of the SDS and GAB.
- (c) The Board Management Remuneration and Nomination Committee monitors remuneration of SDS staff and ensures that the SDS develops and implements competitive and effective remuneration and nomination processes.
- (d) The Board Risk and Compliance Management Committee ensures that the SDS and GAB maintain effective and informed policies for operational risk management and compliance with relevant laws and policies.

8. The members of these board committees are drawn from the non-executive membership of the SDS and GAB. The Asset and Liability Committee includes the Chief Executive Officer and, as of March 2008, has one non-Board member.

Sydney Diocesan Secretariat

9. SDS recorded a loss for the year, partly because it was focused on growing and developing its capabilities for the future. Revenue enhancement and cost management programs are in place to reduce the loss in 2008 and achieve break even in 2009.

\$000s	2007 Actual	2007 Budget	2006 Actual
Income:			
Investments	289	144	368
Fees	10,704	10,735	11,062
Synod Grants	202	153	245
Other Income	1,238	1,736	729
Total Income	12,433	12,768	12,404

\$000s	2007 Actual	2007 Budget	2006 Actual
Expenses:			
Staff & Related Costs	8,894	8,744	8,094
Professional Fees	1,446	1,984	1,311
Computer & software	648	929	230
Rent & Occupancy	796	809	656
Depreciation & Amortisation	431	344	317
Other Expenses	1,233	1,345	1,511
Total Expenses	13,448	14,155	12,119
Net Surplus (loss)	(1,015)	(1,387)	285

10. The Balance Sheet shows the reduction in net assets due to the operating loss.

\$000s	2007	2006
Total Assets	9,380	6,849
Total Liabilities	7,895	4,350
Net Assets	1,485	2,499

SDS Financial Performance

11. The major theme of the SDS in 2007 was investment in future capacity. This is reflected in the operating loss of \$1,015,000. The investments included equipping the refurbished offices, technology refresh and the Edge Project providing new finance and property management systems.

12. Management fee income was on budget with the exception of an adjustment of \$251,000 for fees to the Synod. This was to align the SDS fee to the Synod appropriation for administration. Other income is less than budget, principally due to lower than expected income from the roll out of the Diocesan Area Wide Network (DAWN). IT related revenue was around \$400,000 lower than budget.

13. Staff and related expenses were close to budget; however, this was achieved by savings on budgeted staff numbers being offset by additional retirement payments to the CEO.

14. Most overhead expense items showed favourable variances to budget, particularly professional fees, reflecting the underspend on the rollout of DAWN.

15. Capital expenditure was dominated by the Edge Project. This new finance and property management system went live in November. The project is on budget with \$1.5M of the \$1.9M budget being incurred in the

year. A further \$1.6M (\$300,000 under budget) was spent on various IT initiatives, including IT refresh and AV equipment for the office refurbishment and DR/BCP work.

2007 Highlights

Parish Services Conference

16. In June 2007 SDS conducted a very successful one day conference which was attended by 468 people. This conference provided relevant information on a range of topics that were of interest to rectors, wardens and parish councillors. Very positive feedback was received from the participants.

Financial/Property System

17. A new general ledger/property management system was successfully implemented in November 2007. A post implementation review will be conducted during the first half of 2008.

Risk Management Framework

18. A new framework has been developed by management and adopted by the Board Risk & Compliance Committee. This represents a new top down approach to risk management that is designed to identify and address all the major areas of risk that are confronted by SDS and GAB.

Other Achievements and Issues

Customer Related

19. A program of parish visits was conducted by Parish Services, with favourable feedback.

20. On-line access to board and committee minutes was implemented with good take up from members.

21. New employment relations guidelines were issued for parishes.

22. Over 2,300 events were catered for in SAH, up 10% on 2006.

People Related

23. A new performance appraisal framework has been implemented.

24. A new succession planning process has been launched.

25. Three Management Development programs were completed in 2007 and the General Manager Parish Services, Mark Payne, attended the US Kellogg Executive Program.

26. Training initiatives were undertaken in Customer Service, Leadership and IT.

Strategic

27. The number of organisations participating in the Planned Giving program increased 11% to 193, and the monetary flow increased 15% to \$6.2M.
28. Additional parishes were added to the Diocesan Area Wide Network (DAWN) pilot.
29. The Angliconnect procurement process for parishes and other diocesan organisations was launched with gross sales of \$520k being recorded.
30. A climate change response program has been launched as requested by the Synod resolution.
31. A range of administrative support has been provided to the Connect 09 initiative.
32. The asbestos inspection program has been approved and launched.
33. The office relocation for SDS and EOS has been successfully completed. (Refer GAB report for more detail.)
34. The Brownfields parish property grant process is well underway and analysis is being undertaken on potential Greenfields sites. Rouse Hill and Hoxton Park projects have been approved and construction is underway.
35. Parish Services and Property Services commenced a programme of working with parishes and the Archdeacons in assisting them in reviewing feasibility studies for the redevelopment of existing parish centres and development of surplus parish land.
36. Construction of the Greenoaks apartments (Bishopscourt back block) has been completed. The marketing campaign has commenced, with a number of sales in progress as of the date of this report.
37. A strong dialogue is being maintained between the executive team at SDS and other large Diocesan organisations.
38. There has been successful management of insurance premiums and claims.
39. A compliance plan for the new Anti Money Laundering legislation has been implemented.
40. A survey of prudential standards and governance for Diocesan organisations has been conducted.
41. The Secretarial team has provided consistent support for Standing Committee, Synod and Sydney's participation in General Synod.

Strategic Objectives

42. SDS is supporting the Mission Board in the strategic planning and funding process for the 2009/11 Triennium.
43. There will be a continuing focus on improving the quality of service to parishes across a range of areas, including property projects.
44. Training and development of staff will also be a priority, with an updated leadership program to be established for senior management.
45. Many of the 2007 initiatives referred to above will require ongoing focus in 2008 (eg support for Connect 09 and the conduct of the asbestos inspection program.)

Human Resources

46. Staff numbers have been maintained well within budget.

	Year End	Budget
(Full Time Equivalent)	2007	
Executive	3.0	3.0
HR / Corporate Services	7.4	8.6
Parish Services	10	12.9
Secretarial	7.2	8.0
Property Services	14	15.5
Finance	17	18
Technology	10	10.6
Investment Services	8.5	11.1
Total	77.1	87.7

47. Only 11 persons left the organisation during 2007, a turnover rate of 14.2%.

Conclusion

48. The incoming CEO, Mr Steve McKerihan has expressed to the Board how he has been very impressed by the professionalism and commitment of the SDS personnel. He acknowledged that Rodney Dredge, and the team, have built a very robust operation with a strong Christian ethos. This provides a great platform for the future support of the Diocesan Mission.
49. The Board and CEO acknowledge the excellent contribution of all our staff to the achievements of SDS in 2007.

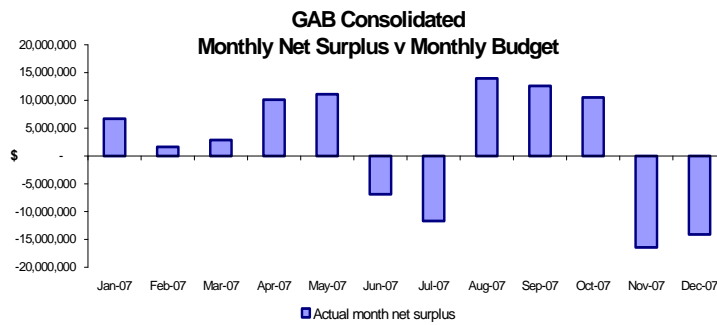
Glebe Administration Board

50. For the year ending 31 December 2007, GAB has returned a surplus of \$22.8M, an 8.4% return on opening net assets. Net assets of the Diocesan Endowment have decreased to \$265M (2006 \$272M). The largest cause of this was the \$20M special appropriation from the Endowment. Net assets are, of course, also impacted by normal distributions.

51. GAB's 2007 performance can be summarised as follows, from the audited Annual Financial report:

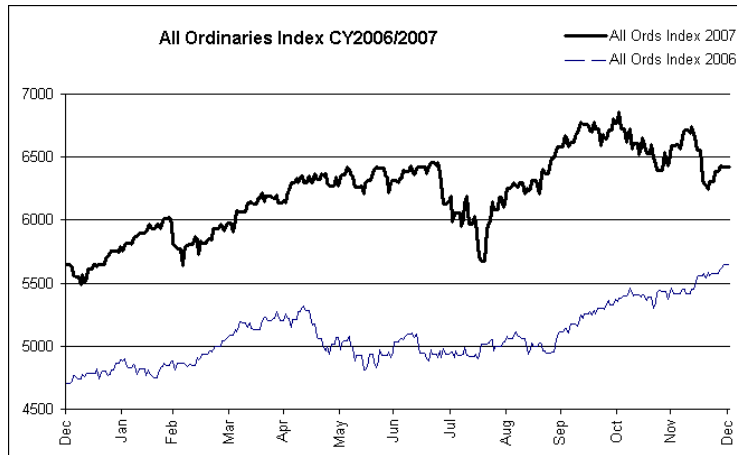
\$000's	12 months to December	
	2007	2006
<i>Revenue</i>		
Income from property related investments	(4,574)	17,831
Income from fixed interest investments	3,156	1,814
Income from loans and mortgages	7,939	6,108
Income from equity related investments	44,236	66,493
Fee income	1,384	3,582
Other income	250	-
Total revenue	52,391	95,828
Share of net profits of St Andrew's House Corporation	4,925	4,217
Interest expenses	(18,996)	(16,555)
Surplus attributable to minority interests	(6,003)	(13,407)
Other expenses	(9,557)	(12,378)
Net surplus	22,760	57,705
Total Assets	634,507	658,706
Total Liabilities	369,305	386,296
Net Assets	265,202	272,410

52. This chart, of GAB's month-by-month results, shows the volatility of returns, particularly in the second half of the year. *

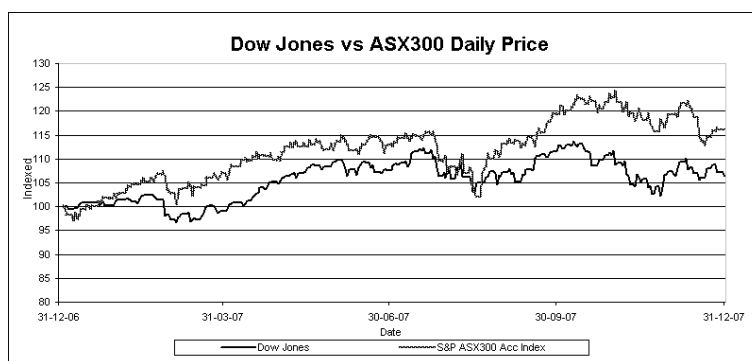


* Based on monthly unaudited management accounts and excluding year end revaluation of SAH.

53. Movements in the All Ordinaries clearly show the increasing volatility of investment markets in 2007 compared to 2006.



54. The following chart highlights the effect of the sub-prime lending crisis in both the US and Australian markets from July 2007 onwards. While the Australian market rebounded in the second half of 2007, this was of course followed by sharper falls in January 2008:



55. The closure of all of the public investment funds was successfully completed in 2007. GAB now offers its investment services only to close church clients through one new wholesale licensed entity. Total funds managed for the Diocesan Endowment, Anglican Church Property Trust and the Endowment of the See are set out below –

Total Funds Managed by GAB		
\$000s	2007	2006
Australian Shares	295,997	284,962
Overseas Shares	75,218	60,080
Fixed Interest	12,883	41,673
Loans & Mortgages	94,856	89,854
Direct Property	131,300	114,540
Indirect Property	8,711	8,157
Listed Property	88,999	103,828
Cash & Short Term Deposits	60,918	41,752
Total	768,882	744,846

Attribution Analysis

\$000s	Net assets	Borrowings from:		Total	
		GIA	External	2007	2006*
Market Return	22,184	10,873	11,050	44,107	82,693
Asset Allocation Effect	620	273	304	1,197	2,598
Investment Management	1,087	856	785	2,728	(6,758)
Interest & Related Expenses	-	(9,045)	(9,951)	(18,996)	(15,925)
Management Expenses	(2,198)	(2,959)	(1,104)	(6,261)	(5,414)
Total Return	21,693	(2)	1,084	22,775	57,194
Return on Average Funds Employed	8.1%	0.0%	0.8%		
GAB Property Management				(18)	(926)
GAM Net Cost				(74)	(647)
Other Variances				77	15
GAB Consolidated Net Surplus				22,760	55,636

*2006 figures are based on unaudited management accounts and excludes SAH revaluation.

56. The table set out above attributes the total GAB return into a number of components. The following observations can be drawn –

- Market returns were much lower in 2007 than in 2006.
- Asset allocation decisions between the various asset classes continued to make a positive contribution.
- The anticipated improvement in the contribution from the investment management process has been achieved. This has been the result of –
 - outsourcing the investment process to external funds managers with strong oversight by GAB management and ALCO
 - revaluation of SAH, reflecting a strong market for CBD commercial property.
- Interest expense has been increased due to higher interest rates and higher levels of borrowing.
- GAB Property Management Costs and GAM Net Costs have come down as anticipated.

Asset Class Returns

	12 Months to December			
	2007 Return		2007	2006
	\$000s	%	Benchmark	Return
			%	%
Australian Shares	43,174	16.4	16.8	19.9
Overseas Shares – Hedged	(1,255)	N/A	N/A	N/A
Overseas Shares – Unhedged	(4,518)	(6.6)	(2.6)	13.5
Australian Fixed Interest	819	2.2	3.5	7.0
Loans & Mortgages	7,939	9.2	7.4	8.1
Direct Property	2,129	5.8	7.8	5.0
Indirect Property	(3,612)	(6.0)	(5.8)	32.0
Cash & Short Term Deposits	2,131	7.0	6.7	6.4

57. Australian Equities - the market posted strong returns through the year until early November when concerns around the impact of the US entering recession saw a sharp decline in the domestic market. When adjusted for the impact of franking credits, actual performance would exceed benchmark.

58. Overseas Shares - were subdued during the year with concerns around the US growth rates and potential sub-prime credit contagion dragging the market down during the last few months of the year. The quantitative investment style of our manager (Barclays Global) was impacted by the equity market volatility in the second half of 2007. Their performance, relative to benchmark, has improved in 2008.

59. Fixed Interest - the fixed interest portfolio was impacted by the 3 increases in the RBA's official cash rate, each of 0.25%, during 2007 and by the fallout from the increased spreads on corporate paper from the US sub-prime market turmoil. The resultant joint impact of these factors, especially in a portfolio with a preponderance of corporate paper, was that performance was less than benchmark and the previous year.

60. Loans & Mortgages - as the majority of facility interest rates were floating rate, and reset on a monthly basis, the upward movement in interest rates in the year was of benefit to this portfolio. In addition, fee income was above expectations primarily due to the establishment of a large facility for New College at UNSW. A significant loan for Anglicare was also established. During the year, there were also a number of bridging loans approved and settled but repaid before year end. The fee and interest income from them assisted in achieving the above benchmark return.

61. Property – the actual return reported for SAH is conservative because it reflects only cash distributions and does not include the impact of the revaluation of the building. The capacity of SAHC to maintain distributions at current levels is under question. (Refer to paragraph 81 Strategic Issues)

62. Indirect Property - after a number of years of strong growth, listed property markets fell sharply over credit and financing concerns with some high profile companies.

63. Cash & Short Term Deposits - with 3 official interest rate increases of 0.25% in each of May, August and November 2007, and a widening in rates paid for short dated paper in Australia, following the global credit crunch during the year, the GAB was able to increase returns in this area.

Gearing Strategies

64. Actual level of borrowing remained virtually unchanged other than for the transfer of the bulk of the \$20M special allocation into GIA deposits.

\$000s	31 Dec 2007	31 Dec 2006
Glebe Income Accounts	155,486	135,530
External Borrowings	140,000	140,000
Total Gearing	295,486	275,530
NTA	265,202	272,410
Gearing Ratio	1.11	1.01

65. Subsequent to balance date, external borrowings were reduced by \$25M. The level of gearing remains under constant review. Gearing has the impact of increasing the volatility in investment returns.

66. Returns attributed to gearing were listed earlier in this report –

\$000s	Funds Employed	Net Return	Net Return
NTA (average)	268,806	21,693	8.1%
GIA (average)	146,953	(2)	0.0%
External (average)	140,000	1,084	0.8%

67. The net margin attributed to GIA is less than that calculated for external borrowings. This arises, in part, because no internal management overheads are attributed to the costs of external gearing.

Asset Allocation

68. Asset allocations at the beginning and end of the year were –

	2007			2006	
	Actual	Ranges		Target	Actual
	%	Low %	High %	%	%
Australian Shares	42.9	35	45	40	42.5
Overseas Shares - Total	13.0	5	15	10	10.7
Overseas Shares – Hedged	5.9			4	N/A
Overseas Shares – Unhedged	7.1			6	10.7
Australian Fixed Interest	1.6		11	8	6.0
Loans & Mortgages	16.8	10	20	18	16.0
Direct Property	6.7	5	10	7	6.6
Indirect Property	1.5		3	1	1.5
Listed Property	10.8	7	14	12	12.8
Cash & Short Term Deposits*	6.6	3	20	4	3.9

*Excludes distributions receivable.

Managed Entities

St Andrew's House

\$000s	2007	2006
Sinking Fund Reimbursement	433	1,416
Rent and related income	9,376	8,907
Property expenses	(5,008)	(4,465)
Revaluation of SAH	6,478	263
Other income	51	928
Other expenses	(1,601)	(1,603)
Net Surplus	9,729	5,446

69. The reduction in surplus in 2007 is attributable to the reduction in the sinking fund reimbursement. The reduction in other income is also due to a decline in interest revenue due to a reduction in the balance of the sinking fund.

70. The major elements of SAH contributed to income roughly in this order –

Car Park	\$1,094,000
Arcade	\$1,221,193

Office Tower \$2,015,656

71. 2007 saw the completion of a number of significant projects in SAH including: the refurbishment of Level 1 for occupation by AYE and SDS; the refurbishment of Level 2 including the Diocese's major reception area and meeting room facilities and tenancies for EOS, SDS, Anglican Media, PSU and MT&D; the completion of the lift upgrade throughout SAH for the Cathedral School and the Commercial Office Tower; new glazing for Ground Floor North and South and the commencement of works in Ground Floor South for use by the Cathedral School as its new library.

72. During the year, the percentage of the building leased up continued to increase, especially in the Town Hall Arcade. The Car Park performed very well aided by higher than budgeted occupancy and an increase in the Car Park casual and permanent rates during the year.

St James Hall

\$000s	2007	2006
Rent & Related Income	2,498	2,474
Revaluation of St James Hall	3,678	1,700
Property Expenses	(814)	(1,048)
Other Income	10	9
Other expenses	(595)	(586)
Net Surplus	4,777	2,549

73. SJH saw a year of consolidation in 2007 as a significant number of the existing leases expired and new option leases were taken up. The majority of leases no longer have any option periods remaining. However, almost all of the new leases are for a term of 5 years. There was minimal capital expenditure during the year. During 2007, negotiations were concluded to outsource the onsite caretaker and maintenance function to Jones Lang LaSalle (JLS). JLS was also appointed as Leasing Agent for the only vacant space in SJH, being Level 2. This is part of the Parish of St James, King Street, Sydney's designated area. Any rental from this floor will be paid to the Parish. Otherwise, the building is 100% occupied.

Investment Management

74. Management and ALCO continue to refine the overall investment management process. This includes reviewing the required investment return, diversification of asset classes and evaluation/selection of asset consultants and funds managers. Considerable attention is being devoted to risk management, including the review of gearing levels. This work is consistent with completing the switch from being a funds manager to a pure long term investor.

75. The implementation of the new distribution formula and new process for consideration of special capital appropriations has been very timely for the Diocesan Endowment.

76. Bank debt facilities have been renegotiated and extended on favourable terms.

77. The tax exempt endorsement for the Diocesan Endowment has been confirmed.

78. Management has also been actively supporting the ACPT and EOS Committee in the refinement of their investment management processes.

79. Management will continue to explore opportunities to further improve and co-ordinate investment management processes across a number of Diocesan entities.

Strategic Issues

80. It has been demonstrated during 2007 that there is an appropriate role for GAB to lend money to a range of Diocesan organisations, including parishes. Management is currently fine tuning lending policies to optimise this opportunity. This is being undertaken in connection with the Finance & Loans Board. It is intended to target further growth in this area. This is not expected to require the establishment of a separate Diocesan Development Fund in the foreseeable future.

81. Management is focussing further attention on the financial and operational performance of SAH. This is covering a range of issues including distributions to the owners (GAB and EOS), rental returns, debt levels and operating costs.

Conclusion

82. The incoming CEO has acknowledged the professional and rigorous approach to investment management that has been developed by GAB. He believes Rodney Dredge, and the team, have built a very robust operation, which provides a great platform for the future support of the Diocesan Mission.

83. The strategic decision to exit retail funds management is believed to be sound and has been well executed.

84. In summary, GAB will aim to –

- Achieve the target investment return for the Diocesan Endowment.
- Apply sound risk management processes.
- Support Diocesan entities with loan funds for prudent proposals which are aligned with the objectives of the Diocesan Mission.

85. While the current investment markets are very challenging, it is important to note that, as a long term investor, we expect periods of

volatility in equity markets. The Board is also encouraged by how our people and processes have responded to the challenges of recent months.

86. Finally, the Board wishes to acknowledge the excellent contribution of all our staff to the achievements of GAB in 2007.

For and on behalf of the Board

JOHN B CHAPMAN
Secretary

18 June 2008

Appendix

Sydney Diocesan Secretariat – Organisation Chart – 28 August 2008

