

Diocesan Development (Provision of Capital) Ordinance 2005

(A report of a review panel appointed by the Standing Committee)

Contents	Paragraph
Details of Review	1
Objects of the Ordinance	2
Background.....	3-4
Enabling ordinance	5-16
Assets and liabilities of the Car Fund and FLB	17
Comments of the Panel	18-21
Comments from the Finance and Loans Board	22
Recommendations of Panel.....	23
Referral to the Synod and other action subsequent to the recommendations.....	24-25

Details of Review

1. The Review Panel appointed by the Standing Committee met on 13 September 2005 when the following persons were present –

Panel: Mr Philip Gerber (Chairman, as appointed by Panel), Mr Ian Minnett, Mr John Pascoe, Dr Laurie Scandrett and Mr Peter Berkley

Mr Stephen Guthrie (Finance and Loans Board) was unable to attend and Mr Philip Burgess attended in his place.

Also present were Mr David Cannings, Mr Mark Payne, Mr Robert Wicks and Mr Steve Lucas

Objects of the Ordinance

2. The objects of the ordinance are –

- (a) to support a diocesan development function being undertaken through the Glebe Administration Board by incorporating the assets of the Sydney Anglican Car and Insurance Fund (the “Car Fund”) and the Sydney Church of England Finance and Loans Board (“FLB”) into the Diocesan Endowment, and
- (b) to discontinue the functions of the Car Fund and the FLB under the Sydney Anglican Car and Insurance Fund Ordinance 1978 (the “Car Fund Ordinance”) and the Sydney Church of England Finance and Loans Board Ordinance 1957 (the “FLB Ordinance”) respectively.

Background

3. At its meeting on 29 August 2005, the Standing Committee received a report from the Chief Executive Officer of the Sydney Diocesan Secretariat about a proposal to undertake a diocesan development function through the Glebe Administration Board as trustee of the Diocesan Endowment. A copy of that report is set out as an Attachment to this report.

4. Following the receipt of the report and in order to progress the proposal, the Standing Committee –
- (a) agreed in principle with the absorption of the FLB and Car Fund into the Glebe Administration Board, and
 - (b) agreed to consider an enabling ordinance at its September 2005 meeting, and
 - (c) appointed an ordinance review panel comprised of Mr Philip Gerber and Mr Ian Minnett from the Standing Committee, Mr Peter Berkley and Dr Laurie Scandrett from the Glebe Administration Board and Mr John Pascoe and Mr Stephen Guthrie from the Finance and Loans Board to review the enabling ordinance and report to the Standing Committee at its September meeting.

Enabling ordinance

Introduction

5. The proposed ordinance has been prepared in response to Standing Committee’s request.
6. The terminology used in relation to the development fund proposal to date suggests the creation of a separate fund. In fact there is no separate fund being created in so far as the “development” function will be undertaken essentially through the existing structures of the Glebe Administration Board. This is

reflected in the title of the proposed ordinance.

Incorporation of assets into the Diocesan Endowment

7. In broad terms, the proposed ordinance provides for the “absorption” of the assets of the Car Fund and FLB into the Diocesan Endowment by varying the trusts of these assets so that they are held on the same trusts as property held under Diocesan Endowment Ordinance 1984 (clause 6). However such variation of trusts does not, of itself, have the effect of incorporating the assets of the Car Fund and FLB into the Diocesan Endowment. It is also necessary for the Standing Committee to declare formally the trusteeship of these assets vacant and to appoint the Glebe Administration Board as trustee in place of the former trustees. A suitable form of resolution for this purpose which would be passed at the same time as a resolution to commence the ordinance would be as follows –

“Standing Committee, under section 14 of the Anglican Church of Australia Church Trust Property Act 1917 and with effect from the date of commencement of clauses 1 to 8 of the Diocesan Development (Provision of Capital) Ordinance 2005 –

- (a) declares a vacancy in the office of trustee of the assets of the Sydney Anglican Car and Insurance Fund and the Sydney Church of England Finance and Loans Board (the “assets”) by reason of the need to elect the Glebe Administration Board as trustee of the assets following the passing of the Diocesan Development (Provision of Capital) Ordinance 2005, and
- (b) elects the Glebe Administration Board in its capacity as trustee of the Diocesan Endowment to be the trustee of the assets in place of the former trustees.”

8. The remaining provisions of the proposed ordinance deal with a number of consequences that arise from the incorporation of the assets into the Diocesan Endowment.

Retention of Car Fund and FLB in limited form

9. By clause 2, it is proposed that the existing membership of the Car Fund Board be declared vacant. Since the membership of the FLB is determined by reference to the membership of the Car Fund Board, clause 2 also has the effect of vacating the membership of the FLB.

10. It is proposed to retain an ongoing membership for both the Car Fund Board and the FLB primarily to deal formally with the existing contractual relationships to which these bodies will still be a party if the need arises. It is nonetheless proposed that all ongoing activity of the Car Fund and the FLB be discontinued. These ends are achieved by amendments to both the Car Fund Ordinance and the FLB Ordinance.

11. Clause 3 of the proposed ordinance provides for the following amendments to the Car Fund Ordinance –

- (a) the ongoing membership of the Car Fund Board is to be the same as the membership of the Sydney Diocesan Secretariat (clauses 3(a) and (b)), and
- (b) the on-going quorum and chairmanship of any meetings of the Car Fund Board is to be the same as the quorum and chairmanship of the Sydney Diocesan Secretariat (clauses 3(c) and (d)), and
- (c) all ongoing functions of the Car Fund would be discontinued (clause 3(e)).

12. Clause 4 of the proposed ordinance provides for certain amendments to be made to the FLB Ordinance. In effect, these limit the ongoing functions of the FLB to the exercise of a statutory duty to give directions in respect of the mortgaging of church trust property under section 27A(2)(b) of the Anglican Church of Australia Trust Property Act 1917. Further, the ongoing membership, quorum and chairmanship of the FLB is dealt with in a manner similar to the ongoing membership of the Car Fund Board, namely that these matters correspond to the membership, quorum and chairmanship of the Sydney Diocesan Secretariat.

Liabilities and obligations to be met by GAB

13. In view of the Car Fund and the FLB ceasing to have any ongoing functions, all liabilities and obligations properly incurred by the Car Fund and the FLB are to be met by the Glebe Administration Board as trustee of the Diocesan Endowment (clause 7). Further, a form of indemnity is extended to persons who are or who have been members of the Car Fund Board or the FLB in respect of any liabilities or loss which they properly incur in that capacity (clause 8). The indemnity continues for a period of 6 years and is, in essence, limited to the value of the assets of the Car Fund and the FLB being incorporated into the Diocesan Endowment as at the date immediately before the proposed commencement of the

ordinance.

14. Under existing bank covenants entered into by the Glebe Administration Board in respect of the Diocesan Endowment, the banks will need to formally approve the indemnity to be given under clause 8. It is not anticipated that obtaining the approval will be a problem.

Additional powers for GAB

15. In order to ensure that the Glebe Administration Board has sufficient power to undertake its proposed development function, the proposed ordinance provides for an amendment to the Glebe Administration Ordinance 1930 which would have the effect of extending the powers of the Glebe Administration Board to make loans, whether secured or unsecured, to any individual or organisation approved by the Board (clause 5). At present, the Glebe Administration Board's express power to make loans is limited to making loans to any parish, or provisional parish or any organisation constituted by or under any ordinance of the Synod or the Standing Committee or any company or corporation approved by the Board.

Commencement of ordinance

16. It is proposed that the absorption of the Car Fund and FLB assets into the Diocesan Endowment and the consequential changes to the FLB and the Car Fund take effect from the date determined by resolution of the Standing Committee (clause 9).

Assets and liabilities of the Car Fund and FLB

17. As of 31 August 2005, the assets and liabilities of the FLB and the Car Fund are shown below –

Balance Sheet as at 31 August 2005

	FLB	CIF	Total
Assets	\$000	\$000	\$000
Cash	325	2,100	2,425
Receivables	42	5	47
Loans	6,812	690	7,502
Total assets	7,179	2,795	9,974
Liabilities			
Loan from GIC	(150)	-	(150)
Net Assets	7,029	2,795	9,824

Cash

This is comprised of both deposits in Glebe Income Accounts as well as a current account with the Sydney Diocesan Secretariat. The reason for the relatively high cash balance in the Car Fund is due to the fact that this fund is in run-off mode and (in accordance with the previous resolution by the Standing Committee) has not been making any new loans since early 2004.

Receivables

This represents an interest accrual on loans, for the period from the last payment date to the end of the month.

Loans

As at 31 August 2005, the FLB had loans to 63 parishes with average borrowings being \$108,121. The Car Fund had 108 loans with average borrowings of \$6,388 at the same date.

Liabilities

The only liabilities are the residual amounts due to the Glebe Investment Company Loan. This is a facility of \$2 million.

Comments of the Panel

18. The Panel supports the establishment of the DDF and the centralisation of the treasury functions of the diocese in the GAB.

19. The Panel is concerned to ensure that in administering the DDF the GAB has appropriate credit

policies for parish loans. While GAB must be satisfied of an applicant's ability to meet its obligations under a loan, the Panel considers that any assessment of a loan application should take into account the unique nature of parish finances and the context of the Diocesan Mission.

20. The Panel considers, however, that these credit policies are for GAB to formulate in accordance with its charter and that it is not appropriate for it to review any proposed credit policies nor require specification of the policies in the ordinance. Nonetheless it is recommended that GAB take the Panel's concerns into account in formulating its policies. To this end it is recommended that the ordinance commence on a date to be determined by the Standing Committee by resolution in order to give GAB an opportunity to provide the Standing Committee with confirmation about its administrative arrangements for the DDF before the FLB and Car Fund are absorbed into GAB.

21. The Panel confirms that the loans that are transferred to the GAB will be on the same terms as the current FLB and Car Fund arrangements.

Comments from the Finance and Loans Board

22. The FLB provided the following comments with respect to the proposed ordinance to the review panel –

"Standing Committee will be aware of the FLB's long standing reputation for having a strong ministry focus in our consideration of new loan applications and in our on-going dealings with our borrowers. We have frequently been called upon to provide loans in emergency circumstances (such as holes in roofs) and for new ministries where the borrowers are financially weak. Nevertheless loans have been made based on the undertaking of parish council to repay the loan and goodwill. Despite our ministry focus the FLB has (to the recollection of all current Board members) an unblemished record of no bad debts or defaults on loans.

The FLB supports in principle the concept of the DDF and the centralisation of the treasury functions of the diocese in the GAB. Standing Committee will be aware that for some years the FLB and CAIF have been thinking strategically about what our Boards could do to assist with the Diocesan Mission. We had concluded that with our current structures and level of resources any increased assistance we could provide was limited. Furthermore, the desire to centralise all lending functions into the one body is clearly a sensible development.

We note that at this point the GAB has not determined its loan approval criteria or loan administration policies. Accordingly, we are unable to express a view on whether we consider the DDF's policies will provide better financing options for parishes than the FLB's current policies.

The FLB recognize that is not our role to impose our views on loan approval and administration on to the GAB, but respectfully offer the following comments from our experience:

- (a) Loan approval criteria – while financial assessment of loan applications is imperative, we have found that an assessment of well documented ministry plans and undertakings provides a particularly valuable guide for loan approvals.
- (b) Interest rate policy – for some years the policy of the FLB has been to provide variable interest rate loans based on standard bank housing loan rates. In addition, for many years, the FLB has not approved any concessional interest rate loans as we consider it more appropriate that requests for special assistance be determined elsewhere.
- (c) Term of loans – we note from the "Report to Standing Committee" dated 22 August 2005 that GAB is intending to offer loans to parishes on renewable three to five year terms. FLB loans have generally been based on the bank model of 20 to 25 year loans. We question whether parishes, particularly those with less administrative and professional assistance, will be comfortable having to renegotiate their loans every few years.
- (d) Fixed Loan Repayments – FLB loans have generally been made on the basis of variable interest rates with fixed loan repayments, but with on-going monitoring and reviews to ensure that the loans do not "blow out" significantly. It has been our experience that parishes greatly value the certainty of their loan repayment commitments in the short term, and especially in the early years of a loan. We

reject the assertion of Secretariat staff that a loan can be classified as "in arrears" when all repayments have been made as required.

- (e) We continue to be of the view that a pastoral/ministerial approach blended with commercial considerations (an ability to pay) remains a valid and important component of the process of service to the parishes in support of their ministries.

May God bless this new venture."

Recommendations of Panel

- 23. The Panel found the preamble proved and recommended –
 - (a) the passing of the ordinance, and
 - (b) the Standing Committee pass the following resolution after the passing of the ordinance –

"Standing Committee expresses its gratitude to the members of the Sydney Church of England Finance and Loans Board and the board of the Sydney Anglican Car and Insurance Fund for their work in effectively governing these organisations in a manner which has significantly contributed to the life and mission of the Diocese over many years.", and
 - (c) subject to the GAB providing confirmation to the Standing Committee about its administrative arrangements for the DDF –
 - (i) the passing of a resolution to establish the commencement date of the ordinance under clause 9, and
 - (ii) the passing of a resolution in the terms specified in paragraph 7 for the appointment of GAB as trustee of the FLB and Car Fund assets from the commencement date.

Referral to the Synod and other action subsequent to the recommendations

24. Subsequent to the Panel making its recommendations, 4 members of the Standing Committee requested in writing that the Archbishop refer the proposed ordinance to the Synod pursuant to clause 5(3)(b) of the Delegation of Powers Ordinance 1998. The proposed ordinance has been so referred following its introduction at the Standing Committee.

25. The Standing Committee also requested that the proposed ordinance be promoted to the Synod "by request of the Standing Committee" in a form which includes a new recital D. Further, the Chief Executive Officer of the Secretariat has confirmed that the GAB's administrative arrangements for the DDF are likely to include notice requirements similar to those set out in clauses 12(i) and (ii) of the FLB Ordinance.

PHILIP GERBER
Chairman

30 September 2005

A Diocesan Development Fund

Attachment

(A report of the Chief Executive Officer of the Sydney Diocesan Secretariat to the Standing Committee)

As members will recall from earlier references, the GAB has been working on several growth projects. One of these is, the Diocesan Development Fund.

The point has now been reached when we need to ask Standing Committee to review the proposed initiative and to consider passing an enabling ordinance.

Central to the proposal is the integration of the Finance & Loans Board and the Car & Insurance Fund into the GAB to form the nucleus of the DDF. That integration requires an ordinance of the Standing Committee and we now seek Standing Committee's support.

For the development and reporting of the ordinance to be fair to all parties, it is proposed that a special Ordinance Review Panel be formed, composed of:

- Two members of Standing Committee.
- Two members of the Finance & Loans Board.
- Two members of GAB.
- Members of SDS staff as appropriate to provide technical and professional advice.

The panel report would be presented to the September meeting of Standing Committee as the statement of evidence supporting the proposed ordinance.

The following paragraphs are intended to support this approach.

Background

1. **GAB response to Mission**

Growth in NTA and growth in distributions are the major outcomes pursued by the GAB as its response to its charter and to the Diocesan Mission.

One avenue of growth for the GAB is opportunities which present themselves as a consequence of the financial strength of the Diocese and which are compatible with our skills base. Another GAB strategy is to pursue activities where aggregation of financial activities makes sense from cost and service perspectives. DDF is an opportunity that fits both strategies.

2. **What is the proposed DDF**

It is an entity which aggregates borrowing and lending across the Diocese so as to form an efficient, professional, contestable service through which organisations, parishes, commercial entities and selected individuals can borrow. As such DDF is both an income producing entity and a service provider to the Diocese. DDF incorporates the GAB's deposit and banking service, Glebe Income Accounts, and is able to advantageously link parish depositors to a parish loan for the purposes of self help.

3. **DF's in other places**

Within the Anglican Church in Australia, Brisbane has a large DDF (deposits of \$110 million) designed primarily as a funding unit for schools. Perth has a fund of \$75 million used for funding their Synod, Melbourne also has a smaller fund of \$45 million and several other Dioceses run small deposit plans.

The Uniting Church in NSW runs a large DF (\$650 million) as an investment entity distributing mainly to their Synod. The difference between UC and us is that UC made the use of their facility compulsory for UC parishes and organisations. The Catholic Church operates seventeen DF's for various Dioceses around Australia and NZ.

Of the other DF's, only UC and Brisbane gear their business with borrowings from external sources.

We enjoy very good relationships with the management of most large DF's. Many of us use the same software systems and we tend to consult on both operational and regulatory matters.

4. **Role of DDF**

(a) *Income Generator*

DDF will produce a return on investment equal to or better than the GAB average. Modelling suggests additional earnings of \$2.7 million pa within five years. Higher returns are possible, particularly if aggregation proves that borrowing costs can be reduced.

As part of DDF's proposed capital comes from that currently managed by FLB/CAIF, the effect of forming DDF is to convert around \$10 million of FLB/CAIF capital from benign (that is used only within the FLB and CAIF) to income earning. Part of the estimate above flows from this change.

(b) *Service Provider*

DDF will provide a contestable lending service to the Diocese at four levels:

- (i) Wholesale - our large borrowers (GAB & SASC) can benefit in rates, administration costs and risk management by aggregating their borrowing needs into DDF. The balance sheet relief available to SASC means potentially more rapid expansion of the schools network. DDF will also be available to ARV and Anglicare for wholesale level medium or short term borrowing.
- (ii) Retail - the GAB retail loan portfolio is an important defensive asset class. GAB intends to maintain this form of investment in its asset allocations to balance its investments in growth classes such as equities and LPTs.
- (iii) Parishes - are one of the main beneficiaries of us operating a DDF. Parishes will be able to access competitive loans for expansion or upgrade of their facilities, loans for development projects and loans with self-help add-ons (see below).
- (iv) Development and construction - this area of funding is a big gap in the Diocese's service offer to parishes and Diocesan organisations. DDF is designed to plug the gap and be a significant partner in major developments. This function in part relies upon the parallel development of a property strategy service within SDS's Parish Services Division.

DDF will also assist parishes in linking parishioner deposits to parish loan repayments:

- (v) Parish support accounts - these are used when a parishioner elects to have interest on an account paid to the parish but to retain access to the capital. We recently received a deposit of \$1m into this type of facility.
- (vi) Parish self help accounts - when a parish seeks to borrow from DDF, parishioners will be given the opportunity to deposit funds and have a reduction in the interest charged on the parish loan. Serious use of this facility was tested recently in the Engadine parish and resulted in \$1.1 million in deposits.

(c) *New Capital Funding*

DDF is also being designed to act as the conduit through which new capital funds can be distributed and regulated when they are offered in the form of a loan. In order that we preserve the capital released through the asset realignment process, it is important for us to have a professionally managed process through which funds are offered, tracked and recovered. DDF has this capability.

It is worth noting that DDF's ability to offer parish support accounts applies equally (if not more so) to loans made on behalf of the new capital process.

5. **Structure and Governance**

(a) *A division of the GAB*

There were two main options available in establishing DDF. One was to use the CAIF corporate entity and so set DDF up as a separate corporate entity similar to the Secretariat or Glebe Board. The other was to commence operation as a division of GAB. It was concluded that the latter approach best met the immediate need, for two reasons:

Firstly, the skills, systems and expertise required for a DDF, currently lie in the GAB. Mortgages and Loans have been part of the GAB investment structure for some time. Considerable expertise in loan assessment and administration has been built up within GAB.

Secondly, there is considerable existing corporate structure within the GAB that will become integral to the DDF. It seems unwise to try to unravel that before the culture of a DDF has settled down. The best example is Glebe Income Accounts, our deposit and banking service. GIA enjoys considerable support from the parish community and our view is that the disruption that would be caused by moving several thousand depositors to a new entity was likely to be unhelpful, at least until the role and contribution of DDF had been fully established and demonstrated.

If the absorption of FLB and CAIF into GAB is accepted as proposed, then the CAIF corporate entity will be held in readiness for the day when DDF may be deemed to be better structured as an independent entity.

(b) *Capital and Gearing*

We have decided to follow APRA guidelines for capital adequacy of DDF. At present the major banks and related financial entities provide between 8% and 12% of assets as capital. The GAB has decided that a starting point of around 10% would be appropriate given the conservative nature of our loans and mortgages.

The capital will be sourced from two places, the capital supporting GAB's mortgage portfolio and the existing \$10 million in capital currently held by FLB and CAIF.

DDF will also aggregate bank borrowings. Currently GAB borrows \$125 million from banks and that will be absorbed into DDF's liabilities. In due course, the Schools Corporation will move its borrowings to DDF. That will progressively add \$80 to \$100 million to DDF's bank borrowings. It is expected that as DDF develops its capital base, gearing will move to about 10:1, that is \$10 of total borrowing for every \$1 of capital.

(c) *Regulatory and Compliance matters*

Currently Glebe Income Accounts operates under an APRA exemption and accordingly is free from obligations under banking legislation. ASIC, however, are taking a keen interest in GIA and related activities and are currently disputing GAB's right to run "non-cash" payment facilities such as cheques. Hearings on that matter are soon to be scheduled in the ADT.

There are a couple of points that emerge:

Firstly, GAB is committed to working within a proper legal and regulatory framework. If that means that if a particular form of licensing is required, then that is what we will obtain.

Secondly, it must be noted that the not-for-profit sector is under intense regulatory scrutiny and we are working in an area of considerable uncertainty. Notwithstanding our intentions to work within the law, it is important that we do not allow the establishment of DDF to hinder our influence of regulators nor allow the process to negatively impact other regulatory discussions and arguments.

Thirdly, GAB has also committed to maintaining the highest level of risk and compliance management possible. Our experience to date is that high quality, well structured risk management accompanied by a solid compliance regime is one of the best processes through which to maintain best practice in the business as a whole.

DDF adds to the regulatory burden of SDS/GAB, but only in areas in which we currently work.

6. **Operations**

(a) *Borrowing*

DDF will source funds from two streams:

Glebe income Accounts - is the Diocese's deposit plan offering competitive at-call and term deposit options. In 2003 cheque book facilities were added, as was 24 hour 7 day internet access. GIA is a useful service and enjoys the support of around 180 parishes and 2,500 individuals and most Diocesan organisations. In early August 2005, GIA's deposit base grew to a record \$147 million.

It is intended that GIA will continue in roughly its current form. Planned enhancements include the previously mentioned capacity for individuals to involve themselves in parish support through specified deposits. GIA is managed internally by SDS staff with system hosting, internet hosting and clearance outsourced to specialist agencies.

The major banks - our church is an attractive customer for the major banks and our existing relationships reflect a growing sense of partnership. A senior team within the SDS manages the relationship for the GAB. The GAB approves the borrowing limit and strategy on the recommendation of its Assets and Liabilities Committee. Daily, weekly and monthly monitoring of agreed liquidity and NTA ratios is part of the day to day routine. Asset/liability matching, occurs as a control tool on a monthly basis. Monitoring of borrowing covenants is subject to a strict compliance program.

(b) *Lending*

As stated earlier, DDF will lend to several groups. Operations will work as follows:

Wholesale lending to GAB and, later, to SASC will be managed at senior management levels. The volume of funds involved demands that strict attention is given to matching the duration profile of borrowings by DDF with DDF's lending profile to GAB and SASC. The relationship between the three bodies will need to close and will they will need to work to a three to five year horizon for optimum duration and cost management. All indications are that both entities recognise the mutual benefit that can flow from cooperation in this venture.

Retail commercial lending against a mortgage will follow current GAB policy and guidelines. Essentially, the rules are that we lend no more than 65% of value with terms between three and five years. We do not as a general rule offer residential property loans. A solid team exists within SDS to evaluate loan proposals, match cash to draw down and to monitor performance on behalf of GAB. GAB's ALCO monitors this portfolio on a monthly basis.

Lending to Parishes is an area in which we need to introduce tighter evaluation and monitoring procedures without losing the existing sensitivity to ministry. It is proposed that the SDS commercial staff will apply the same rigorous approach to a church loan as it would to a mortgage loan including making visits to the prospective borrower to explain the process and its implications. Approval processes will be the current GAB policy – loans up to a certain level can be approved by a combination of the CEO and two senior staff. Loans approved in that way and loans in excess of staff authority are referred to GAB's Asset and Liabilities Committee or to the full Board, depending upon loan size.

It is likely that loans to parishes will be made on a renewable term of three to five years. The purpose of this is to ensure that an intentional review of performance takes place at intervals in which we can expect some continuity of personnel.

Security for parish loans will be real property or properly protected cash deposits with ACPT. So far as possible DDF will seek security over parish assets other than the church, hall and rectory. Mortgages will not be registered so as to avoid stamp duty. A negative pledge will be imposed on the ACPT such that the real property affected cannot be dealt with in any way without DDF approval. DDF loans will not be allowed to be subordinated except under exceptional circumstances and then only for a short time.

The DDF product will be contestable and parishes remain free to approach the open market for their needs.

Development and Construction loans will be made only to parishes or major Diocesan organisations. Operationally the procedures will be the same as above, but with a more rigorous assessment of the proposed development. We expect that DDF will work closely with the emerging Property Services group in the SDS Parish Services Division so as to ensure that any planned developments, being funded by DDF, make proper financial sense. Security will be over appropriate parts of the development together with appropriate other assets

7. ***The Absorption of FLB into GAB***

We firstly need to record that FLB has served the Diocese well for many years and 65 parishes currently operate FLB facilities. The F & L Board is and has always been extremely sensitive to parish needs and has consistently demonstrated an acute awareness of the typical trials of parish life. Their preparedness to be flexible in meeting parish needs and pursuing a mission focus is a much valued quality.

In the proposed absorption of FLB, the GAB and our DDF staff will be taking considerable care to retain the orientation and sensitivity demonstrated by FLB. GAB will seek to do so while concurrently updating FLB's operations and asset management regime.

(a) *Benefits*

The main benefits of this proposal are:

Income: FLB, like many of our organisations, was never required or designed to make a contribution to Synod funds. Anecdotally it appears that this approach was based on the expectation that its lending service would be sufficient. With modern methodology, it is the belief of GAB that it is possible to both provide a competitive and useful lending service AND produce an income for the Synod. DDF is committed to producing a solid return from the capital under its care and accordingly the earlier estimate of DDF's surplus (\$2.7 million in year five) includes a significant element of return on the combined \$9.6 million in capital currently held by FLB and CAIF.

Capital Security: As members will have deduced, the GAB has become concerned that some of the procedures currently in place in FLB are not sufficiently robust in the modern era. Care is needed in reading these words. FLB is serviced by good people and the Board is composed of first class members. However like many of our church's functions, cultures develop a resistance to change over time and become settled in their ways of operations. GAB will require its DDF unit to meet stringent policy and procedural guidelines in all operational processes. Like the rest of the GAB's work, those policies will be designed to protect the capital and to produce a reasonable income therefrom. The recent debate on subordination is an example.

Lending Scope: This matter was covered earlier in this paper. DDF will expand the capacity of the Diocese to offer loans to parishes, organisations and selected individuals. The main addition will be lending for development and construction purposes. This is an area of business that requires specialised skills in evaluation and control and, in conjunction with the establishment of a property strategy service within SDS, GAB will be employing specialised persons or advisers in this area. Another, but less called for addition is the provision of large loans for major building or expansion. Previously there has been no capacity in the Diocese for competitive loans to be available to parishes such as Castle Hill, St Ives and Figtree.

(b) *Objections*

Naturally there will be objections to this proposal. Our judgement is that the following are likely to be the most common:

Loss of flexibility: Making a variation in the terms and conditions of a loan was a normal practice in FLB's loan monitoring processes. If a parish found itself in difficulty or if its priorities changed, it was not uncommon for loan conditions to be altered to accommodate the parish's position. It is most unlikely that DDF will adopt a similar approach. Instead DDF will spend a great deal of time ensuring that a borrower does have the capacity to respond to loan conditions. Further DDF will adopt a visitation and review approach on all parish loans so as to ensure that parish officers remain familiar with their obligations. DDF will also offer a consultation service when a parish is considering its financial position.

Increased Loan Establishment Procedures: Procedures employed in gaining an FLB loan consist of the completion of a special form, forwarding of accounts and certification by churchwardens that the loan can be repaid. Parishes are also required to post a notice of their intention to take an FLB (or any) loan. Review of an application is undertaken by the Secretary of FLB for procedural compliance, and the F & L Board as a whole for approval purposes. DDF has not yet completed its writing of procedures, but the GAB's support for DDF is predicated on the understanding that DDF will undertake a helpful, but rigorous evaluation of all applications very similar to that employed in evaluating a commercial loan proposal.

Other objections may arise, but these appear to be the main ones.

(c) *Procedure*

Preparation for this move has been going on for over a year. As soon as the SDS was in a position to produce management accounts for FLB, these were supplied on a monthly basis and spoken to by a senior SDS staff member. Further, with FLB's total agreement, we have limited the role of the Secretary to meeting procedures (as distinct from loan evaluation) and we recently vested the evaluation of loan applications in the mortgages management section of GAB. The next step will be to vest FLB loan monitoring in the GAB where experienced senior resources are located.

If Standing Committee agrees to this proposal in principle, it is proposed that GAB will meet with members of FLB and invite them to participate in proceedings. The Board of FLB has been formally advised of this plan and of this paper.

The most important part of the procedure is to ensure that the main parties have an opportunity to participate in the development of an enabling ordinance. For this reason, it is proposed that a special ordinance review panel be established with representatives of Standing Committee, FLB and GAB. SDS will supply whatever technical advice is required.

(d) *Timing*

In order that DDF can be reported to Synod as a service provider to the NCP spending process, we need to complete the ordinance process before Synod 2005.

To ensure that we meet this timetable it is hoped that Standing Committee will cooperate by debating this issues paper at its late August meeting and then consider an ordinance in September.

8. **Conclusion and Recommendation**

There are limited strategies or processes within which our Diocese is able to extract tangible benefit from its financial strength. DDF is one way in which we can upgrade our standards, reduce risk and increase Synod's income all in the context of increasing the scope of services offered to parishes.

There will be sensitivity around the question of absorbing FLB into GAB, but these structural changes are inevitable if we are to move forward. The important outcome we must seek is that the people involved are honoured for their contribution and that we retain ministry sensitivity in all that we do.

The Glebe Board solidly supports this move and commends the proposal to the Standing Committee. The recommended motion will be to the effect that:

Standing Committee:

- a) *Agrees in principle with the absorption of FLB/CAIF into the GAB*
- b) *Agrees to consider an enabling ordinance at its September 2005 meeting*
- c) *Appoints an Ordinance Review Panel comprised of (name and name) from Standing Committee, (name and name) from the GAB and (name and name) from FLB to review the enabling ordinance and to report to the September 2005 meeting.*

I commend this report to the Standing Committee.

RODNEY DREDGE

Chief Executive Officer

22 August 2005