

Glebe Administration Board and Sydney Diocesan Secretariat

Submission to the Archbishop's Strategic Commission on Structure, Funding and Governance

Introduction

The creation of the Commission this year and this submission to it, need to be understood in the context of the timeline of events we are presently in. If 2008 to 2009 was the period when the Global Financial Crisis impacted the finances of the Church (particularly, the Diocesan Endowment), then 2010 has been the beginning of the restoration phase, as Glebe Administration Board ("GAB") began to reform its practices, outsourced the management of much of its investment portfolio, reviewed its banking business to confirm its place in the portfolio, and re-ordered its relationship with St Andrew's House Corporation ("SAHC"). Likewise, during 2010, Sydney Diocesan Secretariat ("SDS") began a major review of its operations to ensure the provision of good quality services to its clients at a reasonable cost.

The Diocesan Endowment will take many years to recover from the losses of 2008 and 2009. Similar comments can be made about the losses of the Endowment of the See ("EOS") and the current difficulties of the St Andrew's House fund ("SAH Fund"). We are at the point on the timeline when all parties are endeavouring to manage the impact of losses and other difficulties by making adjustments to distribution policies, and undertaking property reforms and structural and accountability reforms.

GAB and SDS have sought to identify the issues giving rise to the losses and, to the extent within their power, take remedial action to minimise the risk of similar losses occurring again. GAB and SDS are also seeking to help the Diocese ride out the present difficulties until a stable income stream returns, and create the circumstances where such a stable income can be maintained within a less risky framework. It is against this perspective that we make this submission to assist the Commission.

The membership of SDS was reconstituted by Standing Committee in 2009. The size of the board was reduced from 12 to 8 members. In November 2009, 8 members of the previous boards resigned or retired, and a new board was appointed made up of 4 former members and 4 new members. The new board has been working throughout 2010 to address the governance issues outlined in the Cameron Ralph report and the outsourcing of investment management and accounting. In addition, SDS now meets separately from GAB and has set in place major reforms which it anticipates will be completed by the end of the year.

This paper seeks to address the matters raised in the Commission's terms of reference as well as many of the matters raised in the Commission's interim report of 28 July 2010. It also seeks to look at the current issues from a broader strategic perspective.

Cultural Issues

In his recent presidential address to the Synod the Archbishop gave his opinion about what lay behind the recent financial problems experienced by the Diocese. He said –

"In terms of ethos, we are profoundly conscious of our need to preserve the gospel and to do so in part at least through the wise governance of our Boards, Councils and Institutions. So we should be. Long experience both here and elsewhere has shown the real, fatal and ever-present danger of allowing our ministries to be taken over and re-directed by those who do not share this gospel outlook. This is fundamental and should be a constant. But we are also a voluntary association, with relatively few paid workers.

It is too easy for us when we put good people in place simply to leave them there for too long a period of time. In some cases, a lengthy period is excellent; it provides wisdom and continuity. But when a Board is old in service together,

dangers emerge. Our volunteer status also means that we are sometimes too trusting of one another and not sufficiently acute in seeking accountability. Taken together, we have to make better use of our human resources (which are abundant) and to train ourselves to ask the questions which need to be asked.

In terms of structure, we also have inherent strengths and weaknesses. As to strengths, we are democratically based and transparent to the world. Our neighbours know our business. We are very much into checks and balances, rightly fearful of a system which puts all power into one set of hands. We rightly safeguard the independence of our parishes, schools and organizations. We are certainly not like a great company; we are not a single organism. We do not have a Chief Executive Officer. The Archbishop is certainly not such a person: we usually and rightly elect a person whose ministry is the preaching of the gospel and the care of the churches, not high finance and administration of assets, and we therefore distribute the powers and responsibilities inherent in what you may call the temporal side of our work between groups of people, voluntary and paid. The Chief Executive Officer of the Glebe Board and the SDS is of course, not the CEO of the Diocese as a whole.

What the present problems have revealed is that at some key points we have allowed unconsidered and unhelpful relationships and habits to endure. Especially with regard to the Boards which have been charged with the administration of our Endowments and the service of our central bodies, structures and lines of responsibility and accountability have not been properly worked out. We have taken some easy options which work well mostly and seemed to make perfect sense in good times, but which have proved costly in time of crisis. In the absence of one presiding brain - an element of our way of doing things - we have not observed the dangers in time. Change is required."

The Archbishop's analysis helpfully addresses the cultural factors of the Diocese which over the decades have generated practices which are likely to have contributed to the circumstances leading to the recent losses and difficulties.

In the mid 1970s, following the crisis surrounding the construction of St Andrew's House, a major overhaul of the diocesan structures took place to address the systemic and strategic needs of the Diocese. This included the creation of SDS as the service provider to the major central organisations, the designation of GAB and Anglican Church Property Trust Diocese of Sydney ("ACPT") to oversee investment activities, and the creation of St Andrew's House Corporation to manage the SAH Fund. The Endowment of the See Committee ("EOS Committee") was to manage the EOS on behalf of ACPT.

Over time, the original concept broke down as some of these organisations assigned *their* tasks to others and the membership of the various boards and committees so overlapped that conflicts of interest arose, and confusion arose as to where responsibility lay. Arguably, this contributed to many of the current difficulties. For example, the management of the SAH Fund was delegated to GAB which was both the lender and part owner of the Fund. Many of these organisations had cross membership. In the case of SDS and GAB the common membership, though sensible in itself, evolved in a way that the separate functions of the organisations became unclear in the minds of the members, contributing to a loss of focus.

Underlying these systemic and functional difficulties were the cultural and ethos factors referred to by the Archbishop. These included toleration of sub optimal performance, inadequate governance procedures, and the negative effects of volunteerism.

An understanding of these issues suggests that radical structural change to prevent a recurrence of the mistakes of the past may not be required. Rather, if the original structure was allowed to function as envisaged (requiring that organisations focus specifically on the tasks allotted to them, and conflicts of issues are addressed) the risk of the reoccurrence of problems such as those recently experienced is likely to be significantly reduced.

Review of aspects of the recent history of GAB investment policies and practices, the Endowment of the See and St Andrew's House Corporation

The interim report of the Commission focuses particularly on aspects of the finances of the EOS and the SAH Fund. To better understand our comments about those and other matters, it may be helpful to provide some further background information about past events relevant to those matters, and related matters. These include the investment policies and practices of GAB.

Investment Policies and practices of GAB

In relation to the Diocesan Endowment, the charter of GAB is to –

- preserve the real value of the Endowment, and
- provide a reasonable income there from.

Up until the end of the 1980s the Diocesan Endowment was mainly invested in commercial property assets. This led to a significant increase in the real value of the Endowment over that period, followed by a major reduction in value in the early 1990s as a result of significant declines in the commercial property market. Following that experience a more diversified investment portfolio was established.

There were significant increases in the real value of the Endowment during the years 2002 to 2007, due to very favourable investment markets and accentuated by the gearing strategy adopted by GAB in 2002. Under the gearing strategy, bank debt was used to boost the overall level of investments. The Standing Committee had been advised about the gearing strategy prior to its implementation.

During 2008, the growth asset classes in which the Diocesan Endowment was invested suffered very significant falls as a result of the Global Financial Crisis. These falls resulted in a negative return of 26% of gross assets. But the level of bank debt translated this into a negative return of around 60% of net assets. These losses were crystallised in late 2008 when GAB decided to repay all bank debt.

The losses of the Endowment during 2008 have significantly impacted on the ability of GAB to maintain the real value of the Endowment. However, the investment losses were not the sole factor impacting on GAB's ability to maintain the real value. Significant distributions (totalling \$89 million) were paid from the Endowment during the years 2003 to 2009. In retrospect, these distributions were too high having regard to the need to maintain the real value of the Endowment.

During 2010 the following action has been undertaken to address the key issues arising from the losses of the Endowment –

- (a) Governance of GAB (and SDS) has been reviewed in accordance with the recommendations of an external consultant, Cameron Ralph.
- (b) GAB has reviewed the investment objective for the Diocesan Endowment, particularly having regard to the principal objective of GAB to maintain the real value of the Endowment within acceptable risk tolerances.
- (c) Investment policies have been reviewed. In particular, GAB has reviewed the strategic asset allocation for the portfolio. It has also determined that gearing of the portfolio is not permitted for investment purposes (such prohibition on borrowing does not apply to the Glebe Income Accounts or to meet short term cash flow needs).
- (d) Management of the market linked investment assets is now undertaken by an external investment manager, in accordance with the investment objective, revised strategic asset allocation and investment policies.
- (e) GAB has recommended to the Standing Committee a new methodology for determining a sustainable level of distributions from the Endowment.

Endowment of the See

Difficulties with the finances of the EOS have been evident for several years. Consistently over the last 10 years, the EOS has had a cash flow deficit from operations.

The operating cash flow needs of the EOS have been financed through the sale of capital assets and by borrowings (which, in turn, have been repaid from the sale of capital assets), a process which was not sustainable in the long run. In response to a question, the Synod of the Diocese of Sydney was recently advised that during the years 2004 to 2009, 7 EOS residences were sold for a total value of \$8.7 million and the proceeds used for the purposes of the EOS.

The trustee of the EOS is ACPT. However, under the *Endowment of the See Ordinance 1977*, the EOS Committee has been constituted to exercise certain functions in relation to the EOS. While the line of demarcation between the rights and responsibilities of the EOS Committee and ACPT is unclear in several key respects, the practice, at least in recent years, has been for the EOS Committee to exercise management functions in relation to the EOS, and for ACPT to exercise a role akin to that of a bare trustee.

In April 2004, the EOS Committee received a report from the then Chief Executive Officer of SDS which outlined the financial situation confronting the EOS. The report referred to the financial results of the EOS for 2002, 2003 and the budget for 2004 and drew attention to cash flow deficits from operations.

The report proposed the following actions to generate an additional \$700,000 to \$1,000,000 per annum of investment income to meet the operating cash flow needs of the EOS –

- *Rebalancing of assets*
It was proposed to increase liquidity and the earning rate of the Endowment by selling the EOS's interest in the St Andrew's House arcade.
- *Sale of residences*
In 2004 it was proposed that 3 residences held for the purposes of the EOS be sold to generate about \$3 million for investments.
- *Sale of back block at Bishopscourt*
This was described as the key asset which needed to be sold to generate a substantial capital sum for investment.

The development and sale of the Bishopscourt back block had been proposed for several years. In 1999 approval for a development, involving the construction of 10 residential units, was obtained from the Land & Environment Court. The terms of the approval required that the development commence within 5 years or the approval would lapse.

By the *Bishopscourt Back Block Development and Land Sale Ordinance 2004*, made in March 2004, the Standing Committee authorised ACPT (as trustee of the EOS) to undertake the development in accordance with the development approval, to borrow for that purpose, and to sell the units upon the completion of the development.

To preserve the development approval, the development needed to commence by June 2004. The works needed to constitute "commencement" (which were relatively minor in scope) were approved by the EOS Committee on 6 April 2004 and ACPT on 16 April 2004, and were funded from the cash reserves of the EOS. The works were managed by GAB as development manager for the EOS Committee.

On 13 December 2004, the EOS Committee received a major report from GAB as development manager. (The report came from senior management of GAB, and had not been reviewed by the board). The report summarised the nature of the proposed development and the status of Council approvals (certain modifications to the development approval were required). It also considered the options of proceeding to develop the site, or selling the land as a development site. The report addressed the key risks of undertaking the development. The EOS Committee, on the recommendation of the development manager –

- (a) endorsed the undertaking of the development, and
- (b) authorised the entry into such contractual arrangements as were necessary to undertake the early works component of the development (the "early works" were major excavation and piling works), and
- (c) authorised the acceptance of an offer for a loan from GAB in relation to the early works, and confirmed GAB's ongoing role as development manager.

A copy of the report received by the EOS was submitted to ACPT on 17 December 2004. ACPT endorsed and authorised the matters referred to in (a), (b) and (c) above.

On 4 August 2005, the EOS Committee received a further report from senior management about progress of the early works. The report also advised the status of negotiations with Council about the main works, advised the progress of tendering for the main works contract set out the project feasibility, and the terms upon which the GAB would provide additional loan funds for the main works. The EOS Committee agreed to direct that ACPT accept the loan offer (which included refinancing the loan taken out for the purposes of the early works) and execute documentation appointing the main works contractor. A report was provided to ACPT on 19 August 2005 and ACPT resolved to accept the loan offer and execute documentation in accordance with the EOS Committee's direction.

The development was undertaken, and construction completed in September 2007. Regular reports were provided to the EOS Committee and ACPT about the progress of construction until November 2006. To date 8 of the 10 units have been sold.

The Synod was advised this year about the financial outcome of the project. Rather than generate a substantial amount of cash for investment by EOS, the project is likely to result in a small loss for the EOS. While the delays in construction added to the costs, the key issue impacting upon the financial outcome of the project was the delay in selling the units, and the failure to realise the prices set out in the original feasibility. The completion of the development coincided with the onset of the Global Financial Crisis and the general fall in property prices.

During the course of construction and subsequent selling period periodic reports were provided to both the EOS Committee and ACPT.

The loan taken out for the purposes of the development has been repaid from the sale of units and other assets (such as other residences).

The sale of the EOS's interest in the St Andrew's House Arcade, proposed in 2004, did not proceed although the reason for this is not clear.

It is also to be noted that customarily the Chief Executive Officer of SDS has been a member of the EOS Committee and, until July 2007, a member of ACPT. The Chief Executive Officer is no longer a member of ACPT and the current Chief Executive Officer will soon cease to be a member of the EOS Committee. In addition, shortly after the adoption of the Diocesan Mission, SDS had authorised its Chief Executive Officer to act as an adviser to the Archbishop on matters relating to the Mission, and being matters which were strictly outside the responsibility of SDS and GAB. In retrospect, this may have contributed to the perception that SDS and GAB, through its Chief Executive Officer, were exercising a Diocesan executive function which was far broader than the function prescribed for them by ordinance.

Comment

It is apparent that the governing boards and committees of the EOS have been aware of the financial issues facing the EOS for several years. The development of the back-block at Bishopscourt was part of an intentional strategy to address those issues. All key decisions in relation to the Bishopscourt back-block development project were approved by ACPT as trustee of the EOS, and by the EOS Committee. However, the related nature of the organisations involved (including GAB as development manager) and the multiple roles of senior management may have meant that the processes for supervision and review were suboptimal.

St Andrew's House

As the Commission notes in its report, it is projected that for the next few years the cash flows from the income of St Andrew's House will be needed to fund the costs of refurbishment works required to be undertaken in relation to levels 3, 4 and 5 of the building, the costs of obtaining a new tenant or new tenants for those floors, and the repayment of the existing loan taken out for the purposes of SAHC.

GAB is the lender to SAHC. The existing loan balance is \$23.25 million. Under the terms of its loan agreement, the loan is currently being repaid at the rate of \$250,000 per quarter. From 2013 the repayment rate increases to \$375,000 per quarter; from 2015 the rate increases to \$500,000 per quarter; and from 2019 the rate increases to \$625,000 per quarter until the loan is fully repaid.

The balance of the loan of SAHC as at 31 December in each year since 2001 has been as follows –

Year	Loan Balance \$m
2001	3.8
2002	3.1
2003	2.8
2004	5.3
2005	7.8
2006	14.0
2007	20.0
2008	23.9
2009	23.9

The main reason for the significant increase in the loan balance during 2005 to 2007 appears to have been to fund the costs of major refurbishment works undertaken in the St Andrew's House tower and to sustain distributions to the EOS. In retrospect, it can be seen that GAB was increasing its exposure to St Andrew's House (by way of loan) to enable distributions to the EOS to be maintained. While this was of benefit to EOS at the time, EOS is now being disadvantaged as the loan is required to be repaid, limiting the ongoing ability of SAHC to make distributions.

In relation to the refurbishment works, in June 2004, GAB received a proposal from the then Chief Executive Officer of SDS for major capital works in St Andrew's House. The key drivers for the proposed works were –

- The retention of the Australian Bureau of Statistics as a tenant in levels 3, 4 and 5 was dependant upon SAHC providing a school student free modern foyer, and an additional car park elevator.
- Closure of the food court and realignment of the arcade tenant mix had released ground floor north for commercial letting.
- Progressive reduction in head count had made space in ground floor south available for reuse.
- The desire to house the Archbishop's team in a more efficient layout.
- The need for public rooms and church offices to reflect modern security standards.
- The need to upgrade the building to retain its value as a B grade asset.

It appears that a process for consultation with internal stakeholders in St Andrew's House was initiated during the later part of 2004 and the early part of 2005. In May 2005, GAB received a further report about the proposed works. The report stated that the total cost of the proposed works was estimated to be \$8.1 million. This included the refurbishment of levels 1 and 2, which was estimated to cost \$3.8 million.

In September 2005, GAB was advised that the cost of the refurbishment of levels 1 and 2 had increased to \$7 million. In October 2005, GAB was advised that the cost had been reduced to \$5.8 million. The works were approved by GAB and then commenced. It is apparent from periodic reports provided to GAB that during the progress of the works changes to the scope were made which added to the time to undertake the project, and the total cost of the project.

On 31 October 2005, a report about the proposed works was circulated to the members of SAHC. The Corporation ratified the undertaking of the office refurbishment, and the acceptance of the \$14 million loan facility from GAB to fund the works and refinance existing indebtedness.

The increases in the loans in 2006 and 2008 were in part to allow distributions to be sustained to the EOS. We also understand that such distributions were paid on the basis of an interpretation of the *St Andrew's House Income Ordinance 1999* which required that distributions of a prescribed amount be paid annually. At the time this ordinance was made there were projections that the income from the building would grow to enable such distributions to be paid. It is regrettable that the ordinance was not reviewed when it became

apparent that the projections would not be realised and the prescribed level of distributions could not be sustained from cash generated from operating activities.

Comment

While it is difficult to fully understand everything that took place in the past, the history outlined raises the following issues –

- (a) Did management provide and did the respective organisations require sufficient information in a form which enabled them to make proper decisions?
- (b) Did the relevant boards and committees have the skills and capacity to make decisions and deal with the matters before them?
- (c) It is apparent that several individuals served on more than one of the boards and committees responsible for key decisions made in relation to the EOS and the SAH Fund and this may well have impacted on decisions.
- (d) In relation to the Bishopscourt back-block and the St Andrew's House refurbishment, GAB was the development/project manager and, in retrospect, this may not have been a suitable arrangement.

It has to be acknowledged that, in retrospect, the making of loans for the purposes of distributions is likely to have exacerbated the financial difficulties facing the EOS. In addition, it has meant that GAB has a significant exposure to St Andrew's House as a lender and as a 50% owner of the SAHC fund.

GAB has taken action to address deficiencies in its governance and procedures which may be contributed to these difficulties. Such action is referred to in the next section of this paper.

Governance of GAB and SDS

GAB

GAB and SDS have undertaken a significant review of their governance practices over the last 12 months. The results of that review have been summarised in a recent report made to the Synod. A copy of that report can be found on the website at www.sds.asn.au/Site/104264.asp?a=a&ph=sy.

The core functions of GAB are those specified in the *Diocesan Endowment Ordinance 1984* and the *St James' Sydney Phillip Street Sydney Property Ordinance 1962*. We consider that GAB best serves the Diocese by limiting its activities to those core functions.

An example of the application of this principle is our decision to relinquish any ongoing involvement for the management of St Andrew's House to SAHC. By clause 1 of the *St Andrew's House Ordinance 1975* responsibility for the management of St Andrew's House is vested in SAHC. However, for some years, GAB has exercised those functions as agent of SAHC (it is likely that relates back to the time when GAB was the trustee of the Sydney Anglican Property Fund and had a substantial property portfolio to manage). The appointment of GAB as SAHC's agent was formalised by a power of attorney dated November 2005. However, in February 2010, we advised SAHC that we would only exercise such functions in relation to SAHC (GAB remains trustee of the building) where expressly directed by SAHC to do so. This has substantially addressed the conflict of interest issues which arose in the past.

SDS

During late 2009 and 2010, SDS has undertaken significant work in reviewing the services it provides to its core clients. It has documented the services provided, and is negotiating service standards and fees. A crucial issue has been to ensure that the services provided are within SDS's capacity and core competency. A further issue has been to review SDS's costs. GAB has adopted the policy of seeking a third party review of its arrangements with SDS to ensure the transparency and propriety.

An example of the recent review of the core competencies of SDS is the decision to outsource key property functions such as the property management of St Andrew's House and St James' Hall. Historically, SDS has provided these property management services but they have recently been outsourced to external service

providers. A review of core competencies has also seen investment management and investment accounting outsourced.

Governance

There are several issues raised in the Commission's interim report about which we would like to comment.

Structure

Questions have arisen from time to time about whether there is some fundamental flaw in the structure adopted for the central administration of the Diocese. A review of structures and relationships between the major central organisations is part of the Commission's terms of reference.

As earlier indicated it is not necessarily the case that there is a fundamental flaw in existing structure. We have ACPT whose primary function is to act as trustee of diocesan property. We have the EOS Committee whose primary function is to manage the assets of the EOS. We have SAHC whose function is to manage the SAH Fund on behalf of the beneficial owners, EOS and GAB. We have GAB whose primary function is to manage the Diocesan Endowment in accordance with its ordinance. We also have SDS whose function is to provide services to these, and other diocesan organisations, on a fee for service basis.

If these organisations had fulfilled their charters according to good practice and with due regard to risk then the risk of loss is likely to have been reduced. As mentioned earlier, we believe it likely that it was because the original intention of the present structures were not complied with, and there were lapses in best practice, that losses and difficulties were exacerbated.

In times past other inquiries have suggested a far more centralised and authoritarian structure (the Trigg Commission in the 1960s suggested that ACPT exercise a more centralised function and the Nicholson Commission in the early 1990s suggested a Diocesan Executive Board to exercise a more centralised function).

Such structures go against the ethos and culture of the Diocese where there is a general suspicion of, if not antagonism towards, centralism. The implementation of the recommendations of the Trigg and Nicholson Commissions would have involved massive political reactions and this is almost certainly why they were never adopted.

It also needs to be remembered that the Diocese is, in reality, a confederation of largely autonomous parishes and organisations. While the Synod sits above the parishes and organisations, its composition (of representatives of those parishes and organisations) means that the Synod is unlikely to agree to radical change which would impact such autonomy.

However, given the width of the Commission's terms of reference, it may be appropriate to consider a more radical review of structure, based on identifying key essential functions to be exercised centrally, and bringing common functions together within one organisation.

The central Diocesan organisations, including GAB and SDS, undertake a range of functions such as property custodial services (ACPT), parish property management (ACPT), commercial property management (GAB and ACPT), administration (SDS), banking/lending (GAB and Finance & Loans Board) and investment (GAB and ACPT long term pooling fund). A more radical restructuring could see a common function being exercised by one organisation. That organisation may or may not exercise another common function.

An example could be the responsibility for the management of investments. Currently both GAB and ACPT have investment portfolios which they separately manage. There could be considerable advantages in bringing those functions together within a new organisation. Such advantages may include the consolidation of specialist skills, the opportunity for cost savings through aggregation, and a greater consistency in policy and decision making.

Another example involves the banking activities undertaken by GAB and the lending activities of the Finance & Loans Board. If banking and lending are considered to be key functions, those activities might be more efficiently undertaken if combined in one new organisation. There is no reason why such an organisation could not continue to maintain lending policies which assist parishes.

Culturally, there are likely to be significant difficulties in bringing the exercise of like functions together in this way, particularly where it impacts on organisational independence (such as the unsuccessful attempt several years ago to merge the Finance & Loans Board and GAB). There are likely to be other disadvantages with this proposal and, on balance, it may not result in improvements in outcomes and may create more difficulties than exist at present. Accordingly, in the short term at least, it is likely to be desirable to focus on improving the operation of the existing structure with a view to confirming whether the improved structure would best support the central administration of the Diocese.

However, if the existing structure is retained, we recommend a review of the ordinances relevant to the existing organisations to ensure consistency and that they incorporate good and consistent corporate governance principles.

Accountability of Diocesan Organisations

There is no systematic way that diocesan organisations are subject to periodic reviews, both as to their success or otherwise in achieving their objectives, and in relation to their internal systems of governance and control.

Questions of success in achieving objectives, or even the ongoing appropriateness of those objectives, give rise to policy and strategic considerations and probably fall within the responsibility of the Standing Committee or the Synod.

However, consideration of how systems of governance and internal control might be reviewed appear to fall within the Commission's terms of reference.

While organisations are required to report under the *Accounts, Audits and Annual Reports Ordinance 1995* about financial matters and internal systems, recent experience has shown that such reports are not sufficient to enable the Standing Committee to be satisfied that organisations are operating effectively within prudent risk limits and in accordance with principles of good practice.

The Cameron Ralph review of GAB greatly assisted us in reviewing our systems of governance and internal control. It was an expensive process, and not one which could be undertaken regularly by diocesan organisations. But it emphasises the value of *another* organisation reviewing the internal systems of a second organisation.

It seems a sensible course of action to ensure that a process of review of governance and internal controls be considered for the main diocesan organisations based in St Andrew's House.

An appropriate model may be for an external organisation to be engaged, to be tasked to review the processes of ACPT, GAB, SDS, SAHC and the EOS Committee and to monitor compliance with their ordinances, governance statements and policies. The external organisation could be the external auditor, with its terms of engagement suitably widened. These reviews could be done annually or on a rotational basis. Discussion with the organisation concerned would occur if any problems are identified by the reviewer. If the outcome of those discussions is not satisfactory, the reviewer would then report to the Standing Committee for its consideration.

There will be costs involved in undertaking this work which would need to be funded by the relevant organisations.

The role of the external reviewer may well include consideration of the following questions –

- Did the organisation conform to the obligations of the ordinance?
- Was there an appropriate (if necessary, external) risk assessment and cost benefit analysis undertaken in relation to major projects?
- Were there adequate procedures in place to ensure efficiency?
- Were conflict of interest issues identified and properly addressed?
- Was there adequate reporting to boards and committees by management to enable them to exercise their responsibilities under the authority of their boards?

While there is no absolute failsafe system of review, we believe that a procedure such as this would go a long way towards alerting the relevant organisations to systemic and emerging difficulties before they reached crisis point.

Conflicts of interest

One of the underlying issues running through the consideration of recent events is the extent to which conflicts of interest, including cross membership of boards and committees, contributed to the environment in which losses and difficulties occurred.

The Commission's comment in its interim report about the multiple roles of GAB in relation to St Andrew's House is a case in point. (As previously mentioned GAB has already acted to minimise this issue by handing back to SAHC the direct management responsibility for the building). In addition we recognise that being a half owner of SAH *and* the lender creates the opportunity for the perceived or actual conflict. We would be very open to some refinancing arrangement which, over time, addressed this problem.

One factor which gave rise to our present problems is that the available pool of people with the skills, knowledge of diocesan affairs, to serve on diocesan boards and committees is relatively small. This has led to some cross membership of boards and committees. While it has to be acknowledged that on occasions cross membership can bring significant benefits, it needs also to be remembered that it can give rise to serious conflicts of interest.

The potential conflicts created by cross membership are serious enough to warrant the development of policies and protocols that would minimise the risk of conflicts, without creating insuperable practical burdens.

We suggest the following principles for consideration –

- When a vacancy occurs on the board or committee, the membership of a candidate of other committees or boards should be brought to the attention of the electing body for that body to consider whether such a candidate should be elected as a member of the board or committee for which there is a vacancy.
- If a person is a member of a board or committee which has a relationship with a second board or committee of which that person is also a member, that person is required to absent themselves from meetings of both boards or committees when matters relevant to that relationship are discussed and decided.

SDS and GAB have common membership and it has been suggested that they should have boards made up of separate people. It is our understanding that the original reason behind the common membership was that the work of both organisations was so inter-related that the existence of different members would create cost and practical problems, and would nullify the purpose for which the organisations were set up.

SDS and GAB now meet separately with different agendas and minutes, and with each body having its own board subcommittees to supervise their core functions on behalf of their respective boards. In addition, whenever a possible conflict arises we act to remove this, for example with client/service provider agreements it is now the practice to obtain third party review to ensure transparency.

The size of both organisations is considerably smaller than before the Global Financial Crisis and to divide them and the staff now would involve considerable diseconomies of scale and major problems for the staff, especially at the senior management level. Overall we believe that the interests of both organisations, and the wider Diocese is best served by retaining the present arrangement with the reforms that have recently been implemented.

Role of SDS

The Commission commented about the role of SDS, and that SDS only shares information it has in its possession to the extent relevant to that organisation. The inference appears to be that SDS **should** have a broader Diocesan executive focus and, in particular, be the means of facilitating discussion between central organisations.

Our problem with this comment is that SDS is a contracted service provider to its clients and, accordingly, it must act in the interests of that client, and is subject to duties of confidence and good faith. To require that we perform an overall executive function (which may involve a breach of duties to a particular client) would, we believe, require us to exercise a role which more properly should be exercised by the Standing Committee on behalf of the Synod.

In particular, we agree with the Archbishop that the Chief Executive Officer of SDS is not the Chief Executive of the Diocese as a whole. Confusion about the role of the Chief Executive Officer in the past may have been a contributing factor to many of the current problems. However, we believe that the Chief Executive Officer of SDS is a valuable source of advice to the Archbishop, the Synod, the Standing Committee and other organisations and are happy for him to provide this service.

Reporting

Another issue is that information about organisations is not freely available. This has added to the perception of culture of secrecy within the Diocese. GAB, in particular, has sought to address this in recent times by ensuring that key documents and reports are printed for Synod members or are available on the website. We think that a similar model should be adopted by other central diocesan organisations.

Summary

The following is a summary of the key issues raised in this submission –

- There is not necessarily a fundamental flaw in the existing structures for the central administration of the Diocese. Rather, there have been lapses in good practice in relation to the way in which the existing structures have operated (such as organisations assigning their tasks to others and conflicts of interest arising from common membership) which have contributed to an environment in which losses and difficulties occurred.
- GAB and SDS have implemented significant changes to address weaknesses which existed in their governance and internal control processes.
- A system for the review of the governance and internal controls of the major St Andrew's House based organisations ought to be considered. An appropriate model may be for ACPT to periodically review the processes of GAB, SDS, SAHC and the EOS Committee to monitor compliance with their ordinances, governance statements and policies, with findings reported to the relevant organisation and, if necessary, to the Standing Committee. An external consultant would be engaged to periodically review the governance and internal controls of ACPT.
- Policies and protocols should be developed to minimise the risks of conflicts arising from cross membership of boards and committees, without creating insuperable practical burdens.
- Information about the key Diocesan organisations should be freely available, such as by the printing of key documents and reports for Synod members or making them available on the website.

The members of GAB and SDS would be very happy to meet with the members of the Commission to discuss this submission and any other matter the Commission would like to discuss.

BRUCE BALLANTINE-JONES
Chairman

13 December 2010