

DIOCESAN FINANCIAL ADVISORY TASK FORCE

1. THE PURPOSE OF THE TASK FORCE

The stated purpose of the Diocesan Financial Advisory Task Force (DFATF) is to advise the Standing Committee of the General Synod on financial matters relating to, within and across the Dioceses of the Church, and to assist in identifying and addressing any potential or actual financial difficulties which may arise from time to time.

Note that during the past three years, the previously named Diocesan Financial Advisory Group (DFAG) became the task force DFATF.

2. MEMBERSHIP

Currently there are six Members: Michael Codling [Chair] – Accountant (PwC partner); Michael Blaxland – Accountant (CFO, Sydney Diocese); Geoff Ferguson – Investment specialist (CBA Super); Geoff Girvan – Accountant (retired, ex-KPMG partner); Kim Smith – Accountant (retired, ex-private practice); and James Winter – Accountant (Grant Thornton partner). There are also four people who joined as Observers over the past three years who actively contribute to the work of DFATF : Susan Foley – Funds Manager (Head of Anglican Funds Melbourne); Stuart Neilson – Accountant (CFO and CRO at Efic); Evelyn Horton – Director (non-executive director on several boards); and Keith Stephens – Registrar (Executive Office, Perth Diocese). Three people resigned as Members over the past three years: Brian Dixon (Perth Diocese); Martyn Mitchell (ex-PwC partner); and Grant Reubenicht (Anglicare SA).

3. ACTIVITIES AND ACHIEVEMENTS

The activities of DFATF over the past three years have comprised:

- conducting desktop reviews of the financial statements of the Dioceses and their significant related entities
- providing ongoing advice and support to Dioceses at their request
- monitoring and responding to relevant regulatory developments
- meeting regularly (typically four times a year) and usually attending the annual Registrars' conference
- reporting to, and occasionally presenting at, the six-monthly meetings of Standing Committee.

While much of DFATF's activities have been focused at the Diocesan level, in recent years the Task Force has increasingly sought to draw conclusions and make recommendations at a national level.

Key recommendations

At the start of this three year period, we had made the following overarching observation to the Standing Committee:

“Right now, the financial health of the Anglican Church in Australia, outside of the large metropolitan Dioceses, appears to be in a parlous state. What’s more, in light of relevant trends (eg population shifts, changing demographics, declining church memberships, etc) it is hard to see how many Dioceses will remain sustainable into the near future.”

We retain the view that a number of non-metropolitan Dioceses will struggle to remain financially viable well into the future. The trends mentioned above persist, and have been compounded by the need to fund the cost of sexual abuse claims.

The previous General Synod meeting had received a report from the Viability and Structures Task Force which noted:

“The Anglican Church of Australia is at a crossroads. For over thirty years it has been slowly declining and the time has come for a revolution if it is to be a strong and sustainable church for the future.”

DFATF had agreed that significant change was warranted and that

“... if we don’t do it together then we will fall apart together.... DFAG believes the Church needs to agree, firstly whether it is truly a church for the whole nation or not. Assuming the answer is yes, it needs to have a commonly agreed (or at least consistent) vision and set of goals. Everything else should follow from, and be aligned to, the vision and goals. But the hardest thing to do is get started Very strong leadership and collaboration are required.”

On the topic of church leadership, we made three recommendations:

- (a) the appointment of a part-time Financial Consultant

Our primary immediate recommendation was the appointment of a Financial Consultant to advise both the Dioceses and the Standing Committee. At the time we described the role as a Financial Risk Officer, which possibly gave the wrong impression. In our minds the role was never intended as a traditional financial reporting role; rather, as a support mechanism.

“We strongly recommend that General Synod employ a senior Financial Risk Officer (FRO), initially on a one-year (extendable) part-time contract. In our view, the role would involve directly supporting (and ‘hand-holding’ in some instances) the Dioceses in key finance and risk matters as needed, transferring skills to those Dioceses over time, and monitoring the financial health of Dioceses and their related entities. We believe that an FRO could make significant advancements over his/her first 24 months, both in lifting the quality of financial risk management within Dioceses and in providing better information to the Standing

Committee. We also believe that while larger Dioceses may be able to adequately manage risk without assistance, it is very much in their interests to support the appointment of an FRO: partly as protection from the failure of smaller Dioceses and the consequent reputational damage, management distractions and potential financial costs; and partly to assist them in evidence-based decision-making.”

Attachment 1 to this report contains some additional information in relation to this recommendation.

(b) the use of ‘financial chancellors’

We also saw much benefit in Archbishops and Bishops being encouraged to have a personal advisor to help them interpret financial matters and make wise financial decisions. At the time we portrayed them as being equivalent to Chancellors in providing legal advice. However, in contrast we saw the financial advisor as being outside formal management structures and having no role in directing activity. Where we have seen this work, it was through an honorary role, simply providing personal advice on request.

“In relation to the need to improve business acumen and financial competence across Church leadership, we believe there is much merit in Archbishops and Bishops having a personal financial advisor. The benefits would be: in the short-term, support and guidance on complex and challenging finance/business issues and decisions; and in the medium to longer-term, the transfer of skills and experience (ie the 70 percent) from the advisor to the Bishop and potentially his teams.”

(c) the design of a holistic leadership development program

For the long-term, we saw the need to start further investing in the development of our Church leaders, both ordained and lay. We drew comparisons to businesses with mature people development programmes which tend to apply the recognised ‘70:20:10’ philosophy. That is, 70 percent informal on-the-job experience and coaching; 20 percent formal mentoring and support; and 10 percent training and reading.

“Given the Church’s unique variety of leadership requirements, and the current critical lack of some of these, DFAG believe the Church would significantly benefit from a holistic and well designed leadership development program. The program would presumably recognise those aspects where the Church leadership is currently highly proficient – such as their ‘70 percent on-the-job experience’ in leading worship, preaching the gospel, caring for people, etc – versus those where development might be useful – such as building a shared vision, business acumen, etc. Specialist assistance will likely be needed to design the program. We can conceive this starting with a ‘development needs analysis’, which should also help define the role of training.”

We have also continued to make recommendations in relation to some specific financial management and risk management activities of Dioceses. We had previously explained the context for our recommendations:

*“It is worth repeating our view that the best way for the Church to ensure its ongoing viability is to **grow sustainably**. Hence, we believe the strategic priority of the Church should be to most effectively share the gospel and nurture the faithful with a view to increasing Church membership. Such ‘front office’ activities would not only fulfil the Great commission, but many of the financial concerns we have been attempting to address over recent years would be ameliorated or disappear within a growing church. Having said that, DFAG’s attention towards strengthening and improving the ‘back offices’ of Dioceses is very important insofar as it helps to support and remove distractions from these ‘front office’ activities.”*

The main opportunity we have continued to push – in different ways and in different forums – has been the development of Shared Service Centres. Our original vision had been that:

“an independent not-for-profit entity would be created, with participating Dioceses settings its governance and direction, including the quality and quantity of services required. The idea would be for the Shared Services Centre to provide more value added services to the Dioceses without interfering with the identity and culture of each Diocese. This would be achieved, largely, by identifying and then combining current best-in-class practices (whether within the Church or outside the Church) and better performing staff into one place with modern facilities and technology, and building genuine expertise. The big prize for many Dioceses would be the ability to access/leverage leading practices, scarce skills and infrastructure from across the broader Anglican Church.”

For various reasons, this project was not funded. However, we have been encouraged that over the past couple of years, a number of intra-Provincial shared services have been introduced or continue to be considered.

Review of financial statements

In 2015 we undertook a biennial desktop review of the annual financial statements of the Dioceses and their significant related entities, including their Anglican Development Deposit Funds (ADDFs). It is important to note that a desktop review of an entity’s financial statements can provide only limited confidence about the financial health of that entity. However, in the past our desktop reviews have proved valuable in identifying entities where further detailed analysis was warranted.

We determined that we should undertake further detailed analysis of six Dioceses – Ballarat, Brisbane, Northern Territory, North Queensland, Rockhampton and Wangaratta – which involved making further enquiries, reviewing additional information, and in some cases visiting the Diocese. Note that this list deliberately excluded the Dioceses of Bathurst, Canberra/Goulburn and Grafton where we were either currently providing, or had recently provided, direct support. We also reported to Standing Committee that at least another six Dioceses appeared somewhat fragile from a financial perspective.

We subsequently reported that we did not have any immediate significant concerns to draw to the attention of the Standing Committee. On a positive note, we also mentioned it appeared that, across various Dioceses, in recent years there had been some implementation of the learnings from the financial situations encountered by Bathurst and

Grafton in particular, and from the reasons for their predicaments. The work of the DFATF in conjunction with the Registrars Network had been instrumental in this regard.

Nevertheless, we retain the view that while we have not seen evidence – putting aside Bathurst – that any Diocese is in a perilous financial situation, it does appear that a number of non-metropolitan Dioceses will struggle to remain financially viable well into the future.

We emphasize again that a desktop review of historical financial statements is limited in scope. A desktop review does not, for example, enable us: to analyse cashflows or forecast financial information; to 'normalise' for one-off/unusual transactions or non-core activities; to study long-term trends; to necessarily view the consolidated position; etc. A more comprehensive review on a regular basis is something that we envisage a Financial Consultant could undertake.

Ongoing advice and support

Over the past three years DFATF has been asked to provide a range of financial and risk management support to Dioceses, which has included:

- Canberra/Goulburn – two Members of DFATF have continued to provide support through participating on the Finance Committee of the Diocese
- Gippsland – a Member of DFATF provided financial management and operational advice to the Diocese
- Northern Territory – an Observer to DFATF has been working closely with the Bishop and Registrar around a number of financial and strategic matters
- Rockhampton – a Member of DFATF conducted a review of the financial health of a particularly large parish
- Wangaratta – a registered liquidator was sourced to undertake a pro bono review of the ongoing financial viability of the Diocese and options for improvement.

We often find that the root cause of financial stress being experienced by a Diocese is the less-than-expert management of 'non-core activities' such as schools and aged care facilities. In other situations, financial vulnerabilities relate simply to the local fundamentals such as a dwindling population and lack of resources.

Regulatory developments

DFATF has continued to monitor and be actively involved in trying to shape certain regulations impacting Dioceses. Over the past three years this has included writing numerous submissions to regulators, facilitating collaboration across Dioceses and coordinating their individual responses, meeting with regulators and supporting Dioceses with their lobbying efforts. This work has been highly valued by the Dioceses.

The most significant developments in the period related to the exemption orders granted by APRA and ASIC for charitable investment fundraising activities, which are typically conducted through our ADDFs. DFATF influenced the reshaping of the exemption orders which have now been renewed, albeit with some tighter operational restrictions.

4. PLANS FOR THE FUTURE

The current operating rhythm and activities of DFATF are expected to remain for the foreseeable future. The next biennial desktop review of financial statements will commence in July 2017. DFATF will continue to seek to both support and challenge the Dioceses and the Church on matters of financial and/or risk management.

FINANCIAL CONSULTANT

Rationale for the Role

DFATF considered a number of internal and external factors when developing the proposal for the appointment of a Financial Consultant.

The internal factors included:

- several of our smaller Dioceses are financially stretched or fragile. A number of them may not recognise – nor would their Provinces or the General Synod – the vulnerabilities that they face or their immediacy, or what mitigating actions they could be taking
- many of these smaller Dioceses have limited (or are lacking) resources to devote to appropriate financial risk management
- as highlighted in the Viability & Structures Task Force Report, there is an urgent need for training and upskilling of Diocesan staff, including in relation to matters of finance and risk
- while larger Dioceses may be able to adequately manage risk without assistance, it is very much in their interests to support the appointment of a Financial Consultant, partly as protection from the failure of smaller Dioceses and the consequent reputational damage, management distractions and potential financial costs
- key governance bodies such as the Steering Committee are not receiving sufficient contemporary insights and perspectives to help enable timely and well informed decision making.

The external factors included:

- the environment is becoming increasingly complex and more highly regulated, and various stakeholders (and the community at large) are expecting much more transparency from the religious and charitable sector
- banks are becoming increasingly concerned about the risks being run within Dioceses, and in response are increasing their interest margins on loan facilities and/or are declining to provide finance
- key insurers have also become very concerned about their exposure, and are seeking further information from Dioceses. They have put ‘the Church’ on notice that insurance premiums may increase significantly and/or they may decide against providing insurance cover if risk management standards do not improve.

Role Clarification

The role will involve:

- where required, directly supporting (and ‘hand-holding’ in some instances) a Diocese on specific financial and risk matters
- over time, transferring skills to and training the staff within smaller Dioceses
- sharing of good practices across the Dioceses
- providing the Steering Committee with better and more regular predictive information about the financial health of Dioceses and the Church.

The role will not involve:

- dictating what Provinces or Dioceses should do in relation to financial risk management
- replacing the investment that Provinces and Dioceses are already making in financial risk management
- duplicating the risk management activities of Provinces and Dioceses.