

DIOCESAN FINANCIAL ADVISORY TASK FORCE

EXECUTIVE SUMMARY

DFATF advises the Standing Committee of the General Synod on financial and risk matters relating to, within and across the dioceses of the Church, and assists in identifying and addressing any potential or actual financial difficulties which may arise from time to time.

DFATF has formed the view that the financial health of the Church in Australia, outside of the large metropolitan dioceses, is in a delicate state. This has been largely caused by various macro trends (eg declining church membership, changing demographics, shrinking rural economies, etc) and, in recent times, exacerbated by the magnitude of sexual and physical abuse claims in a number of dioceses.

As a result, some of the smaller and/or regional dioceses have compromised financial viability. It seems quite likely that one or more of these 'at risk' dioceses will be unable to operate entirely independently – that is without financial support from another diocese – within the next few years.

These challenging financial circumstances mean that diocesan clergy and laity need to be better equipped than ever. Sharing the gospel and nurturing the faithful is the priority of every diocese. In order to deliver on this priority, a diocese is best served by strong, able leadership; minimal distraction from financial worries; effective governance and risk management; and efficient administrative and compliance functions.

Given the above, DFATF's leading recommendation to the Standing Committee has been that it strongly encourages greater collaborative provincial arrangements across dioceses. Almost inevitably, at a minimum, the metropolitan or stronger neighbouring dioceses in the relevant provinces will need to provide more direct support to 'at risk' dioceses. Ideally any potential changes should be considered alongside a specific review of ministry models for remote areas, including how technology can be best leveraged.

Another key recommendation of DFATF has been that the Church should invest in lifting the leadership competencies amongst bishops, other clergy and laypeople alike in strategic thinking, business acumen, financial decisions, risk management and governance. To that end, some members of DFATF have spent time in the last few years supporting the initial design of a national leadership development program. The Mission & Ministry Commission has since taken on responsibility for the introduction of a professional development program, and DFATF is highly supportive of this initiative. An important next step, in DFATF's view, would be to either build into this national program the specific leadership competencies mentioned above, or for provinces to invest in an initiative aimed at improving these competencies.

1. THE PURPOSE OF THE TASK FORCE

According to its charter, the purpose of the 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.

2. MEMBERSHIP

Between them the members of the Task Force have a depth of experience in auditing, accounting, governance, risk management, regulatory matters, and diocesan and parish operations. They have held senior positions in executive and non-executive life.

Currently there are eight members:

Mike Codling (Chair)	Non-executive director, ex-PwC partner
Michael Blaxland	CFO, Sydney Diocese (retiring November 2022)
Susan Foley	Funds management and governance consultant, ex-head of Anglican Funds Melbourne
Geoff Girvan	Accountant, ex-KPMG partner
Bruce Harris	Accountant and director
Evelyn Horton	Non-executive director
Stuart Neilson	CFO and COO at The National Housing Finance and Investment Corporation
Keith Stephens	Registrar, Perth Diocese

DFATF will be proposing that two current observers be appointed as members in November 2022:

John Barnes (Rockhampton Diocese)	Archdeacon (former diocesan Registrar and, prior to that, rector)
Jenny Dawson (Bendigo Diocese)	Non-executive director

3. ACTIVITIES

Consistent with its charter, the key activities of DFATF have continued to be to:

- a) Review diocesan financial statements and identify any early warning signs of stress or sources of future risks that can be addressed in advance to good effect;
- b) Help dioceses, where help is requested, to improve their financial health and set up more sustainable financial management practices; and
- c) Identify regulatory developments and monitor the regulatory environment for emerging risks for diocesan activities.

DFATF's activities have extended beyond these as it has sought, and been invited and encouraged by the Standing Committee, to play a broader constructive role in protecting and enhancing the financial well-being of the Church. This has included, for example, DFATF making recommendations and participating in initiatives (such as the Viability & Structures Working Group) aimed at sustainably growing His kingdom within Australia.

DFATF meets regularly (typically four times a year) and reports to, and in the past has occasionally presented at, the six-monthly meetings of the Standing Committee.

Set out below is a summarised description of the outcomes of each of the key activities since our previous report to the GS17 meeting.

a) Desktop reviews of financial statements

Once every three years DFATF undertakes a desktop review of the financial statements of all 23 dioceses and their significant related entities such as Anglican Diocesan Development Funds (ADDFs). For those dioceses which DFATF believe are in a fragile financial position – termed ‘watchlist’ or ‘distressed’ – the desktop review is updated annually.

A desktop review involves DFATF examining the financial statements and, from that, raising questions of the Bishop, Registrar and/or Finance Officer. Attachment A sets out a fuller explanation of the desktop review process and the number of dioceses within each of the financial viability rating classifications used by DFATF.

We last reviewed the watchlist and distressed dioceses in August 2021. On balance we sense that the overall financial condition and medium-term outlook for smaller and/or regional dioceses has continued to deteriorate. Indeed the likelihood has further increased that one or more of these dioceses will be unable to operate entirely independently – that is without financial support from another diocese – within the next few years.

The deterioration in their current financial health is not due to COVID-19. In fact generally, as a result of Government stimulus packages, these dioceses have so far been able to weather the pandemic storm. However, there remains much uneasiness regarding the underlying strength of the economy in these regions and how it (and church offertories) will rebound once restrictions are lifted and stimulus packages cease.

The more significant medium-term concerns for the independent viability of these dioceses surround:

- Their ability to fund sexual and physical abuse claims. In a number of dioceses the cost of settling known claims has been significant; and there remains considerable uncertainty surrounding the ultimate cost of settling yet-unknown claims, particularly given the recent uptick in activity of some lawyers. Some of the dioceses are in the process of either: (a) obtaining new, or seeking increases to their existing, loan facilities in order to fund the claims, and the need to then service and repay these loans will add further pressure on their ongoing financial viability; or (b) identifying properties that could be sold, which in most cases would also have a negative impact on future available revenue due to the loss of rental income.
- The negative environmental forces which persist in many parts of rural Australia, such as diminishing and ageing populations, shrinking economies, depreciating properties with higher maintenance costs, and no or limited sources of alternative income.

Other concerns include:

- The dioceses can appear asset rich but are cash poor, and in many instances those assets, mostly land and buildings, might not fetch their recorded value where a diocese needs to sell.
- Much work remains to be done across a number of dioceses to continue restructuring their property portfolios over the next few years.
- Several dioceses have limited available/free capital to withstand a potential shock or to continue funding the ongoing operations of the diocese for more than a few years.

- A number of these dioceses continue to hold a relatively high proportion of their investments in products like equities and managed funds comprising equities. Investments like these are susceptible to high volatility in returns, being positive in most years but experiencing falls, some quite large, from time to time. Such investments should generally only be used to balance a portfolio held for the long term, and are seen as bearing too much risk if only held for the short term due, for example, to meet cash flow demands. Where such investments are effectively beneficially held for depositors or trust unitholders and their capital value is guaranteed by the diocese or an ADDF, it makes the diocese particularly vulnerable to market downturns.
- Some dioceses have faced significantly increased insurance costs.
- A number of dioceses continue to struggle to attract sufficiently experienced members for their governance and oversight committees. A number also continue to operate with very thin financial and administration resources, and hence can do no more than the basics to a certain standard. In many, the key person risk should not be underestimated.

Despite these pressures, over recent years we have observed a range of positive initiatives by some of these dioceses, including:

- Seeking to strengthen their balance sheet and to make their income streams more diverse and resilient;
- Exercising significant discipline in controlling ongoing expenses, including reducing their standard operating costs;
- Deliberate strategies to rationalise property portfolios;
- Consolidation of the number of entities (development-type funds) within dioceses; and
- A reduction in the reliance on unsecured debt facilities.

Nevertheless, absent any new large capital windfalls, we perceive that in the foreseeable future a number of the smaller and/or regional dioceses will require external support from metropolitan or stronger neighbouring dioceses.

b) Ongoing advice and support to dioceses

In the five years since DFATF's previous report to General Synod, DFATF has been asked to provide a range of financial and risk management support to dioceses, which has included:

- A current and former member of DFATF continuing to provide support to a diocese as members of the Finance Committee of the diocese, primarily in relation to their cash flow management, property developments, and the operation of schools and clearing the related debt;
- A member of DFATF working closely with the Bishop and Registrar in a diocese around a number of financial and strategic matters;
- A member of DFATF consulting with a diocese on specific issues related to trust distributions;
- A member of DFATF providing some support in analysing drivers of their recurring financial deficits and aspects of their planned response; and
- A member of DFATF assisting a diocese in accessing relevant expertise as it developed its plans to dispose of a retirement village.

In September 2021, Mike Codling and Geoff Girvan from DFATF presented at the Trinity College 'Anglican Church Law and Governance' intensive unit on the topic of 'Principles of Corporate Governance and Practical Challenges facing Dioceses'.

c) Regulatory developments

DFATF has formed a Compliance sub-committee whose aim is to identify upcoming regulatory changes which may affect dioceses, to scan the regulatory environment for emerging issues that may suggest changes in regulatory stance, and to assist dioceses in responding to these changes, potentially by referring them to experts.

Observations from the sub-committee from its activities over the last 12 months are:

- The ACNC has been interpreting the law to prohibit charities from having a dual purpose of being a Public Benevolent Institution and to advance religion, in what many participants in the sector consider to be regulatory over-reach. This was recently tested in the Administrative Appeals Tribunal by the Hunger Project (or Global Citizens Ltd) and the AAT found against the ACNC. The ACNC has advised the sector it will honour the AAT's decision in that one case but will not be changing its approach more generally.
 - This means PBIs that are church agencies will have difficulty claiming the religious protections available under anti-discrimination laws.
 - Exempt benefits which PBIs can provide to its religious practitioners are, we are advised, best limited to \$30k grossed up
 - Alternatively, the church as a whole could decide to resist the ACNC's treatment if and when it is faced with it.
- In October 2021, ASIC introduced a raft of changes which have the effect of increasing protections for customers, especially retail customers, who purchase financial products, such as investors in development funds. These changes have been communicated to dioceses.
- The regulatory environment is becoming increasingly complex. The sub-committee has a level of concern that some dioceses may be, unawares, conducting activities in a way that was once compliant but is no longer because of the changes to regulations. This is an area of focus for the sub-committee into 2022.

The sub-committee has two DFATF members, Evelyn Horton (Chair) and Susan Foley, and two other members:

- Sophie Gerber (Director, Sophie Grace Consulting)
- Jae Yang (Partner, Prolegis Lawyers).

4. RECOMMENDATIONS

Through its work, DFATF is exposed to, and has thought deeply about, a broad range of factors that contribute to the viability and vitality of dioceses in their current operating context.

As a result, since its last report to General Synod, DFATF has made various recommendations to Standing Committee, four of which are described below.

a) Greater collaborative provincial arrangements

As noted earlier, DFTAF has significant concern for the ongoing financial viability of a number of smaller and/or regional dioceses.

DFATF considers it likely that, absent any new large capital windfalls, one or more of these 'at risk' dioceses will be unable to operate entirely independently – that is without financial support from another diocese – within the next few years.

Hence, DFATF recommends to the Standing Committee that it strongly encourage greater collaborative provincial arrangements across dioceses. Almost inevitably, at a minimum, the metropolitan or stronger neighbouring dioceses in the relevant provinces will need to provide more direct support to 'at risk' dioceses. Ideally any potential changes should be considered alongside a specific review of ministry models for remote areas, including how technology can be best leveraged.

b) Investing in Church leadership

DFATF formed a view (and was not alone in its view) that the Church could better equip its leaders, both ordained and lay, with all of the competencies they require to best ensure the ongoing vitality of the Church.

Hence in recent years DFATF has made recommendations concerning the need to invest in the future of the Church by designing and implementing a leadership development program with a focus on strategic thinking, business acumen, financial decisions, risk management and governance. It was envisaged that such a program would not simply provide training courses; rather it would be a well-rounded 70:20:10 program, where training comprised 10%, regular coaching and mentoring was 20%, and ongoing development through supervised experience was 70%.

At its meeting in May 2019, the Standing Committee resolved that such a program should indeed be developed and DFATF was asked to help, subsequently met with Church leaders, and facilitated an initial mobilisation meeting involving various relevant experts it had invited. DFATF was then party to developing a proposition which would involve defining the target future state for Church leadership, diagnosing the current state, identifying existing good practice, and then assessing what should be bought, borrowed or built, and framing it within a fit-for-purpose development program. The proposition was presented to the November 2019 meeting of Standing Committee.

DFATF understands that responsibility for the introduction of a professional development program has now passed to the Mission and Ministry Commission, and DFATF is highly supportive of this initiative. An important next step, in DFATF's view, would be to either build into this national program the specific leadership competencies mentioned above, or for provinces to invest in an initiative aimed at improving these competencies.

c) Deeper finance and risk oversight

DFATF recommends that the General Synod Office employ a financial consultant (part time, short term with options to extend). It is proposed that 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.

DFATF envisages that this person would provide advice to dioceses, but dioceses would retain full control over their affairs and could choose to follow the advice or not, as they would see fit.

At the time this recommendation was initially made, the Standing Committee consulted with dioceses and there was not support for funding an additional position in the General Synod Office for this purpose. There has been no further action.

DFATF remain of the view that a part-time financial consultant could:

- Significantly help the smaller dioceses with their financial and risk management
- Help ensure better knowledge sharing across all dioceses
- Provide the Standing Committee and larger dioceses with a greater depth of insight and, importantly, confidence in the Anglican Church's reputation

in each case better than DFATF can do in its honorary capacity.

d) Shared service centres

DFATF recommends the consolidation, improvement and streamlining of some of the 'back office' activities undertaken by each diocese through a national shared service centre.

DFATF proposes this in light of its view that the best way for the Church to ensure its ongoing viability is to grow sustainably. That is, with a growing church, many of the financial concerns that DFATF and others have been attempting to address would be ameliorated or disappear. Hence the strategic priority of the Church should be on most effectively sharing the gospel and nurturing the faithful with a view to increasing Church membership. It was envisaged that the sharing and upgrading of the 'back offices' would help remove distractions from the priority ministry activities.

The vision is that an independent not-for-profit entity would be created, with participating dioceses setting 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 leading practices, scarce skills and infrastructure from across the broader Anglican Church.

Although this has not happened on a national basis, we are aware that some intra-provincial shared services have been introduced or continue to be considered.

5. PLANS FOR THE FUTURE

DFATF will continue to seek to advise the Standing Committee as best it can in its honorary capacity on the financial health of the dioceses and emerging regulatory issues, and continue to offer support to each of the dioceses and the Church leadership on matters of financial and risk management. DFATF provides advice, and does not seek to dictate to dioceses what they should do and how they should operate. We are a source of discreet and trusted advice which we would encourage dioceses to use.

ATTACHMENT A – desktop review process and financial viability ratings

We undertake a desktop review of each of the 23 dioceses and their significant related entities (such as Anglican Diocesan Development Funds) once every three years; and for those dioceses that are termed ‘watchlist’ or ‘distressed’ the review is conducted annually.

A desktop review is a ‘light touch’ review that involves us examining the most recent audited financial statements (which are typically 9-15 months old) and, from that, raising questions of the Bishop or Registrar and/or Finance Officer, typically via a phone conversation.

Desktop reviews can provide only limited confidence about the financial health of the entity, and we pass no judgement on the vitality or governance of the dioceses.

We generally focus on identifying and exploring any potential financial concerns, for example, inadequate available capital, recurring losses, management of non-core activities (such as schools and retirement villages), exposure to large debtors, cash flow management, reliance on sale of capital assets to fund normal operations, over-reliance on grants, reliance on high risk investments, unfunded litigation and claims, significant contingent liabilities, etc.

A desktop review does not for example enable us to analyse forecast financial estimates, comprehensively ‘normalise’ for one-off/unusual transactions or non-core activities, study long term trends, always view the consolidated position including related entities that might impact the future financial health of the diocese, etc.

Based on the limited review we rate each diocese into one of four ‘financial viability ratings’:

- A: Strong (secure and able to sustainably withstand adverse shocks)
- B: Sound (steadily managing, but with some vulnerabilities)
- C: Watchlist (in a fragile financial position)
- D: Distressed (unable to operate without support from another diocese).

We reiterate the restricted assessments are of the short-to-medium term financial viability of the dioceses, and we pass no judgement on the vitality or governance of the dioceses.

The most recent ratings (based on 2020 reviews for the A and B rated dioceses, and on 2021 reviews for the C and D rated dioceses) have been communicated to the dioceses and the Standing Committee. In summary, six are rated A, eight are rated B, seven are rated C, and one is rated D. One diocese did not participate in the 2020 review.

Those dioceses which are ‘watchlist’ or ‘distressed’ are given extra attention from DFATF and assistance to the extent those dioceses wish.