11/05 New Capital Project and other fundraising initiatives

(A report from the Standing Committee)

Introduction

1. By resolution 11/05 the Synod requested that the Standing Committee, in prayerful dependence on God and in fellowship with parishes and diocesan organisations –

   (a) continues to pursue –

      (i) utilisation of the Diocesan database for Mission purposes, and

      (ii) opportunities to release capital for use in developing that infrastructure required for Mission, and

   (b) pursues strategies which will enable the raising of the bulk of the infrastructure required for the mission through public appeals to Sydney Anglicans and through other fundraising initiatives, and

   (c) reports progress to the Synod in 2006.

2. This report outlines the current status of the New Capital Project and the progress made in pursuing other initiatives to fund the Mission.

New Capital Project

3. The Standing Committee has received several reports about the development of the Diocesan database and the opportunities to release capital for the Mission. The most recent of these reports was received by the Standing Committee on 27 March 2006. An updated and final version of this report is included in the Attachment.

4. In view of the conclusion in the report that work in the context of the New Capital Project has now concluded, it is considered that there is no need to proceed with the bill for the Capital Projects Fund Ordinance 2005 which was introduced at Synod last year. The ordinance was to have established a fund into and from which proceeds from the New Capital Project could be paid and distributed.

Other fundraising initiatives

5. On 14 November 2005 the Standing Committee appointed a subcommittee to report on the strategies that could be pursued to raise the bulk of the funds required for infrastructure for the Mission through public appeals and other fundraising activities.

6. The Fundraising Strategy Committee's report was received by the Standing Committee on 1 May 2006. The Standing Committee endorsed much of the discussion in this report and referred the report to the Mission Board for its consideration and report back as a matter of urgency.

7. On 29 May 2006 the Mission Board agreed that the question of fundraising (including the matters raised in the report of the Fundraising Strategy Committee) should be considered as part of a broader review of Synod finances and the financial resources available to further the Mission. The Mission Board requested therefore that its Finance Committee should begin work immediately on a report to draw all these matters together. Substantial work on this broad review has been completed but several aspects are still in progress.

8. The Mission Board intends to bring a comprehensive report on this matter to the Standing Committee in due course.

Action taken by the Standing Committee

9. Standing Committee requested that the following motion be moved at the forthcoming session of the Synod "by request of the Standing Committee" –

   "That the Synod permits the withdrawal of the Capital Projects Fund Ordinance 2006."

For and on behalf of the Standing Committee

ROBERT WICKS
Diocesan Secretary

25 September 2006

New Capital Project - Final Report **Attachment**

Background

1. The purpose of stage 1 of the New Capital Project (NCP) was to create a new diocesan database and to use it to identify a group of properties to be analysed to test the proposition whether capital could be released from our existing assets for Mission infrastructure projects.

2. The NCP report to the Synod in 2005 stated that the diocesan database has been created. It was also reported that, using the data base, a pilot group of up to 18 parishes had been identified for analysis of their property.

3. The property proposed to be examined in the pilot group was considered to be both under-utilised and overcapitalised in comparison to other parish properties in the Diocese. The selection of the pilot group was made in conjunction with the regional bishops and archdeacons.

Introduction

4. This report summarises progress since the report to the Synod and refers to key lessons learned from the NCP to date.

Current Status of Pilot Group

5. Of the 18 parishes invited to be part of the pilot group, 14 gave approval for their property assets to be analysed. The other 4 parishes declined to participate.

6. Since the Synod session, at the request of the archdeacons, 2 more parishes were added to the pilot group. Both parishes gave approval for their property assets to be examined.

7. The process for analysing the properties in the pilot group involved the following -

(a) A professional property consultant was engaged to analyse the property of each parish. Generally, the consultant is briefed to consider a range of strategies for the property, in accordance with a site brief agreed with the regional bishop or archdeacon.

(b) The work of the consultants usually began with a site visit in conjunction with Secretariat staff and parish representatives. This enable the parish representatives to meet the consultants and for each party to be fully briefed about the work proposed to be undertaken.

(c) The consultants undertook their work and prepared a draft report. The draft report was reviewed by Secretariat staff who discussed with the consultant any issues arising from it.

(d) When the consultant's report was finalised, a copy was sent to Secretariat staff. They discussed it with the regional bishop and archdeacon who, in turn, discussed it with the relevant parish.

(e) Following discussion with the parish, a response to the report was prepared. The response may be that no further action be taken in relation to the property in connection with the NCP, or that further action be taken to implement a proposal identified in the report.

8. All the consultant's reports have now been received and discussed with the Regional Bishops and/or Archdeacons. The reports were then presented and discussed with the respective parishes.

9. It is clearly evident from the reports and discussions with both the Regional Bishops and/or Archdeacons and the individual parishes that large sums of capital will not be released from this pilot group of assets.

Summary of key lessons learned

10. From the work undertaken to date by the consultants, a number of key lessons have become apparent. These relate to the following matters -

- building values,
- paying for our buildings,
- zoning issues,
- heritage issues,
- funding initial project costs,
- development profits,
- parish and regional needs, and

- pastoral issues.

Building Values

11. The valuations of buildings in the Diocese recorded in the NCP database are based on the most recent insurance valuation. This insurance value represents the estimated total cost of replacing the buildings if they were totally destroyed.

12. Due to the specific purpose for which many of our buildings have been designed, and the limited number of alternative uses (ie. churches, special purpose halls and meeting rooms, etc.) it has become apparent that the actual *realisable* value of these buildings is, in almost all instances, significantly below the insurance value. Indeed, in several instances, the costs of the ongoing maintenance and repair of the building effectively means that the relevant building is a liability. If the building is a heritage item, the building can detract from the overall value of the land upon which it is situated.

13. One lesson is that the more our buildings are designed as special use buildings (rather than as suitable for alternate uses) the greater is the loss of the capital spent in construction of the building. A building which has few alternate uses is worth less (on a realisable basis) that buildings which can be readily adapted for other uses.

14. If the proceeds from the sale of land are applied toward the construction of new buildings this has the effect of reducing or eroding the asset base of the Diocese over time.

Paying for our buildings

15. Past and present generations of church members are unlikely to be adequately contributing to the cost of our buildings and, in particular, their maintenance, repair and replacement. In a number of instances, the condition of buildings has been run down, without adequate maintenance being carried out or provided for. This has the consequence that, over time, existing capital (from, say, the sale of land) is required to be used for the maintenance of our buildings.

16. This raises the question of whether some measure of a local church's ability to pay for the on-going maintenance of its buildings should be considered in determining whether it should have parish status. Currently, parish viability is only measured on the ability to pay and house the rector and meet parish cost recovery charges. No account is taken of building maintenance. However, the need to ensure buildings are maintained is important for the long term viability of a parish and the maintenance of its capital base.

17. Within the pilot group there have been several instances where the church facilities were to remain on site (in their existing or a rebuilt form) and large scale development (medium density or high rise density) was also to be incorporated. However, the work undertaken to date by the consultants suggests that where church facilities are to remain on site, these sites are likely to be consumers of capital rather than generators of capital for other Mission needs.

Zoning issues

18. A significant number of the properties reviewed are zoned for "Special Use" which, generally, allows the property to be used only for church purposes. Such zoning reduces the value of the property on a realisable basis since the market for those properties is limited to those that would use the property for similar purposes. A person wanting to buy the property for another use assumes the risk of rezoning. That risk is reflected in a lower purchase price the person is willing to pay for the land.

19. Having properties rezoned to allow an alternative, more intensive use (such as residential or commercial) can increase the value of a site significantly. The NCP has focussed on whether the church can take action to have land rezoned to enhance its value.

20. However, it has become apparent that there are inherent difficulties in having land rezoned.

(a) A rezoning is generally effected by an amendment to the relevant local environment plan (LEP). This is a relatively long and time consuming process, and has been made more difficult in recent times because of a new State Government policy which severely limits ad hoc "spot" rezonings (see paragraph 22 below).

(b) An application for rezoning usually requires an extensive public consultation process and this can give rise to community unrest and opposition.

(c) Proposals for rezoning generally require the concurrence of the local council to proceed. Experience suggests that some local councils regard church property as "community land" and are reluctant to support any proposal for rezoning which could result in the land ceasing to be available for community purposes.

21. The State Government has recently asked that all local councils review their LEPs to standardise and consolidate the planning controls and zonings across the State. The Department of Planning will release a template for all LEP documents and the time frame given for this review process is between 3-5 years. However, a consequence of the review is that a large number of local councils are now refusing to consider spot rezonings of individual sites until the review process has been completed.

22. This inability to apply for spot re-zonings means that it will be difficult in the immediate future to enhance the value of any property zoned "Special Use" by rezoning. It is likely to be about 5 years before applications for rezoning can proceed.

23. The Secretariat proposes writing to the State Government to explain the impact that this review initiated by the State Government is having on the ability to extract reasonable value from property holdings during the review period. It is hoped that a transitional arrangement can be achieved.

Heritage

24. Heritage issues are another significant matter which impacts upon the value of a property. In NSW, there are two main "levels" of heritage listing, namely listing on the state heritage register (SHR) maintained by the Heritage Council under the Heritage Act 1977, or listing as an item of local heritage significance under a local environment plan.

25. The listing of a building on either the SHR or under a local environment plan potentially reduces the realisable value of both buildings and land. Heritage listings usually significantly reduce the ability to develop land or adapt buildings for alternate uses.

26. There are a number of properties in the pilot group that have either state or local heritage listings. Additionally, there are other items that do not have a current heritage listing, but would be listed when it becomes known in the community that the property was being considered for potential sale or development.

27. The work of the NCP illustrates the need for the Diocese to develop a comprehensive heritage strategy and, where necessary, obtain State and local government support. One of the aims of such a strategy would be to ensure that government recognises the need for the church to use some of its properties for development, and ensure a fair and consistent application of heritage principles.

Funding initial project costs

28. Where the consultants identify options for the future development of a property to release capital, those options are discussed with the relevant parish. However, if a parish agrees to the implementation of a strategy, a certain amount of expenditure needs to be incurred to proceed along each stage of the development process. Such expenditure could include, but not be limited to, architectural, engineering, surveying, other specialist consultants, approaches to local councils, other government authorities and associated costs.

29. While all these costs may be recovered in due course from the proceeds of a development, many of the parishes involved do not have the financial resources to fund the expenditure in the interim. In other cases the parish may not be the major beneficiary of any capital generated and so there is little incentive for the parish to expend its financial resources on the implementation of the project.

30. The NCP does not have funds to finance the expenditure which needs to be incurred before a development proceeds. Consideration needs to be given to the provision of the financial resources to fund the cash flow needs of the initial stages of development projects. The need for such financial resources is not necessary limited to developments arising from the NCP.

Developer's profit

31. The consultants' reports received to date indicate that where a site is sold with development potential, the projected developer's profit margin is significantly large. To date, we have generally been risk adverse about undertaking development. However an issue which needs to be considered is how we can share some of the developer's return, while managing the risks within acceptable limits.

32. It may be, in a particular case, that the church can take on the role of developer (as in the Greenoaks development). There may be suitable property development skills in Diocesan organisations which may be able to be used.

33. Alternatively, it may be possible to form a joint venture with a developer whereby the church contributes the land component to the development and the developer undertakes and funds the construction. The parties would split profits on an agreed basis.

34. Further consideration needs to be given to these options to determine the nature of the risks involved, and whether we can manage those risks within acceptable limits.

Parish and regional needs

35. It has become apparent that a significant proportion of any capital realised from a parish property is likely to be required to be used for works within the relevant parish. In part, this reflects that a number of our parishes have significant capital needs (such as the need to restore or renovate run down buildings). Meeting these needs is frequently a precondition to obtain parish approval for a project. While this is understandable, there needs to be a balance between works within a parish that are necessary and those that are "nice to have" because some additional capital is available. The comments in paragraph 15 above about proceeds from sale of land being used to purchase or improve buildings which have a diminishing value of return and eroding the capital base also needs to be taken into account.

36. The concept has emerged where a regional capital expense in a nearby location may claim priority over the use of capital released from a project, rather than for Mission needs throughout the Diocese more generally. If this concept prevails it will reduce the ability to raise capital for broader Mission needs.

Pastoral Issues

37. In most instances, proposals for the development or sale of church property raise significant pastoral issues. The pastoral issues may be perceived to be so difficult (as in one case already considered by the NCP) that the decision is made not to proceed any further with consideration of options for the development or sale of a site. This is likely to impact on the ability to release capital in the short term. Where they arise these pastoral issues are managed by the regional bishops and archdeacons.

Operational Status

38. Work in the context of the New Capital Project has now concluded. Residual property requirements will be managed in the normal course of Secretariat activity. Expenditure under the New Capital Project Appropriation Ordinance 2004 is now final at $833,576.

RODNEY DREDGE

Chief Executive Officer

Sydney Diocesan Secretariat

22 August 2006