Application of funds from the proposed Property Receipts Levy

(A report from the Strategic Research Group.)

Key Points

- The Strategic Research Group endorses the principles for application of funds outlined by the Large Receipts Policy Review committee, including that funds derived from capital assets should be used to build the capital base of the Diocese.
- The proposed Property Receipts Levy ("PRL"), if adopted by the Synod, is expected to generate additional funds of at least $500,000 p.a. from 2020. The SRG recommends that additional funds be used to –
  - Create a Parish Property Development Fund (funded by the first $500,000 of additional proceeds raised by the PRL each year) from which the Mission Property Committee can contribute to the cost of engaging consultants in the early stages of parish projects
  - Create an urban development grant (with any remaining additional proceeds raised by the PRL) administered by the Mission Property Committee to provide capital development grants to stimulate property development of existing parishes

Purpose

1. To provide recommendations to the Synod regarding any application of additional funds raised by the proposed Property Receipts Levy.

Recommendations

2. That the Synod receive this report.

3. That the Synod pass the following motion to be moved "by request of Standing Committee" –

‘Synod, noting the report "Application of funds from the proposed Property Receipts Levy" –

(a) supports the creation of a Parish Property Development Fund ("PPDF") as outlined in the report at paragraph 21(A), funded by the first $500,000 of additional proceeds raised by the Property Receipts Levy ("PRL") each year, and

(b) supports the creation of an urban development grant administered by the Mission Property Committee as outlined in the report at paragraph 21(B), funded by any additional proceeds raised by a PRL in excess of those required by the PPDF, and

(c) requests the Standing Committee to pass an ordinance to implement the PPDF and the urban development grant in conjunction with the implementation of the PRL.'

Background

4. At its meeting on 19 July 2017, the Strategic Research Group ("SRG") noted a request from the Large Receipts Policy Review Committee ("LRPR Committee") to provide advice as to the application of any additional funds arising from the proposed Property Recepts Levy ("PRL").

5. The SRG is aware that, simultaneous to the development of the PRL proposal, the Mission Property Committee ("MPC") has provided a report which describes barriers and bottlenecks to parishes undertaking infrastructure expansion projects, and what could be done to minimise these impediments.

Discussion

6. The LRPR Committee has not itself been tasked to identify how additional funds may be applied. However, the LRPR Committee provided the following principles as a framework for discussion around a proposal to be put to Synod for the application of any additional funds raised by the PRL –

(a) existing Synod commitments should be maintained,

(b) funds derived from capital assets should be used to build the capital base of the Diocese, and

(c) Funds derived from the PRL should be used for the benefit of developing the property infrastructure of existing parishes.

7. The SRG endorses these principles.

8. Capital projects range in size, and various mechanisms are already available to fund the small and medium projects (parishes often struggle to achieve larger projects). For example –

(a) Small projects (typically up to $50,000): The NSW Government Community Building Partnership Grant (CBPG) program is available for smaller projects. Since its inception in 2009, some 463 parishes have been awarded some $10.12 million in funding. With the average grant awarded being approximately $20,000, this Government scheme assists (even with 100% of funding in some cases) for smaller projects.

(b) Medium projects (typically up to $800,000): The Finance and Loans Board (FLB) typically lends for projects of this size range, and without the need of a mortgage. In 2017, the average initial loan size is $475,000, and since 2015 the average initial loan size has been $365,000. These loans must be repaid.

9. At its meeting on 31 July 2017, the Standing Committee agreed that any proposal for a levy which is likely to generate additional funds should be presented alongside a clearly articulated missional purpose for those additional funds. The SRG has formed the view that any additional funds arising from the proposed PRL would best be used to address a key need in our current strategy, by assisting parishes to navigate the path of larger capital projects. To simply divert these funds to reorganise, or even expand the scope of existing activities, would be a lost opportunity.

10. The 2016 Mark Bilton review's first area of recommendation focused on our property infrastructure, stating that "…these physical assets have been the backbone and a facilitator of success for generations. However, there now needs to be a comprehensive review of their role and value." Using additional funds generated from the PRL provides a rare opportunity to assist parishes in this area, and will benefit generations to come.

The Mission Property Committee's proposal

11. The MPC has provided a draft report to the Standing Committee that addresses this matter. According to the MPC report, the number of Diocesan church buildings has declined from approximately 400 (in 1980) to 350 (in 2017). A common scenario is that a parish sells one building to pay for significant upgrades and expansion of another one. However, with 70% of the growth of Sydney projected to be in existing areas with increasing density, there is unprecedented need for the Diocese to assist parishes in their property development and expansion.

12. In a similar vein, the report to Synod in 2016 entitled, '33/14 Ministry progress and brownfields' grants' noted that "the presence of strong leadership and the number of newcomers is critical to parish numerical growth, but well-timed property development to accommodate growth is demonstrably important to stimulate sustained growth."

13. With the rapidly changing "landscape" of Sydney property, opportunities are opening up for rezoning and associated income generation. There may be great prospect to unlock significant value, which can in turn be directed towards ministry outcomes.

14. The MPC report includes that over 25 parishes in the Diocese are known to be seeking to redevelop their church or ministry precinct. The MPC identified a bottleneck that impacts large projects (and potential projects) across the diocese, often preventing them from ever reaching their initial planning approval stage. The bottleneck is that most parishes hesitate or cannot afford to commit any funds for professional consulting to a project which may not reach fruition. The problem is that it is difficult to progress or confirm the viability of a project without engaging appropriate consultants. In the absence of confident support, professionally engaged consultants and appropriate independent advice, most projects falter and stall.

15. The MPC's contention is that this bottleneck will be removed if, in the course of advising parishes at this stage, the MPC could access a fund from which to provide a significant portion of the initial consulting fees. If those projects that the MPC identify as most worthy of investment could be financially supported at the initial stages (where the majority currently falter), it should result in a significant increase of investment in development of the capital infrastructure of existing parishes. The MPC report suggests that such a fund would require approximately $500,000 per year for maximum effectiveness.

16. The MPC suggests that any of these projects that produce income should then repay the funds utilised from such a scheme, which can then in turn be used to assist others. There would of course be projects in which the MPC's help is limited to getting the parish to "DA Stage", and others still that may be determined as not feasible.

17. The result would be akin to a permanent development fund, similar to those used by other denominations.

18. The proposed fund wouldn't be expected to fund larger scale projects, however it will help to address this issue in that, in some cases, using appropriate consultants early will allow the identification of revenue

generation possibilities. In other cases, project feasibility parameters will be established before further consultants are engaged.

Grant Scheme for mid-sized projects

19. The proposal for the Property Receipts Levy includes a recommendation for the creation of a grant scheme to assist parishes with mid-sized development projects. The LRPR committee suggested that any additional funds not required for the Synod budget and beyond the needs of the MPC proposal for brownfield development, may be provided as grants for capital development to fund urban renewal. The LRPR committee suggested a dollar-for-dollar matching framework administered by the MPC as a mechanism to apply those funds, and included a threshold of $50,000 matching amount with the intention of ensuring that only projects of a certain size are provided grants and the scheme is not overwhelmed with applicants. A parish with a significantly larger project could apply for a grant up to $250,000 provided the parish could raise $250,000 internally.

20. It is noted that loans are also available from the Finance and Loans Board. This aspect of the use of the funds would be particularly advantageous to smaller parishes.

Recommended application of funds

21. The report of the LRPR Committee and the proposal of the MPC both expressed the view that the proceeds from the proposed PRL be used to leverage the expansion of the capital base of the Diocese. The SRG supports this view as well, as recommends the application of funds through two mechanisms as outlined below –

(A) That the first $500,000 of additional proceeds from the PRL be used to establish and maintain a Parish Property Development Fund (“PPDF”), as follows –

- (i) The PPDF is to be administered by the MPC ((which may need to have its terms of reference and membership augmented accordingly to ensure wider ministry expertise; or a new body).
- (ii) The purpose of the PPDF is to enable the appointment of external advising consultants to provide strategic guidance to parishes, from the point of initial feasibility study to lodgement of Development Application (and in some circumstances, the preparation of a Construction Certificate). The type of expertise required may include property advisors, land economists, development managers, lawyers, town planners, commercial negotiators, architects, project managers, hydrologists, heritage experts, traffic experts, ecologists, structural engineers, geotechnical engineers, or experts in noise, contamination etc.
- (iii) The first $25,000 of any funding from the PPDF is to be matched dollar for dollar by the Parish, with any proposed exceptions to be approved by Standing Committee. This is calculated on a project basis (that is, a parish needs to contribute 50% of the first $50,000 of all of the required consultants, rather than each consultant).
- (iv) Where a project leads to income generation on completion, the indexed contribution from the PPDF for the project should be repaid into the PPDF as a priority.
- (v) Projects will be prioritised according to the following criteria –
  - (a) urgency in relation to responding to the timing of adjoining development sites, or rezoning opportunities,
  - (b) potential for return from development proceeds or income generation based on complimentary development of the site,
  - (c) relative forecast population growth within the LGA,
  - (d) ministry priority
  - (e) suitability of land for church use in line with parish ministry strategy,
  - (f) project feasibility and prospects of delivery (with a higher priority to harvesting the low hanging fruit: i.e. those sites with a high chance of success on full or partial redevelopment), and
  - (g) funding feasibility.

(B) That any remaining additional proceeds generated by the PRL (being any funds beyond the $500,000 required PPDF and any funds allocated to, but not required for, the PPDF in a given year), be used to provide capital development grants to stimulate property development of existing parishes, as follows –

(i) Grants are to be administered by the Mission Property Committee (which may need to have its terms of reference and membership augmented accordingly to ensure wider ministry expertise).

(ii) Any parish may apply for a dollar-for-dollar matching grant, on the following basis –

(a) The parish must be able to contribute at least $50,000 from funds that it has already raised, or will raise, internally for that project (with any exceptions to be approved by Standing Committee).

(b) There is no maximum project size, but the maximum grant is $250,000.

(c) Priority will be given to parishes that have not previously received a grant.

(d) Priority will be given to projects that increase ministry capacity (e.g., expanded church, new hall) rather than projects which restore or maintain existing capital assets.

(e) The Standing Committee may provide further guidelines to the MPC to assist it to assess the priority projects.

(f) The MPC will determine a list of priority projects in a given year.

(iii) If there are insufficient funds for all priority projects, the grants are to be applied in the priority determined by the Mission Property Committee.

For and on behalf of the Strategic Research Group

THE REV DR RAJ GUPTA

8 August 2017