

New Capital Project - Report as to Progress

(A report from the Standing Committee.)

Introduction

1. In 2002 the Synod adopted the Diocesan Mission, the Initial Goal and the Four-Fold Mission Policies providing for the following -

- Policy 1: Spiritual renewal
- Policy 2: Increased number of congregations
- Policy 3: Training of ministers
- Policy 4: Structural change

2. In early 2004 it became apparent that the Diocesan Mission is likely to give rise to some significant infrastructure requirements in the Diocese, and that these would need to be addressed if the progress of the Mission was not to be impeded. Indeed, addressing such requirements is likely to maintain or increase the momentum of the Mission.

The potential capital needs of the Diocese

3. The work undertaken by the Mission Property Committee has identified at least 6 sites in the new housing areas of the north-west and south-west of Sydney where land is required, and ministry buildings constructed, to facilitate ministry. If these land and building needs are not addressed then the creation of congregations (Policy 2) in these areas will be impeded. However, the cost of such land and buildings is significant - \$100 million or more may be required.

4. In addition, it is likely that many existing ministry buildings need to be upgraded, rebuilt or expanded to support ministry in established areas of Sydney. The costs of such upgrades are often so high as to make it difficult for the local congregation to fund them.

5. Policy 3, which envisages the training of church workers, is also likely to require large infrastructure expenditure. The Mission is likely to require that more workers be trained. If that is to occur then substantial capital expenditure on buildings will be required at places such as Moore Theological College, where the current facility is used at close to full capacity.

6. There are also other capital needs. If the Sydney Anglican Schools Corporation is to continue to open new schools, additional capital for that organisation will be required. If additional income is to be generated to fund recurrent Mission expenditure, then additional capital should be considered for the Diocesan Endowment.

7. The potential capital needs of the Diocese run not into millions or tens of millions of dollars but rather hundreds of millions of dollars. If the Mission is not to be impeded action needed to be taken forthwith to identify the way these capital needs could be addressed.

Traditional approaches to raising capital

8. Traditionally, public appeals have been an important way of raising capital for infrastructure purposes. For example, in the 1980s and early 1990s, the Vision for Growth Appeal raised several million dollars to acquire new sites in new housing areas of Sydney.

9. However, public appeals are a very competitive means of fund raising. There are many appeals operating in parishes, within the Diocese and within the Christian community generally. While public appeals have a place in raising capital for the Mission, the existence of other worthwhile appeals means that public appeals are unlikely to raise significant sums for Mission purposes.

10. Similarly, philanthropy and benefaction are unlikely to raise significant sums.

11. Borrowing is another way of raising capital funds for the purposes of the Mission. However, the substantial cash flows needed to service large levels of borrowing are not presently available. Unless such cash flows are able to be created, borrowing is unlikely to raise significant funds for the Mission.

Are our existing assets a source of new capital?

12. For these reasons, consideration turned to the need to look at our existing assets to determine whether or not they could be used to generate funds to meet the capital needs of the Diocese. The rationale behind the New Capital Project (the "Project") is to test the proposition that large amounts of money could be generated from our existing assets for these needs. In July 2004, the Standing

Committee passed the New Capital Project Appropriation Ordinance 2004 to provide funding for the costs of undertaking stage 1 of the Project.

13. Stage 1 of the Project had 2 aims -
- (a) to develop a data base of existing Diocesan assets and other information about our parishes and organisations, and
 - (b) to analyse those assets, or a selection thereof, to determine if strategies can be developed to generate funds to meet other capital needs in the Diocese.

14. The main costs of stage 1 of the Project are the costs incurred by Sydney Diocesan Secretariat in providing the staffing and other support for the Project, and also the costs of property consultants to be engaged to undertake property strategy analysis in connection with the Project.

15. The original timeframe for undertaking stage 1 was 12 months from October 2004. However, as this report later indicates, the completion of the analysis being undertaken to test the proposition that funds can be generated for capital purposes is unlikely to be completed by October 2005. Accordingly, the timing for completion of stage 1 is likely to run into early 2006.

16. The Standing Committee has only committed funding for stage 1 of the Project. Whether the Project proceeds beyond stage 1 will depend in large part on the Standing Committee being satisfied that our existing asset base is a source of large sums of capital for the needs of the Mission.

Creation of the Diocesan data base

17. During the latter months of 2004 and the first quarter of 2005, the Diocesan data base was created and populated. The data base records relevant information about Diocesan assets, and (where available) other information about our parishes and organisations.

18. The largest portfolio of property in the Diocese is held by the Property Trust, generally in trust for parish purposes. The Property Trust already had a data base for that property which records information such as the location of property, title details, current use, information about the buildings constructed on this property and insurance replacement values. This information has been incorporated into the Diocesan data base, with some significant enhancements. For example, through arrangements with Land and Property Information, information about the Valuer General's valuations of each property can now be accessed.

19. Other Diocesan organisations, being Anglicare, Anglican Media, Anglican Retirement Villages Diocese of Sydney, Anglican Youthworks, Moore Theological College, and Sydney Anglican Schools Corporation, also hold large amounts of property. With the co-operation of these organisations, information about their property has been obtained.

20. The assets of other organisations created by the Synod (such as non-Schools Corporation schools) have not been included on the data base. For several reasons it is considered less likely that those assets would be able to be assessed in the near future for the purposes of creating new capital for the purposes of the Mission.

21. The Diocesan data base also consolidates relevant information about parishes and organisations currently held on other data bases in the Diocese. For example, information about parish staff appointments, attendance at services and other parish activities, and baptisms and confirmations, (currently maintained in the Diocesan Registry) has been incorporated in the data base. Financial information provided with annual parish financial returns is also accessible. The nature of the information on the Diocesan data base means that it provides the most comprehensive "snap shot" of parish data presently available.

22. Particular care has been taken to ensure that the information on the data base is complete and accurate. For example, any omissions and obvious anomalies in information recorded on the data base were identified and resolved. A copy of the information about a parish on the data base was sent to the relevant parish for its checking and further comment. In other cases, visits to parishes were facilitated through the bishops and archdeacons to collect and check the information held.

23. The data base has been demonstrated throughout the Diocese at the parish briefings undertaken in June and July this year. At those briefings, packs containing information about the information held for each parish were available for collection by parish representatives. In due course, it is intended that each parish will have electronic access (via internet) to so much of the data base as is relevant to it so that the information can be accessed at any time, and updated and amended when necessary.

24. Even if the Project does not proceed beyond Stage 1, the Diocese has a major data base which, if properly maintained, is a significant resource for parishes, bishops, archdeacons and regional councils.

Identifying the assets to be analysed for new capital purposes

25. The second aim of stage 1 of the Project was to determine whether strategies could be developed whereby existing assets could generate funds for Mission purposes. To pursue this aim, it was necessary to identify those specific assets in the Diocese which should be the subject of more rigorous analysis.

26. In late 2004, it became apparent that the assets held by the Property Trust for parish purposes should be the first asset class considered for such analysis. The main reasons it was appropriate to first consider those assets, rather than the assets of other Diocesan organisations, were -

- (a) Undertaking the necessary restructuring of other Diocese organisations is likely to be a long and complex process and it was unlikely that this process could be completed during the time allocated for stage 1 of the Project.
- (b) Generally, the assets of Diocesan organisations are relatively well utilised in comparison to some parish assets.
- (c) A flow of capital for the purposes of the Mission is needed as quickly as possible.

27. Consideration was given to which specific properties held by the Property Trust would be chosen for further analysis. For the purposes of the second aim of stage 1, it was intended that between 15 and 20 properties be chosen and analysed to determine if strategies could be developed to produce capital. How were those properties to be chosen?

28. Following discussions and feedback at 3 workshops held in October 2004 attended by archdeacons, parish clergy and lay members of the Church, it was determined that the way forward would be to measure the relative effectiveness of the use of assets from which ministry is conducted.

29. At the workshops, consideration was given as to how the relative effectiveness of the use of property could be measured. With the comments and feedback provided, and advice from professional advisors, 2 primary indicators of the relative effectiveness of the use of property were determined -

- (a) the asset value per adult attendee in each parish (the "asset value ratio"), and
- (b) the capacity utilisation of each property in the parish (the "capacity utilisation ratio").

30. These indicators are explained in the following paragraphs.

Asset value ratio

31. For each parish, the asset value per adult attendee is the value calculated by dividing the sum of the total value of the land held for the parish and the insured value of its buildings and contents by the average adult Sunday attendance at churches in the parish.

32. The land value for each property is taken to be that last specified by the Valuer General's Department, now recorded in the Diocesan data base. The building values are the insured building values last declared by the Property Trust under the church insurances program.

33. The Valuer General's land values were used because they were readily available and consistently calculated. While they do not necessarily represent the realisable value of a particular property, the time and practicality of undertaking proper market appraisals for each property in the Diocese was considered to be prohibitive. In any event, for the purposes of stage 1 of the Project the key issue is not the absolute value of any particular property, but rather the relative value of one property against others. The Valuer General's valuations are the best readily available measure of relative value.

34. Similarly, insured building values do not necessarily represent the extent to which a building increases the realisable value of the land on which it is constructed. Nevertheless such values were the most readily available and, for that reason, were those used in the analysis. Again, because building values are generally calculated on a consistent basis, they can provide a sound basis for relative value. In any event, particular consideration was given to the insured values of heritage buildings. Those values incorporate a discount factor which, in part, compensates for any special value attributable to such buildings but which could not be realised on a sale.

35. The concept of average Sunday attendance at services in the parish has been used to ensure (as far as is possible) a consistent relative measure of attendance between parishes. Sunday was

considered to be the best day to determine attendances since it remains the day on which church properties are most commonly used. Adult attendances (rather than all attendances) were used to simplify the calculation. Commonly, those parishes with large children's and young people's attendances generally also have a high adult attendance. So it is reasonable to conclude that the relative results are not distorted if numbers of children and youth attendees are not included in the calculations.

36. The information in the data base allows the asset value ratio to be calculated for each parish and relative rankings for parishes determined. The key issue in calculating the ratio was not the absolute value calculated, but rather the relative rating. The conclusion reached was that parishes which had a higher relative asset value were to be further considered for analysis as part of stage 1 of the Project.

Capacity utilisation ratio

37. The capacity utilisation ratio for a church is defined as the average adult Sunday attendance at services in that church (a similar concept to that used in calculating the asset value ratio) divided by 3 times the capacity of the church (in terms of the number of people it can accommodate).

38. In calculating this ratio, the capacity of the church was that recorded in the data base. In most cases, that capacity had been checked or confirmed with the relevant parish. The reason the capacity number was multiplied by 3 was to provide a more consistent and comparative indicator between different churches. There are varying numbers of services each Sunday across our church properties, and the variation in numbers of services needs to be accounted for if meaningful comparisons about utilisation can be made. The reason that 3 times capacity was considered appropriate is that it reflects, by Diocesan standards, a reasonably active Church and reasonable use of a church building on a Sunday.

39. The capacity utilisation ratio was calculated for each church in the Diocese and relative positions determined in comparison to all other churches. Again, the key issue was not the absolute value of the ratio calculated, but rather the relative rating. Those buildings with a lower utilisation ratio were to be those buildings considered further for new capital purposes.

Compilation of a pilot group

40. After the calculation of the asset value and the capacity utilisation ratios for each parish, the relative rankings of churches were determined. The purpose of these rankings were to determine which parishes, relatively speaking, have a large amount of capital locked up in providing ministry for the existing congregation (measured by the asset value ratio) and had under-utilised church properties (measured by the capacity utilisation ratio). It was intended that between 15 and 20 of such properties in such parishes would be the first considered for the purposes of stage 1 of the Project.

41. When ranked according to each of these ratios, 62 parishes were found to be in the bottom 100 of each primary indicator. Where a parish ranked relatively high on one indicator, but relatively low on another the parish was not considered further for the purposes of stage 1 of the Project. Only those parishes that ranked relatively lowly on both indicators were further considered.

42. A range of other indicators, known as secondary indicators, were then applied to each of these 62 parishes. The secondary indicators are intended to measure (albeit, imperfectly) the ministry and financial health of the parish. The use of these secondary indicators reflects that the primary indicators, being solely measures relating to asset value and use, do not necessarily convey a full picture of the contribution to the Mission of ministry conducted from a particular property. Taken on their own, the primary indicators may give a distorted view about relative contributions to Mission activity.

43. The secondary indicators comprised the following -

Ministry

- Fellowship intensity
- Outreach intensity
- Average weekly offertories per adult
- Bible study intensity

Financial

- Offertories as a % of receipts

Church Life Cycle Model

- Offertory assessment

- Congregational assessment
- Overall assessment

44. In a number of cases, the use of the secondary indicators meant that a parish which ranked relative lowly on each of the primary indicators was not considered further. For example, if the secondary indicators suggested that a growing ministry was being conducted from a property, but that such growth was not necessarily reflected in the average attendance figures for Sunday services recorded in the data base, that parish was excluded and not considered further.

45. After the secondary indicators were applied, a further test was applied to each of the parishes not yet excluded. This test is known as the “common sense” test, and was applied in consultation with the bishops and archdeacons. The common sense test reflects the possibility that even after the primary and secondary indicators are used, there can be other important reasons why the property of a particular parish should not be further considered for the purposes of the Project. A typical example might be where ministry from a particular site is to undergo rejuvenation, and this is not yet reflected in the data on attendances, outreach or giving. Another example is where a particular site has significant iconic or heritage value, and it is unlikely that any property strategy could be implemented to generate significant amounts of new capital.

46. After applying the 3 stage test of the primary indicators, the secondary indicators and the common sense test, 30 parishes remained. As it was only intended that 15-20 parishes be considered for stage 1 of the Project (mainly because the limits on available resources prevented all 30 from being analysed in the time allowed) consultation with the bishops and archdeacons resulted in that number being reduced to 18 parishes for further analysis. This group of 18 parishes became known as the “pilot group”. The purpose of the pilot group was to test the proposition that strategies can be developed to raise significant amounts of capital for Mission purposes.

Consideration of the Pilot Group

47. Each of the parishes on the pilot group was contacted by the regional bishop and/or archdeacon and was asked for approval to have its property, or part thereof, considered in stage 1 of the Project. Particular care has been taken not to publicly identify any parish on the pilot group.

48. Approval to have property considered in stage 1 of the Project is not a commitment by the relevant parish to agree to implement any strategy which might be determined for that property to generate capital sums. The implementation of any strategy for a particular property is an issue to consider at a later time (not as part of stage 1 of the Project) and it is important to note that the parish's rights under section 26 of the Anglican Church of Australia Trust Property Act 1917 are fully preserved. Under that section no action can be taken in relation to parish property without the approval of the parish council of that parish.

49. At the date of this report, 3 of the 18 parishes forming part of the pilot group have declined to give approval for their property to be analysed as part of stage 1 of the Project. Accordingly, those parishes will not be considered further as part of that stage. Of the remaining parishes, 7 have given approval and, in each case, analysis of their property is underway. In relation to the 8 remaining parishes, the relevant parish councils are still considering their positions. In some cases, further information has been requested and provided to assist the parish council in making its decision. In other cases, the parish council has requested further discussions and these are under way.

50. It is not intended to rush parish councils in making a decision as to whether to participate in stage 1 of the Project. This will mean that the completion of stage 1 will be delayed beyond October 2005.

Determination of possible strategies

51. For each parish which has agreed that its property be analysed, a professional property consultant has been engaged. The cost of the consultant is a cost of the Project, for which funding has been provided by the Standing Committee. Generally speaking, the consultant is briefed to consider a range of strategies for the property, in accordance with a site consultant brief agreed with the regional bishop or archdeacon.

52. The work of the consultants usually begins with a site visit in conjunction with Secretariat staff and parish representatives. This enables the parish representatives to meet the consultants and for each party to be fully briefed about the work proposed to be undertaken by the consultants.

53. At the time of this report, the consultants engaged to consider the properties of those 7 parishes which have agreed to be part of stage 1 of the Project are still undertaking their work. Typically, it will

take 6-8 weeks for the consultants to complete their work and report about the possible strategies for a particular property. It is not expected that the first of the reports will be available before the end of August 2005. It is to be expected that particular strategies will be site specific, dependant upon a number of factors including zoning, location, ongoing ministry needs, local demand factors and, in some cases, heritage considerations.

54. The expectation is, however, that strategies will fall into one of 2 general categories - strategies which will produce a capital sum and those which will produce an income stream. For the purposes of the Project strategies which produce an income stream are considered to be strategies for new capital, since the development of significant income streams will enable the raising of large amounts of capital by way of borrowed funds.

55. The production of a capital sum typically requires that an asset be sold in its current or an enhanced form. The production of an income stream usually requires that an asset be leased in its current or an enhanced form. The strategy for a property will not necessarily provide for a whole site be sold or leased, or require that the entire site will cease to be available for parish use. In some cases, ministry will still need to be conducted from the site and the strategies for that site will need to take that into account. In other cases, ministry will cease.

56. Due regard also needs to be given to the desirability, where appropriate, to lease property on a long term basis, rather than sell it.

57. The report from each consultant will identify possible strategies for the site reviewed and the likelihood of generating capital for Mission purposes. The consultants will provide a recommended strategy for the site. If the report indicates there are no strategies likely to produce a capital sum which can be used for Mission purposes, then from a Project perspective no further consideration of the site is likely to be undertaken.

58. If the report indicates that there are strategies which will enable capital to be produced then discussions will take place with the parish to determine if the recommended strategy, or any other strategy, can be implemented. These discussions may take some time and, as previously indicated, a decision to implement a strategy requires the approval of the majority of the parish council under section 26 of the 1917 Act.

A word about monitoring of, and communication about, the Project

59. Given the sensitivities expressed about the Project, care has been taken to report as fully and as frequently as possible about its progress.

60. Throughout, stage 1 of the Project has been overseen by the Standing Committee. A major presentation about the progress of the Project was made to the Standing Committee in April this year. The Standing Committee has also been assisted in its oversight of the Project by the appointment of a project steering committee (comprising Archdeacon Terry Dein, Mr Clive Ellis, Mr Geoff Kyngdon and Mr Robert Tong) which met with the Secretariat staff on a regular basis to monitor progress and provided direction.

61. In addition, the bishops and archdeacons have been consulted at each step of the Project. In particular, all communications with parishes about the Project have been made by, or with the authority of, the bishops and archdeacons.

62. A major presentation was made to the Synod last year. Following that presentation, Synod members were invited to submit in writing any specific questions they had, and a commitment was given to reply to those questions shortly thereafter. Many Synod members took the opportunity to submit written questions. Unfortunately, because of unforeseen circumstances arising shortly thereafter (principally the serious illness and subsequent death of Terry Ogg the then Project director) it was not possible to reply to those questions with the specificity or within the time originally committed. Nevertheless, full, written responses to the commonly asked questions were sent to Synod members earlier this year, with a suggestion that Synod members write again to press any specific issue not answered by those responses. Some members took up the opportunity to press specific issues, and responses to those were subsequently provided.

63. As has been mentioned, in October 2004, 3 working groups were held to talk through the Project and provide input into the analysis underpinning the project.

64. In late 2004, the archdeacons provided briefings to parish clergy in their regions about the Project.

65. Various communications were then made with parishes during the course of the preparation of the Diocesan data base. These took the form of letters, telephone calls and/or visits.

66. In June and July this year, 17 mid project briefings were held for clergy, churchwardens, parish councillors and Synod representatives at various places throughout the Diocese. These were convened with the assistance of the bishops and archdeacons. These briefings comprised a presentation in which the rationale of the Project was explained and progress to date reported. During the presentation the Diocesan data base was demonstrated. Then at the conclusion of the presentation, the opportunity was given for questions and comments to be made. In total 152 parishes were represented at one or more of these presentations.

Current status - a summary

67. Accordingly, in summary, the current status of the Project is as follows -

- (a) The Diocesan data base has been created.
- (b) Work on determining whether our existing assets can be used to generate capital funds for Mission purposes is still being undertaken. A pilot group of assets has been identified, and strategy development work is underway.

68. It is unlikely that the work being undertaken by the consultants will be completed and the results analysed by Synod in 2005. In those cases where parishes are still considering whether to approve their property being considered as part of stage 1 of the Project, it is possible that approval may not be given nor consultants appointed until much later this year. Accordingly, the time for undertaking stage 1 is likely to run into the early part of 2006.

69. Unless the Synod otherwise directs, it is proposed to continue beyond October 2005 the work required to complete stage 1 until such time as that work is completed or the funding provided by the Standing Committee runs out.

70. The implementation of any strategies identified by the consultants is not part of stage 1 of the Project. It may follow when the reports from the consultants are received, assessed and discussed with the relevant parishes. At that time a decision will need to be made as to whether a second stage of the Project is commissioned to enable the implementation of such strategies to occur. The question of proceeding to implement strategies as part of the Project is likely to be influenced by 2 main issues. The first issue is whether the amount of capital likely to be raised justifies incurring the difficulties and risks inherent in proceeding to implement the strategy. The second issue is the willingness of the parish to give its approval. In connection with this second issue, the question of the proportion of the capital raised to be retained within the parish and how the capital for use in the Mission outside the parish is to be applied are probably significant factors for the parish to consider in determining whether to give its approval. It is expected that these matters will be resolved by discussion and negotiation at the appropriate time.

Recommendation

71. The Standing Committee recommends that the Synod receive this report.

For and on behalf of the Standing Committee

MARK PAYNE

General Manager, Parish Services

31 August 2005