

# CONGREGATION OF MARK THE EVANGELIST

## Annual General Meeting 29 March 2020

### MTEF Project Update

#### BACKGROUND

1. At the Congregational Meeting in September last year members were presented with a comprehensive update on the MTEF Project which outlined the progress with the Stage 3i application to Presbytery and Synod for approval of a full project plan for Option 5a+. Under this Option, the Elm St Church (formerly the hall) and the former Children's Centre were retained, with a new building to the north of the Elm St Church being of two levels to also accommodate the church offices. Members were informed of the range of factors which had been discovered so far during Stage 3i. At the same time members were advised that a series of challenges still remained, and to address these challenges a Project Review was being undertaken before any further expenditure on the Project was undertaken. A copy of the 22 September 2019 MTEF Project Update is on the MtE website should members wish to refresh their memory.

#### PROJECT REVIEW OUTCOME

2. The purpose of the Review of the Project Control Group's MTEFP strategy was to discover whether the Project remains robust in both a practical and financial sense. As part of this review, Mark the Evangelist was challenged as to how the inherent risks and costs of the Project could be reduced.
3. The Congregation is being encouraged to concur with Church Council on the cessation of MTEFP Stage 3i work on Property Option 5a+. This is not a 'single number' decision – it involves weighing up a range of interconnected factors. The question is "Are we still excited about where we are heading with the Project?"

The interconnected factors suggested by the MTEFP Review that require our attention can be summarised as follows.

##### a. Financial Robustness

- i. Significantly reduced divestment proceeds (between \$2m and \$4m) due partly to changed market and partly to now known heritage requirements and subdivision service costs totalling \$2.4m.
- ii. Congregational resources for contributing to its mission arm at current levels or for new mission initiatives are significantly reduced.

##### b. Forecast Cash Flow Model

- i. The November 2019 version of the Forecast Cash Flow model indicates that MtE reserves are exhausted between 2039 and 2042. In other words, the Congregation would have exhausted its reserves in around 19 to 22 years.
- ii. Financial 'sustainability' is understood to mean that with the possible 'tweaking' of assumptions such as the Congregation's allocation to its mission arm, the employment of a full-time minister and part-time administrative staff, and the size of its income generating reserves, MtE is able to continue with balanced budgets for a 25 year period.

##### c. Risk - Project duration

- i. Currently estimated at four years from the Subdivision Application. The Congregation, Church Council, and the Finance and Property Committee would continue to be pre-occupied with major building issues for that period.

- ii. The Congregation has been grappling with building issues for some 10 years already and it continues to be faced with unforeseen project delays.

**d. Risk – Cost Overruns**

- i. Based on our experience so far, the cost of Heritage and Site Services works are unlikely to be limited to the current estimate of \$2.4m. Although not planned to be a direct cost to MtE, these cost overruns will adversely impact the sale proceeds received.
- ii. It is quite possible that there will be further unforeseen Project costs associated with the refinement of the Option 5a+ Concept Design to the Schematic Design stage.

**e. Risk – Heritage and Subdivision Requirements**

- i. Lovell Chen, one of the most experienced heritage architects in Melbourne, have indicated they have not experienced before the bonding of Heritage Victoria’s essential renovation works to a sale contract. This is a new area for them. Such a bonding process will be further complicated by the proposal to require the purchaser also to undertake substantial subdivision services works as part of the sale process.

**f. Risk – Divestment**

- i. Reduced buyer pool. The more that is known about the subdivision and heritage obligations associated with this site, the smaller the pool of interested buyers.
- ii. The proposed linkage of subdivision service and essential heritage works with the sale contract is to avoid an MtE obligation to finance (\$2.4m) and undertake these works. We are advised that legally this is possible, but the process would be complex and would involve further unknowns in cost, timing and sale proceeds.

4. On 6 February 2020, Church Council agreed with the Project Control Group that on current assumptions, maintaining Congregational and Hotham Mission operations at present levels, Options 5a+ (with either 2- or 8-lot subdivisions) are not feasible, taking into account the anticipated risks and projected financial outcomes of the project.

## **OPTION 8 PRELIMINARY FEASIBILITY**

- 5. Between December 2019 and February 2020, the Finance and Property Committee and the Project Control Group considered a new project variation - Option 8 - which involved selling only the commercial and residential block on the corner of Curzon and Queensberry Streets and using the proceeds to develop Union Memorial Church as a two-level worship and office rental building.
- 6. A preliminary feasibility study was prepared by Synod Property Services and the Finance and Property Committee made several suggestions for refinement, as a result of which the bottom line was that there would need to be a \$600,000 contribution from current Mark the Evangelist reserves to add to the property sale proceeds to meet the costs of this Option 8 project. On the positive side, the rental income resulting from this project is estimated to be very close to the current MtE property income. This would mean that almost all the current allocation to Hotham Mission could be maintained.
- 7. Even with the financials of Option 8 as outlined above, FPC was of the view that the risks associated with this option were too great to manage. In summary, the key risks are around heritage, subdivision, commercial rezoning and the larger maintenance sinking fund required.

8. Taking all into account, the Project Control Group resolved that Option 8 be not progressed as the preliminary study shows it to be not worth further examination. On 5 March 2020 Church Council concurred with this conclusion.

## **OPTION 5A+ SENSITIVITY ANALYSIS**

9. The Forecast Cash Flow model for the 2-Lot version of Option 5a+ has been reviewed to examine the likely effect of changing two of the key assumption of the Project.

The sensitivity analysis was undertaken by reducing the annual allocation for Hotham Mission from \$159,500 to \$120,000 (25%) and by assuming the expenditure on a new single level building behind the Hall would be reduced by 50% to \$1.75m as compared with \$3.77m for the two-story building in Option 5a+. These changes would result in:

- a. \$1.36m of the sale proceeds (formerly zero) being shared with the wider church;
  - b. \$1.77m of the sale proceeds (formerly zero) being placed in an IOMF for the benefit of MtE; and
  - c. The Forecast Cash Flow model showing that the MtE reserves would be extended by six years (2039 to 2045).
10. While these changes represent an improvement on the negative financial outcome determined for the unchanged 2-Lot version of Option 5a+, they are relatively small. Moreover, they have little effect on the significant heritage, subdivision, design, duration, cost over-run and divestment risks already identified through the Stage 3i process for Option 5a+.
  11. Further sensitivity was undertaken on MtE operating revenue and expenditure with forecast staffing reduced by \$50k at year 11 which extended the timeframe for MtE reserves from 2045 to 2053 (8-years).
  12. The conclusion of the Project Working Group was that the sensitivity analysis undertaken provided little encouragement for a sufficiently positive financial and practical outcome by modifying Option 5a+. On 5 March 2020 Church Council concurred with this conclusion.

## **DECISIONS OF CHURCH COUNCIL**

13. At its meetings on 6 February and 5 March 2020, Church Council resolved:
  - a. That on current assumptions, maintaining Congregational and Hotham Mission operations at present levels, Options 5a+ (with either 2- or 8-lot subdivisions) are not feasible, taking into account the anticipated risks and projected financial outcomes of the project;
  - b. That Option 8 be not progressed as the preliminary study shows it to be not worth further examination; and
  - c. that the congregation be asked to endorse the above Church Council resolutions (a. and b.) at a meeting subsequent to the AGM.
  - d. that Church Council develop a process to help the congregation towards deciding on an off-site relocation option.

**Church Council  
5 March 2020**