

CONGREGATION OF MARK THE EVANGELIST

Congregational Meeting 22 September 2019

MTEF Project Update

BACKGROUND

1. Church Council and the Congregation completed Stage 2B of the MTEF Project by agreeing on the Property Option to be followed in the subsequent Stage 3i.
 - a. In December 2016 the Congregation agreed that Property Option 5a+ be progressed to the next stage of the Project approval process. Under this Option, the Elm St Church (formerly the hall) and the Elm St Cottage were retained, and a large meeting room was to be constructed to the north of the Elm St Church.
 - b. Property Option 5a+ was approved by Church Council in March 2017 and by Synod Property Board in June 2017.
 - c. During 2017 and 2018 Synod Property Services proceeded to explore alternative approaches to the Project as recommended by Synod Property Board after which Property Option 5a+ was confirmed for Stage 3i.
 - d. MTEFP Stage 3i was initiated in June 2018 with the appointment of Gauge Property as Development Advisor / Manager.
 - e. During the course of Stage 3i and with the approval of Church Council and the Project Control Group, Property Option 5a+ evolved into one with the new building to the north of the Elm St Church being of two levels (to also accommodate the church offices) with the Elm St Cottage to be divested also as surplus to MtE needs. These changes were accompanied by consultant assurances that at minimal cost to Mark the Evangelist and with the approval of Heritage Victoria, subdivision and satisfactory sale of the surplus property was achievable.

PROJECT DISCOVERIES

2. Over the course of Stage 3i from December 2018 we have discovered what is entailed for us to:
 - a. Subdivide the property into 8 lots;
 - b. Document and guarantee the restoration of the “heritage” Lot 2 – that containing Union Memorial Church, the Manse and the Elm St Cottage - to the satisfaction of Heritage Victoria;
 - c. Sell all 7 surplus lots (including Lot 2) while retaining the Elm St Church (the Hall) and space to the north for the construction of a new two-level building extension with vehicle access through to Queensberry Street;
 - d. Sell Lot 2 containing Union Memorial Church, the Manse and the Elm St Cottage before we sell any of the other lots (in accordance with Church Council’s decision);
 - e. Construct a new two-level building extension to the north of the Elm St Church for church office space, meeting rooms and a kitchen;
 - f. Continue to contract and pay for Development Advisor / Management services through to the conclusion of Stage 3i, currently estimated to be May 2020.

CHALLENGES

3. As we have progressed through Stage 3i of the Project, we have discovered several difficulties which were unknown at the time of its commencement. These difficulties involve both complexity and consequent increased costs.
 - a. The 8-lot subdivision has become a particularly complex and costly exercise; the task of providing services for all 8 lots will involve an extensive program of underground development works.
 - b. The estimated cost of providing separate services for the 8-lot subdivision starts at \$900,000 with new water and sewerage services for Lots 1 and 2 not yet included. The total services cost will escalate considerably. The benefit of this investment may not be justified in terms of a significant increased return from the divestment of the surplus property in multiple lots.
 - c. There remains uncertainty about the timeframe for obtaining the subdivision permit and then undertaking subsequent certification and compliance works. The total of this subdivision activity could be in the order of 18-24 months.
 - d. The decision to sell the heritage Lot 2 first would add 12-24 months to the sale process because Gauge Property anticipates that the purchaser of Lot 2 would require an extended settlement.
 - e. No account has yet been taken of the City of Melbourne Public Open Space levy of 5% of the value of the entire site, which could be of the order of \$500,000.
 - f. For Heritage Victoria approval of any subdivision application, they will require heritage restoration conditions which are envisaged to be extensive and rigorous involving a guarantee mechanism of around \$1.3 million in value which would need appropriate sale contract provisions to be transferred to the purchaser of Lot 2 (UMC, the Manse and the Cottage).
 - g. For Gauge Property (and Synod Property Services?) there remains little confidence in Heritage Victoria providing a manageable response to both the subdivision and proposed heritage works.
4. Furthermore, the duration of the Stage 3i program has almost trebled on account of unplanned activities. Monthly payments under the original time-bound Development Advisor / Manager (Gauge Property) contract came to an end in May 2019. The contract extension proposal received from Gauge Property was considered by the Project Control Group to go beyond the current stage of the project and be unacceptable in design and fee. Gauge has not yet provided a revised proposal.

PAUSE AND REVIEW PROPOSAL

5. As a result Church Council is of the view that Mark the Evangelist should pause the Project and not proceed with any new activities at this stage. The activities to be completed will include the Gauge Property Real Estate Agency and Revenue report, the finalisation of the Hodgkinson UMC Survey quotation (for a geotechnical inspection of the east wall and monthly monitoring of structural movement in all walls), and the responses to PCG #14 requests to Gauge Property for outstanding minor Project tasks.
6. During this pause Church Council proposes that the Project Control Group's MTEFP strategy be reviewed to ensure the Project remains robust in both a practical and financial sense. As part of this review, Mark the Evangelist will be challenged as to how the inherent risks and costs of the Project could be reduced.
7. The primary aim of the pause is to enable Mark the Evangelist and the PCG to confirm the current direction given the new information we have discovered so far. If the review indicates that the current direction is the most appropriate, then the PCG will recommend that to Church Council. If the review indicates otherwise, the PCG will revisit previously discarded options to assess their viability compared to the current direction.

8. This review is expected to take up to eight weeks. It is hoped that the outcome of the review will be reported to Church Council at its November meeting. The review report will include a recommendation to the PCG as to next steps.
9. Synod Property Services staff are ready to assist Mark the Evangelist with this review.
10. It is intended that, apart from the cost of the Gauge Property work identified in point 5 above and the continuation of the Property Services fee, no other external contractor costs will be incurred during this pause and review period without the explicit direction of Mark the Evangelist Church Council.

RESOLUTIONS

11. At its meeting on 5 September 2019, Church Council resolved:
 - a. That the MTEFP Progress Report of 1 September 2019 be received;
 - b. That it be recommended to the Project Control Group:
 - i. that Mark the Evangelist's Finance and Property Committee with the assistance of Synod Property Services reviews the Project Control Group's MTEFP strategy to ensure the Project remains robust in both practical and financial terms;
 - ii. if the review does not indicate Project robustness to the satisfaction of Mark the Evangelist, that FPC and SPS revisit previously discarded project options to assess their viability compared with the current direction; and
 - iii. that no currently scheduled Program activities be undertaken during the review;
 - c. that the case for Council's MTEFP review resolutions be presented to the MtE Congregation at an information meeting on Sunday 22 September.

Finance and Property Committee
12 September 2019