

**Report to the Cathedral Project Group**

**on the**

**Financial Risks of Cathedral Options**

**Prepared by G Holley, 25 March 2013**

## **Executive Summary**

A comprehensive process of review of options for a Cathedral in the Square has been undertaken by the Cathedral Project Group (CPG) and the Church Property Trustees (CPT). This has resulted in numerous reports and analyses which provide important data, information and advice on the options.

The purpose of this report is to both: (i) summarise and comment on the financially focused professional reports received, (ii) provide further necessary financial information and context, and (iii) provide opinions as might be considered appropriate. It is intended that this report will assist the CPG in any current and future discussions and decisions.

This report concludes that:

- The difference between the best build timeframe for the lowest cost option, and the worst build timeframe for the highest cost option, is estimated at a \$130m difference.
- There is significant fundraising risk and this risk increases with the costs of the options and the resulting fundraising requirements, to a potential maximum shortfall of \$191m for a replica rebuild.
- A detailed risk analysis identified the deconstruction/demolition and building a 'part old and part new' or a modern building (using some recovered material) as the lowest risk options, and the maximum retention and replica rebuild options as the highest risk options.
- The cumulative financial shortfall for the ERP is approximately \$50m before any consideration of a Cathedral build.
- The Cathedral is a separate financial entity and cannot rely on top-up funds from parish and Diocesan assets or CPT should it encounter financial difficulties.

## **Introduction**

This report will outline the financially focused reports received, and discuss:

- Time and Cost Escalation Risk
- Fundraising Risk and Cost
- Financial Risk Analysis
- Comprehensive Earthquake Recovery Programme Risk
- CPT and Diocesan Financial Resources

## **Reports Analysis**

The CPG are in receipt of three reports that deal primarily with financial matters of the Cathedral options:

1. Cost estimates provided by the quantity surveyors Davis Langdon.
2. Fundraising Options provided by Global Philanthropic.
3. Financial Risk Analysis developed in consultation with BDO.

Key aspects of the above reports will be discussed under the relevant headings within this report.

### **Time and Cost Escalation Risk**

There are a wide range of potential timeframes that could occur for the various Cathedral options. These have been reported on by Davis Langdon, Quantity Surveyors. At the low end are the best case scenarios involving deconstruction/demolition and building a 'part old and part new' or a modern building (using some recovered material) – an estimated timeframe of 4.5 years. At the high end are the worst case scenarios involving maximum retention and a replica rebuild – an estimated timeframe of 22 years.

It should be noted that a rebuild timeframe for a replica, potentially stretching into decades, has been raised as being not unlikely by various parties, including the Historic Places Trust (HPT) and the Great Christchurch Buildings Trust (GCBT). The consequence of this is that a replica rebuild (using a 22 year timeframe) could cost up to \$192m - \$196m excluding fundraising costs. Conversely, the best case scenario for a modern Cathedral (using a 4.5 year timeframe) could cost up to \$60m excluding fundraising costs. The difference between these two scenarios is a \$130m.

### **Fundraising Risk and Cost**

In order to provide full information for decision making purposes the CPG have sought independent, external fundraising advice., The CPG commissioned Global Philanthropic (a professional, respected and successful fundraising firm) to report on the fundraising risks and likelihoods of the options. We note, to date, that there have been no firm, formal offers to CPT that bridge the significant gap in the shortfall of funds.

The report found that the options of deconstructing/demolishing and building a 'part old and part new' or a modern building (using some recovered material) were in their opinion the options most likely to succeed in achieving the necessary levels of fundraising.

Overall the Global Philanthropic report discusses the risk of a fundraising shortfall as increasing in line with levels of fundraising required. From a fundraising perspective the most expensive build is therefore generally the riskiest and the least expensive generally the most safe.

Another key financial risk is that of the cost of fundraising. The cost of fundraising is estimated to be an additional 10% to 15% of the fundraising target. This would mean that fundraising for a \$100m shortfall would require a fundraising target of between \$110m and \$115m. The larger the fundraising target the more additional risk there is due to fundraising costs. The offer of 'free fundraising' communicated in the media is in fact free fundraising advice and does not cover the more significant costs such as employing internal fundraisers, hosting events, travel costs and disbursements.

The risk profile of any of the options can be materially affected by the extent to which the arguably most significant potential donor, the government, might be prepared to assist. Rob Hall (GM Southern, HPT), at the Christchurch City Council Earthquake Forum held

21 March 2013, advised that “it is unlikely that there will be a contribution of central Government funding given the size of this project and other similar situations being faced by other churches and organisations”.

The estimated total shortfalls required to be met through fundraising (and including the cost of fundraising itself) are summarised in the table below. It can be seen that, depending on the option, the estimated total shortfalls range from \$25m for a modern Cathedral (low end timeline) to \$191m for a replica rebuild (high end timeline).

Estimated Shortfalls Required to be met by Fundraising

Scenario	Replica Rebuild		Part Old Part New			Modern
	GCBT Max Retention	Holmes Max Retention	Interim Stabilisation	Deconstruct to Sill	Deconstruct Entirely	Demolish
Low End	<b>\$74m</b>	<b>\$76m</b>	\$49m	\$55m	<b>\$33m</b>	<b>\$25m</b>
High End	<b>\$187m</b>	<b>\$191m</b>	\$75m	\$151m	<b>\$53m</b>	<b>\$44m</b>

No fundraising options are certain to achieve their targets. There is therefore significant fundraising risk and this risk increases with the costs of the options and the resulting fundraising requirements, to a potential maximum shortfall of \$191m for a replica rebuild.

### **Financial Risk Analysis**

A comprehensive financial risk analysis, developed in consultation with BDO, was undertaken in order to develop an understanding of the many risks, and the estimated consequences and likelihoods, impacting the financial viability of the Cathedral options.

The analysis considered most of the major risks discussed within this report and also considered specific detailed risks such as:

- The current and possible future global economic conditions
- Foreign exchange rate fluctuations
- Political and legal influences
- Donor lethargy

In summary, the report identifies the deconstruction/demolition and building a ‘part old and part new’ or a modern building (using some recovered material) as the lowest risk options, and the maximum retention and replica rebuild options as the highest risk options.

## **Comprehensive Earthquake Recovery Programme (ERP) Risk**

The Canterbury earthquakes have directly and indirectly exposed CPT and the Diocese to various financial risks. These financial risks must necessarily reduce the residual risk appetite of CPT for any new projects. The most significant financial costs/risks are:

1. An estimated shortfall of losses incurred versus insurance proceeds (received and yet due) of \$20-30m. This excludes the Cathedral.
2. Risks such as:
  - a. cost adequate scoping of damage,
  - b. time delays and cost escalation,
  - c. costs not covered by insurance, and
  - d. project management controlfor the approximately 200 repairs and rebuilds.
3. An estimated cost of \$11m to identify and strengthen Earthquake Prone Buildings across the Diocese.
4. The need for land and buildings (churches, halls and vicarages) in new and expanding subdivisions to an estimated cost of \$10m.

The cumulative financial shortfall is therefore up to approximately \$50m before any consideration of a Cathedral build.

## **CPT and Diocesan Financial Resources**

The Trustees are aware that, despite views held by some to the contrary, CPT has very limited financial capability in its own right. CPT holds assets on behalf of the parishes, Cathedral and Diocese. The Trustees do not hold any assets in their own right and therefore have no 'reserves' to assist any parish or the Cathedral in the event of a financial shortfall. In addition, CPT cannot legally utilize parish assets for the benefit of the Cathedral or other parishes.

The ability of the Diocese to respond should the Cathedral build project require financial assistance is also negligible. The Diocese currently struggles to fund its existing operations from limited revenue sources. Financial assets held by the Diocese are entirely dedicated to generating income for its operations and there is no capacity to assist capital projects.

The Cathedral is a separate financial entity and cannot rely on top-up funds from parish and Diocesan assets or CPT should it encounter financial difficulties.

## **Summary**

The following are the key conclusions of this report:

1. The difference between the best build timeframe for the lowest cost option, and the worst build timeframe for the highest cost option, is estimated at a \$130m difference.

2. There is significant fundraising risk and this risk increases with the costs of the options and the resulting fundraising requirements, to a potential maximum shortfall of \$191m for a replica rebuild.
3. A detailed risk analysis identified the deconstruction/demolition and building a 'part old and part new' or a modern building (using some recovered material) as the lowest risk options, and the maximum retention and replica rebuild options as the highest risk options.
4. The cumulative financial shortfall for the ERP is approximately \$50m before any consideration of a Cathedral build.
5. The Cathedral is a separate financial entity and cannot rely on funding top-up from parish and Diocesan assets or CPT should it encounter financial difficulties.

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