Report

TO: Council

FROM: Chief Executive Officer

MEETING DATE: 24 November 2014

SUBJECT: **FORSYTH BARR STADIUM REVIEW**

SUMMARY

Following Council endorsement of the Chief Executive Officer's decision to undertake a review of the Forsyth Barr Stadium (the Stadium), the work has been undertaken looking primarily at the operation and ownership of the Stadium. A number of options were considered in detail and these are fully articulated in the body of the report.

The review has highlighted a number of factors that need to be resolved if the Stadium is to continue to operate. These factors are: the lack of funding for renewals, the level of rent and the amount of debt. The factors are linked and need to be considered together. Any solution will have financial implications for the ratepayer and these are covered in the report.

The Council first needs to determine if it wishes to continue to operate a Stadium. The report considers this and recommends that the Stadium continues to operate.

Following that recommendation, the various issues that need to be resolved around the ongoing operation are then considered and options are presented for each. The first issue that is canvassed is the lack of adequate renewal funding for the Stadium and concludes that an allowance needs to be made for this. The review recommends a level of renewal funding that is adequate for the next 10 years.

The issue of the level of rent that the operators of the Stadium, Dunedin Venues Management Limited (DVML) are required to pay is examined. The rent is currently assessed at $4 million per annum and the report recommends that the rent is re-evaluated with the expectation that the re-evaluation will likely determine the level is too high. Any rent reduction will mean that there is a shortfall in funding for debt repayment that will need to be addressed.

The level of debt associated with the Stadium is also considered in the review and the recommendation is that the debt which sits with Dunedin Venues Limited (DVL - the current owners of the Stadium) is too high. The report recommends that $30 million of debt is transferred from DVL to the Council but this transfer does not affect the overall debt position of the group.

The ownership arrangements for the Stadium are canvassed in the review and a change is recommended that will allow the other matters (rent, debt and renewals) to be delivered in a way that is both transparent and has the least financial impact on the ratepayer. The review recommends that both DVL and DVML are made subsidiary companies of Dunedin City Holdings Limited (DCHL) and their Boards are separated with membership that is independent of each other. This change in ownership provides a consistent mechanism for the governance of all the Council's Council Controlled Trading Organisations (CCTOs) and also maintains the various commercial benefits of continuing to have separate company structures owning and operating the Stadium.

SUMMARY (CONTINUED)

The net effect for the ratepayer if all these recommendations are accepted is that an additional $1.810 million per annum of ratepayer funds will be required for the next 10 years to enable the Stadium to operate on a sustainable basis. The options would need to be refined and developed further for incorporation into the draft 2015/16 – 2024/25 Long Term Plan.

The financial implications of the recommendations can be summarised in Table 1.

Table 1

Annual Ratepayer Contribution to the Stadium	**Existing Ratepayer Contribution**	**Proposed Ratepayer Contribution**	**Increase / (Decrease)**
Foregone Dividend (debt servicing)	5,250,000	5,250,000	0
Cash to DVL (debt servicing and renewals funding)	2,000,000	2,550,000	550,000
Payments to DVML (operational)	2,590,000	1,150,000	(1,440,000)
DCC annual cost of $30 million debt		2,700,000	2,700,000
Total Ratepayer Contribution to the Stadium	**9,840,000**	**11,650,000**	**1,810,000**

The review has confirmed that the original Stadium budget was optimistic and now that the cash reserves (from membership sales) have been expended, there is an annual deficit that has to be funded – it is this realisation which has resulted in this review. The recommendations deal with this ongoing budget shortfall and the other issues of rent, renewal funding and debt.

IMPLICATIONS FOR:

(i) **Policy:**	Yes – potential impact on Financial Strategy which will need to be considered as part of the 2015/16 – 2024/25 Long Term Plan process.
(ii) **Approved Annual Budget:**	Yes – additional funding required in the 2014/15 year will be reported separately to the Council.
(iii) **LTP/Funding Policy:**	Yes – the recommendations will require additional funding, ownership changes and the transferring of debt within the group.
(iv) **Activity Management Plans:**	No
(v) **Community Boards:**	No
(vi) **Sustainability:**	No

RECOMMENDATIONS

That Council:

1. Continues to operate the Forsyth Barr Stadium.
2. Replace the DVL directors with the DCHL directors as an interim arrangement while the governance arrangements are reviewed.

That via consultation in the draft 2015/16-2024/25 Long Term Plan, the Council:

3. Transfers ownership of DVL (owner of the Stadium) and DVML (operator of the Stadium) to DCHL.
4. Reviews the rental for the Stadium.
5. Funds the renewals requirement of $10.464 million for the period 2015/16-2024/25.
6. Transfers $30 million debt from DVL to the Council.
7. Amends the Financial Strategy to modify the debt limit and debt ratios to accommodate this additional Council debt as part of the 2015/16-2024/25 Long Term Plan process.
8. Notes that staff will report back prior to the 2015/16-2024/25 Long Term Plan meeting in January 2015 on options to minimise the impact of the proposed changes on ratepayers.

INTRODUCTION

In January 2014, the Council endorsed the Chief Executive Officer's intention to conduct a comprehensive review of the Stadium's financial and operating/ownership model.

That review has now been completed and this report summarises the project group's findings and recommendations.

The Report is broken into three sections – essentially three decisions that need to be made in relation to the future of the Stadium. The first section considers whether the Stadium should be kept or demolished. The second considers how the Stadium should be owned and the final section looks at how it should be funded.

OBJECTIVE

The Stadium has been operating for more than two years and during that time it has consistently been unable to meet its annual budget. The Statement of Intent for the 2014/15 year onward forecasts an ongoing annual loss. The original financial projections which were used to develop the operating model were based on a series of assumptions which were subject to external peer review and approvals processes at the time but have proven to be optimistic.

The key issue to be addressed with this review is the financial viability of the Stadium. This has been done by using the following objectives as drivers for the review:

- is sustainable
- enables the Stadium to be managed and governed in the most efficient and effective manner
- reduces financial risk
- provides a degree of certainty to ratepayers.

The success of the Stadium companies was dependent on the ability of DVML to contribute a certain amount towards interest costs and debt repayment. The financial results to date and the most recent DVML budget have proven that this can now only be achieved with additional financial assistance from the Council and ratepayers.

This situation has led to the preparation of this review report.

APPROACH

The review has been carried out by the Council, with the assistance and input of Dunedin City Holdings Limited (DCHL) and DVML.

A project group was established with the following membership:

- Project Sponsor, Sue Bidrose, Chief Executive Officer, Dunedin City Council
- Graham Crombie, Chairperson, Dunedin City Holdings Limited
- Sir John Hansen, Chairperson, Dunedin Venues Management Limited and Dunedin Venues Limited
- Grant McKenzie, Group Chief Financial Officer
- Terry Davies, Chief Executive Officer, Dunedin Venues Management Limited and Dunedin Venues Limited.

The review process has been comprehensive. Input has been sought from various parties and external advice has been taken where necessary.

At the outset the review group defined a series of underlying principles to use as a benchmark as they worked through the review process. These were:

- **Sustainability** – establishing a financially viable and economically sustainable operating model that can be maintained over the long term
- **Financial prudence** - setting realistic, financially prudent and achievable budgets
- **Certainty to Council** – providing greater certainty to the Council, and ultimately ratepayers, about future funding requirements
- **Best principles in governance** – ensuring appropriate levels of governance accountability are promoted and maintained at the entity and group level
- **Transparency** – that the financial model is easily understood and clearly identifies costs, liabilities, opportunities and risks
- **Community outcomes** – the impact on economic and social outcomes for Dunedin city.

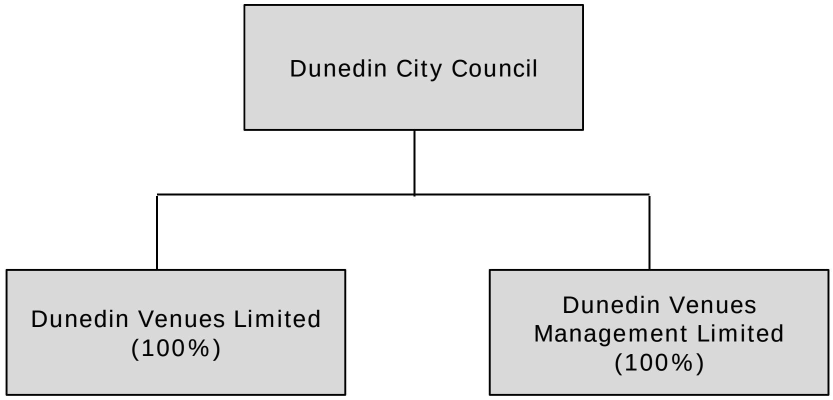
The project group sought input from a wide range of internal and external parties and the project group would like to acknowledge the assistance provided by these parties to this review.

BACKGROUND

This section provides background information on the structure of the companies, the financial situation, existing ratepayer contributions, the debt position and the rating differentials.

The Council owned the Stadium while it was being built. It was then transferred to DVL, a CCTO, which continues to own the Stadium today. The Stadium is operated by another CCTO, DVML. The two companies are directly owned by the Council as follows:

Figure 1



The purpose of the two stadium companies can be summarised as follows:

Dunedin Venues Limited (DVL)

The purpose of DVL is to own and maintain the Stadium asset and service the debt. The ownership of the Stadium was transferred from the Council to DVL in May 2012 at a value of $225 million. At the time the amount of debt owing on the Stadium was $146.6 million. At 30 June 2014, the debt was $138.6 million.

Income for this company comes from a rental from DVML for hiring the stadium and ratepayer contributions in the form of subvention payments[1] from the Council's operating companies (who are part of the DCHL group of companies) and from cash payments from the Council. The existing model is based on the Stadium (DVL) eventually generating cashflow surpluses once debt is repaid.

Dunedin Venues Management Limited (DVML)

The purpose of DVML is to operate the Stadium. When DVML was established in 2009 to operate the Stadium, it was anticipated that there would be benefits from separating the operational management and ownership functions of the Stadium and creating two independent entities that would operate on a fully commercial basis. Rental for the Stadium was assessed by Darroch Limited as the market rental and DVML pays $4 million rent each year to DVL.

DVML currently operates the Stadium, Porters Lounge at the Dunedin Railway Station and the Dunedin Centre.

The income for this company comes from a range of sources including events, membership products, sponsorship and support from the Council for community events and event attraction funds. DVML expenses include the costs to service these events and rental for the Stadium paid to DVL of $4 million per annum.

Financial Performance

The financial model approved by the Council set a Stadium rent at a level that was believed to be sufficient to service $4 million per annum of interest and debt repayment held by DVL.

It is now clear that the level of the rent was unrealistic. A number of factors have changed since then but the budgets were, and have continued to be, too optimistic. The actual financial performance of DVML has fallen short of the original expectations that the $4 million rental charge was based on.

[1] A subvention payment is a tax practice where a payment is made from a profit company to a loss company within a tax group.

In the years following its opening, annual losses have been recorded in DVML.

The draft budgets submitted for the 2014/15 – 2016/17 years showed an ongoing operating deficit. This situation prompted the review as it was clear that the financial situation was not sustainable. The deficit was based on a number of assumptions including income projections based on the likely revenue from international rugby matches, the impact of the Rugby World Cup and a non-international year in 2015, as well as an assumed decrease in corporate membership renewals.

These assumptions have been reconsidered and the budgets recast and this forms part of the discussion later in the report. The recast figures still show ongoing operating deficits. The recommendations in this report provide a possible solution to funding issues from 1 July 2015, but there is still a likely shortfall in the 2014/15 financial year that needs to be addressed. An early indication is that additional funding of around $1 million will be required in the current financial year, but a separate report will be provided to the Council on this issue (including possible funding sources) before the end of the financial year.

Ratepayer Contribution

As part of the 2014/15 Annual Plan process, the Council approved a one-off lump sum payment to DVML as well as additional ongoing funding in the budget, to address the immediate budget shortfall in DVML, as follows:

1. Providing cash in June 2014 of $2.271 million. This enabled the settlement of all DVML's debt and provided additional cashflow.

2. An annual ratepayer contribution of $715,000 per annum.

Both of these amounts were offset by savings elsewhere in the Council budget.

These payments increased the annual ratepayer contribution from $9.125 million to $9.840 million per annum in the 2014/15 Annual Plan. However, it was also noted at the time that the $725,000 payment included in the 2013/14 Annual Plan for four years only, would become an ongoing payment, pending decisions made after the Stadium review was completed.

These changes were required because the Stadium review was still in progress at the time the 2014/15 Annual Plan budgets were being finalised. They provided sufficient funding for DVML in the 2014/15 year, and enabled the repayment of their debt earlier than originally planned.

A breakdown of the ratepayer contribution is shown in Table 2 below, followed by a more detailed explanation of each funding line. Of the $9.840 million ratepayer contribution, $7.250 million is for debt servicing (interest and debt repayment) and $2.590 million is for operational costs.

Table 2

Ratepayer Contributions	**$**
Debt Servicing (DVL)	
1 Foregone dividend	5,250,000
2 Cash	2,000,000
Subtotal	***7,250,000***
Operating (DVML)	
3 Community Access	750,000
4 Event Attraction Fund	400,000
5 Cash	1,440,000
Subtotal	***2,590,000***
Total Ratepayer Contribution	**9,840,000**

1 An annual amount of $5.250 million via a reduced dividend from DCHL. The reduced dividend from DCHL means the Council has to collect more general rates. Therefore, rates are $5.250 million higher. The $5.250 million paid to DVL is used to make interest and loan repayments.

2 An annual amount of $2 million, paid directly to DVL to make loan repayments.

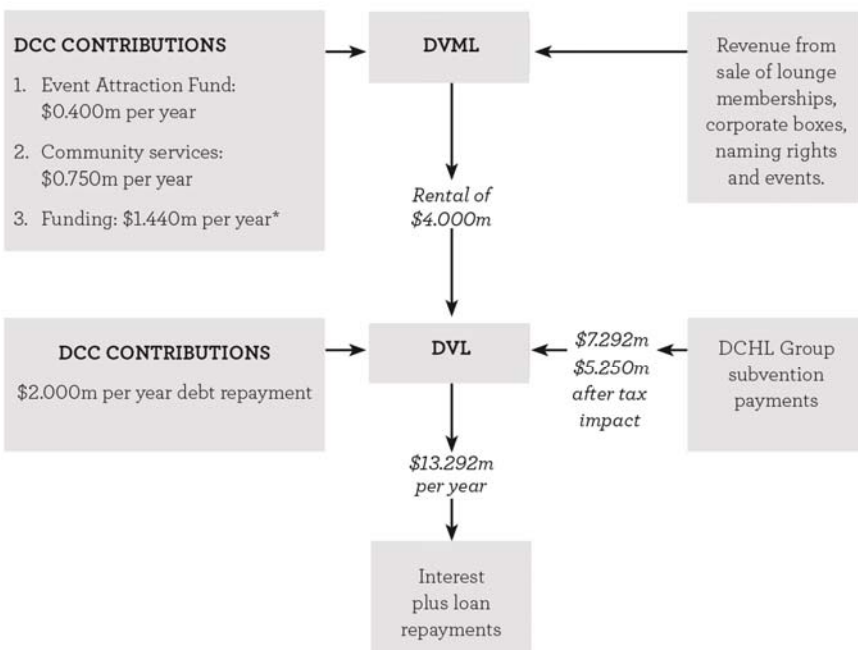
3 A service level payment of $750,000 is paid directly by the Council to DVML in exchange for a range of community services provided at the Stadium. These services include promoting and managing events for wider community use at discounted rates.

4 An Events Attraction Fund of $400,000 per annum to secure major events at the Stadium. This funding is used by DVML, and is covered by a Service Level Agreement with the Council.

5 An annual amount of $1.440 million paid directly to DVML. This funding is provided to DVML from the 2014/15 year onwards and is an interim solution in the 2014/15 Annual Plan to address the budget shortfall until the outcome of the Stadium review is known.

The graphical representation below shows how the stadium transactions flow among the Council-owned entities.

Figure 2



*This funding is provided as an interim solution to address an immediate shortfall in the DVML budget while the Stadium review is conducted.

Debt

DVL

When DVL took over ownership of the Stadium it also took over the debt associated with building the Stadium. The total debt transferred to DVL on 31 May 2012 was $146.6 million. The debt is divided into two loans:

1. The first loan of $29 million will be repaid over 10 years. DVML pays an annual rental income of $4 million to DVL which provides the funding for DVL to make the annual repayments on this particular loan. The balance of this loan at 30 June 2014 was $25.3 million.

2. The second loan of $117.6 million will be repaid over 18.5 years. Interest and principal repayments on this debt are funded by the $7.292 million per annum (item 1 in Table 2 on page 6) paid to DVL as an annual subvention payment from a Council-owned company, Aurora Energy Limited. After the impact of tax, this payment equates to the foregone dividend the Council would have received. The Council also pays $2 million to DVL to go towards interest and debt repayment (item 2 in Table 2 on page 6). The balance of this loan at 30 June 2014 was $113.3 million.

It should be noted that the assumption is that all interest is charged at 6.5% and that changes in interest rates will alter the figures used above.

DVML

When the review of the Stadium commenced, DVML debt was forecast to be $1.771 million on 30 June 2014. As discussed earlier in this report, during the 2014/15 budget process, the Council approved an additional one-off payment to DVML that enabled this debt to be repaid in full in June 2014.

An issue arose with the accelerated repayment of the debt relating to the Stadium Vision system which accounted for $0.998 million of the debt. If this debt was repaid earlier than planned, DVML would incur penalty interest.

In order to avoid this, and to ensure that the funding for the early repayment was retained for its original purpose, the debt was assigned to Dunedin City Treasury Limited (DCTL) who now have the debt and the funding to repay it.

Rating Differentials

In addition to the annual ratepayer contribution, the Council has rating differentials for the Stadium. The 2012/13 year was the first year the Stadium was included on the Council's rating roll.

When the Council considered the impact of this in January 2012, it was uncertain what the rating value of the Stadium would be but it was anticipated at the time to be between $175 million and $200 million. This would have meant a rates bill for the Stadium of between $1.8 and $2 million including GST. The Stadium budget had provided $200,000. DVML would be unable to pay these rates without additional funding being provided by the Council, and then immediately returned as rates.

In order to moderate the rates burden on the Stadium, avoid the potential flow-on effects on Council funding requirements and on other properties in Dunedin, the Council approved the introduction of new rating differentials for the Stadium.

The new differentials meant that the Council set the rates at specified amounts for the rates based on capital value. The total amount to be collected from the rates for the 2012/13 year was equivalent to the estimated rates that the Council would have collected from the Stadium land if the Stadium hadn't been built. These were estimated to be $134,000 excluding GST. These have been increased by the annual September CPI for the following two years.

In summary, it is clear that the DVML budgets have continued to be too optimistic and that the financial model currently in place is unsustainable. While the review of the Stadium was underway, the Council approved an interim solution that provided additional ratepayer funding.

MATTERS FOR CONSIDERATION

This review now considers a series of options for the ongoing future/operation of the Stadium against the background the financial situation outlined above. Broadly speaking, these are broken into three sections which are:

1. Continue to operate or close/demolish
2. Ownership and operation options
3. Funding

Each of these sections are detailed below noting that there are some interdependencies between some of the options that span across sections depending on which option/s are preferred.

SECTION 1: CONTINUE TO OPERATE OR CLOSE/DEMOLISH

This section discusses the economic benefit that the Stadium brings to the city. It then considers whether or not as a city, we wish to keep the Stadium.

The section addresses the following:

- Economic Impact of the Stadium
- Option 1 – Continue to operate the Stadium
- Option 2 – Close and Demolish the Stadium

Economic Impact

The Council invested in the Stadium in order to strengthen Dunedin's and the Otago region's position as a centre for international and national sporting competition and events over the long term. The site for the Stadium was selected because it offered the opportunity to co-locate the development with the University of Otago's requirement for additional space and new facilities.

It was envisaged that the Stadium would contribute to economic development through increased visitor numbers from significant sporting events, concerts and a professional sport franchise. The social and economic viability of the project was based around the facility being a catalyst for community use, civic pride and economic development.

A discussion on the economic benefits of the Stadium is provided in Attachment 1.

Benefits to the city from operating the Stadium include:

- the opportunity for residents to attend sports and other events which might not otherwise have been held in Otago
- wider economic benefits from increased visitors to the city to attend sporting and other events
- the potential for the Stadium to contribute to regional marketing and promotion; promoting increased participation in sport and physical leisure; and attracting and retaining residents and businesses

Since the Stadium opened it has hosted a range of events. These include A grade test matches, Super Rugby, club rugby finals, football, rugby league, concerts, rodeo and equestrian events, Otago University Students Association orientation events, live Motocross, meetings and conferences.

Although there is limited information available to estimate the economic impact of Stadium events, a high level estimate has been prepared based on audience numbers and the average spend from two economic impact studies.

Since the Stadium began operating, total direct expenditure by visitors to Dunedin to attend Stadium events is estimated at around $60 million, with an estimated contribution to value-added GDP of around $50 million[2]. An explanation of the methodology and caveats relating to these high-level estimates is detailed in Attachment 1 and staff recommend that in future more information be collected to enable a robust estimate of the economic impact of Stadium events.

Option 1: Continue to Operate the Stadium

The first option to be considered is whether or not as a city, we wish to keep the Stadium. The Stadium provides a top quality venue for the city to host sports and cultural events. There is no other sports ground in the city that can cater for major sporting events and the venue also provides for a range of other economic and cultural activities.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- The city continues to have a top quality venue
- Revenue is able to be generated from the operation of the venue
- The city gains economic and social benefits

Disadvantages

- The ratepayer contribution towards the Stadium will need to increase

Option 2: Close and Demolish the Stadium

There has however been a view repeatedly made to Council that the Stadium should be mothballed (or demolished) and so this option was costed for Council's consideration.

Certain assumptions had to be made about the costs that would be incurred if this option was chosen, as well as any proceeds from the sale of the remaining assets. In some cases, external advice was sought.[3] There are a number of risks and uncertainties with potential funding impacts that will need to be explored further if this option was to be progressed.

If the Stadium was to be demolished, there would be revenue from the sale of demolition material and from the sale of the Stadium land. There would also be costs associated with winding up both DVL/DVML and the debt servicing costs which would be ongoing until the debt was repaid. All revenue generated from the operation of the Stadium would also be lost.

An estimate has been made of what the debt would be if this option was implemented. Taking into account the existing debt and any other liabilities of both Stadium companies, the net cost of demolition, costs involved in the company closures and the proceeds from the sale of land, the debt remaining to be repaid is estimated to be $133.1 million. A high level breakdown of this estimate is summarised in Attachment 2.

In the existing operating model, using current interest rate assumptions, the debt in DVL is scheduled to be repaid over 18.5 years. If the debt under this option was to be repaid over the same period of time, the annual ratepayer contribution would need to increase to $13.600 million per annum for interest and loan repayments, an increase of $3.760 million per annum.

[2] This excludes any impact from the Rugby World Cup 2011
[3] External advice is available on the Council website from Friday 21 November 2014: www.dunedin.govt.nz/stadium-review

There are two main reasons for this increase. Firstly, the ability to make the current subvention payments from a profit-making company to a loss-making company is lost. Secondly, the operation of the Stadium generates sufficient cash to make an annual contribution towards debt repayment. These funding sources are lost if the Stadium is closed.

To summarise, the following financial impacts would arise:

- The 2015/16 financial year would be a transitional year while the Stadium was demolished, the surplus land sold and other financial arrangements were completed.
- The closure of DVL and DVML will mean that the remaining debt will become Council debt. In effect the Council will need to borrow the estimated amount of debt to settle up the liabilities of both companies. The Council will then pay the interest on this debt and make the annual loan repayments. These costs will be funded directly by rates income of $13.600 million per annum. The current ratepayer contribution, based on the 2014/15 budget, is $9.840 million, an increase of $3.760 million.
- There are a large number of operational and contractual issues that would need to be resolved if the companies were closed. However, there will be a significant expense/loss that will need to be reflected in the Council's financial statements to account for the Stadium write-off/demolition.
- The consolidated Council group will have a reduction in assets of around $200 million. The group will also lose a revenue stream that contributes to the Stadium debt.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- Once the debt is repaid, the cost to the Council and ratepayers ends
- Other than the risks associated with the debt, all other financial risks and uncertainties associated with the operating model and budget are removed

Disadvantages

- The positive economic and social benefit to the City is lost
- No major sportsground or facility to hold major events
- Negative impact on sporting events/teams in the City
- Additional annual cost for ratepayers (estimated to be $3.760 million)
- Public perception of Council decision-making
- Potential legal ramifications and potential judicial review of decision making process
- Risk of further additional costs associated with this option once explored further
- Loss of employment, both direct and indirect

Summary

After consideration of the two options, the option to close and demolish the Stadium does not seem to be viable. Once the decommissioning and demolition costs are established, this option eliminates all risk associated with the operating model and budgets apart from the normal risks associated with debt and borrowing costs. While it would deliver a degree of financial certainty once the actual costs of such a decision were finalised, the loss of a venue and the knock-on economic effects are significant.

While resolving the financial issues, decommissioning will result in the removal of any future social or economic benefits with the complete loss of the facility to the community. The cost to the ratepayer would be increased until the debt is repaid. The option also carries the risk of further negative perception of the Council and Council decision-making amongst the wider community.

In the view of the project group there is little, if any, merit in this proposal and the recommendation is that the Council continue to operate the Stadium.

SECTION 2: OPERATION AND OWNERSHIP OPTIONS

If the decision is to continue to operate the Stadium consideration then needs to be given to the various ownership and operational options. In considering operational options, the changes made to DVML operations have been summarised and then various ownership models have been outlined.

The first section addresses the DVML operational and financial improvements.

DVML Operational and Financial Improvements

This section describes the progress and improvements that have been made by DVML that will help to ensure that the Company is performing as efficiently as possible and has realistic operational budgets in place.

DVML have made a number of improvements in the day-to-day operation of the Stadium. These include restructuring, development of key relationships with stakeholders, partners and promoters and membership programme initiatives. A summary of these as well as other changes are provided in Attachment 3.

The project group believe that these changes will lead to a more effective and efficient operation and result in a more commercially focused organisation. The changes have resulted in an improved focus into the two key areas of the business, that is, operations and commercial.

As indicated earlier in this report, the budgets for DVML, since it opened in 2011, have been optimistic and haven't been achieved. This has been demoralising for DVML staff and has created ongoing issues for the Council, including demands on additional ratepayer funding.

A priority for the Chief Executive Officer of DVML was to review and revise the budget to reflect a realistic, efficient and more robust outcome. The result of this review is that the revenue budget for 2014/15 has been reduced and is now much more achievable. Similarly, the expenditure budget has been reduced. The result is a net saving of $300,000 in the final 2014/15 year as included in the budget. In assessing the budgeted result however, the key item for discussion is the level of rent paid by DVML. This is discussed in a future section.

The final budget for DVML for the next three years is summarised in Table 3 below. For comparison, the original 2014/15 draft budget is provided in the shaded column:

Table 3

DVML Financial Summary	**2014/15 Original Budget $ million**	**2014/15 Final Budget $ million**	**2015/16 Final Budget $ million**	**2016/17 Final Budget $ million**
Revenue	8.85	8.40	9.04	9.11
Expenditure (excluding rent)	6.81	6.08	6.52	6.59
Rent	4.00	4.00	4.00	4.00
Net Profit/(Loss)	(1.96)	(1.68)	(1.48)	(1.48)
Net Profit/(Loss) after subvention	(1.41)	(1.21)	(1.07)	(1.07)

Although the budget position for DVML has been improved, under the current operating model, the company will continue to run at a loss unless revenue can be increased or costs can be further reduced.

On-going business risks remain with the revenue and expenditure projections at the Stadium. As part of the review, the project team notes the following areas where key assumptions have been made:

- The Stadium revenue levels are dependent on a number of commercial factors as well as attendance at events and the ability to attract events. The Event Fund of $400,000 that the Council has funded since the 2013/14 financial year is critical in this regard and this has been factored into the ongoing budget of DVML.
- In the period under review new contracts will be agreed with the Highlanders franchise and the Otago Rugby Football Union. The project group believes that the budget assumptions made with respect to these contracts are reasonable.
- A large portion of revenue for DVML comes from membership and sponsorship products. A significant portion of these expire in 2016, representing a risk to Stadium revenue. DVML are optimistic that they can maintain membership sales through an increased level of servicing and product offering as well as introducing new levels of membership. As a consequence, the updated budget for the 2016/17 year no longer assumes a reduction in revenue from membership products.

Ownership Options

The next section of the report considers four ownership options for the Stadium. Each is discussed and the advantages and disadvantages considered and a changed ownership model is then recommended. The four options are:

- Ownership Option 1 – Stadium building ownership (DVL) transferred into Council
- Ownership Option 2 – Stadium operation (DVML) transferred into Council
- Ownership Option 3 – Stadium ownership (DVL) and operation (DVML) transferred into Council
- Ownership Option 4 – DCHL Ownership

Ownership Option 1: Stadium Building Ownership (DVL) Transferred into Council

This option would see the Council assume the role currently undertaken by DVL. The physical Stadium asset would be owned directly by the Council while the day-to-day operation would continue to be managed at arm's length by DVML. DVML would continue to pay a rental to DVL. The entire Stadium debt would transfer to the Council.

The following financial impacts would occur:

- DVL would be wound up and the Council will own the Stadium directly
- The debt (assumed as at 1 July 2015 to be $133.5 million) would be Council debt
- DVML would continue to rent the Stadium with the annual rental payment made to Council instead of DVL
- The Council would receive the forgone dividend of $5.25 million directly from DCHL
- A small amount of operational costs incurred by DVL would be saved

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- In-house property management skills could be utilised
- Simplified accounting transactions which would improve public understanding and transparency

Disadvantages

- Legal costs associated with the transfer
- The governance oversight currently provided by DVL and DCHL would be lost
- The Financial Strategy for the Council has a debt limit target of $200 million which is yet to be achieved. The current timeframe as per the 2014/15 Annual Plan for achieving the $200 million target is 2020/21. Any additional debt will mean that Council has to reconsider this target or amend the Financial Strategy.

Option 1 is not recommended by the project group.

Ownership Option 2: Stadium Operation (DVML) Transferred into Council

Under this option, DVL would continue to own the Stadium. However, the operation of the Stadium would be transferred to the Council and DVML would be wound up. A new activity within the Council would take over the management of the Stadium.

Savings in operational costs in DVML are possible with this option, although the Council is already pursuing shared services with DVML.

Being able to maintain a strong commercial focus as well as the ability to be flexible and make quick decisions is critical to the success of the Stadium. This would not always be possible within the Council environment which is why councils have Council Controlled Trading Organisations for certain operations. It is also possible therefore that there could be a reduction in revenue if the operation of the Stadium was an activity of the Council because of an inability for Council to react quickly enough to decisions in the commercial sector.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- Potential for reduced operational costs

Disadvantages

- Legal costs associated with the transfer
- There would be a cost to ratepayers because of the change in tax status
- The governance oversight currently provided by DVML and DCHL would be lost
- Potential for a reduction in revenue and loss of events
- Potential loss of financial transparency because the Stadium operation becomes an activity of the Council and would not have the reporting requirements that DVML currently has through its Annual Report.

Option 2 is not recommended by the project group.

Ownership Option 3: Stadium Ownership (DVL) and Operation (DVML) Transferred into Council

This option is a combination of the previous two options with the Council bringing both the operation and ownership of the Stadium in-house. In addition, bringing both the ownership and operation in-house changes the tax status of the Stadium.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- In-house property management skills could be utilised
- Simplified accounting transactions which would improve public understanding and transparency. The current financial arrangements between DVL, the Council and the DCHL group are not well understood.
- Potential for reduced operational costs (including removal of governance costs)

Disadvantages

- Legal costs associated with the transfer
- There would be a cost to ratepayers because of the change in tax status
- The governance oversight currently provided by DVL, DVML and DCHL would be lost
- Potential for a reduction in revenue and loss of events
- Potential loss of financial transparency because the Stadium operation becomes an activity of the Council and would not have the reporting requirements that DVML currently has through its Annual Report.
- The Financial Strategy for the Council has a debt limit target of $200 million which is yet to be achieved. The current timeframe as per the 2014/15 Annual Plan for achieving the $200 million target is 2020/21. Any additional debt will mean that Council has to reconsider this target or amend the Financial Strategy.

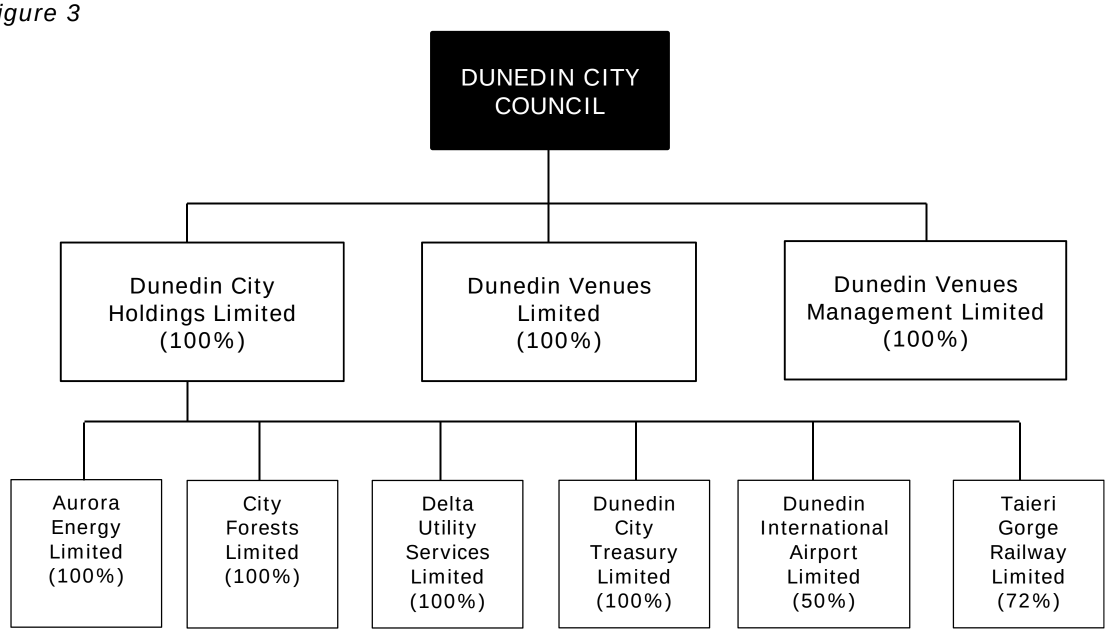
Option 3 is not recommended by the project group.

Ownership Option 4: DCHL Ownership

This option considers the transfer of ownership of the Stadium companies to DCHL. This option will clarify responsibilities and lines of accountability as well as provide the commercial focus that is required to run the Stadium.

The current arrangement is that the Council owns each Stadium Company directly. The other CCTOs are subsidiary companies of the parent company, DCHL. The following diagram illustrates the current structure and ownership arrangements:

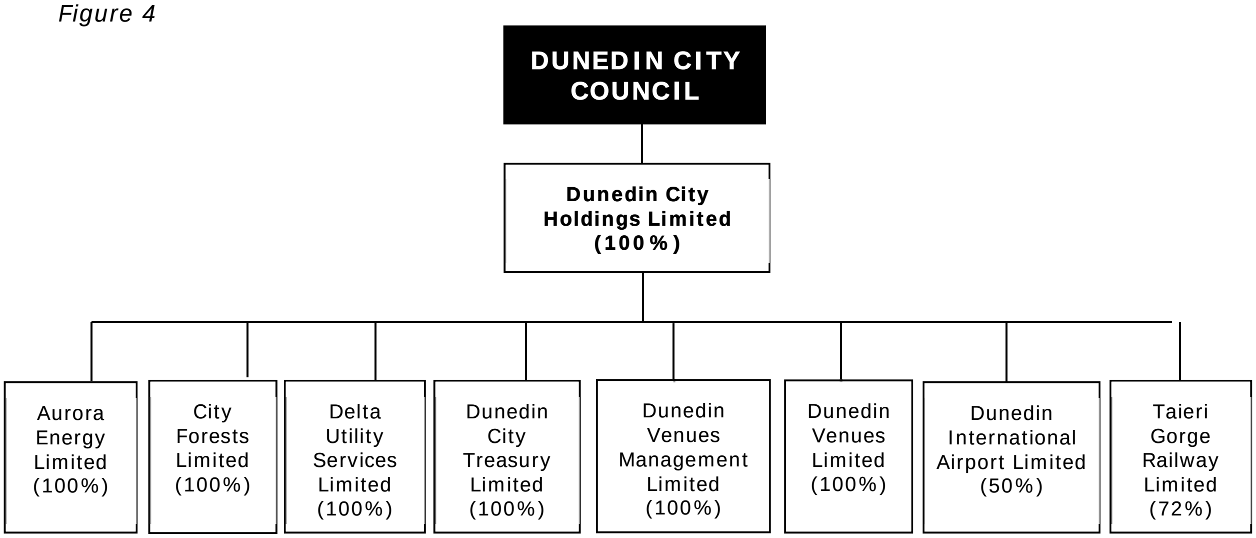
Figure 3



Note: the Dunedin International Airport Limited (DIAL) is an associate Company of the DCHL not a CCTO, but is shown for completeness.

Under the option considered here, the existing Stadium companies would become subsidiary companies of DCHL. The following diagram illustrates the proposed structure and ownership arrangements:

Figure 4



Following on from the Larsen Report in 2011, the Council requested that DCHL act as the agent of the Council with respect to matters of governance concerning the Stadium companies. A governance agency agreement was put in place.

The primary role of DCHL is to monitor the operating performance of its subsidiary and associated companies to ensure that the group of companies provide the maximum advantages in all respects to the Council. The Stadium companies need to have strong governance arrangements and commercial disciplines in place that maximise opportunities for the Stadium. It is important to the wider Council group to have a high level of coordination of the city's investments. Having the Stadium under direct ownership by DCHL will strengthen the coordination of the entire group of CCTOs.

There are some public good elements in the activities that the Stadium provides and these need to be retained and supported. These are currently addressed with the community access service level agreement between the Council and DVML. The community access service level agreement would continue under this option.

The following financial impacts would arise:

- Both Stadium companies will be sold to DCHL and become subsidiary companies of DCHL
- The annual payments made by the Council to DVL or DVML, for example, the $2 million provided annually to DVL, will now be made to DCHL in the first instance. A payment would then be made by DCHL to DVL or DVML.
- Any impairment in the value of the Stadium that arises due to the rental review will be addressed in the current financial year, prior to the transfer of the companies to DCHL.
- There may be implications on the debt security arrangements currently in place for the group. If this option is to be progressed, these impacts will need to be further explored.

The relative advantages and disadvantages of the DCHL ownership option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- Provides clarity in terms of governance and accountability

- Strengthens the coordination of the group of CCTOs
- Strengthens the direction of the Stadium companies in terms of their commercial performance

Disadvantages

- Additional costs for legal and financial advice associated with the transfer and the structure
- The current financial arrangements between DVL, the Council and the DCHL group are not well understood. This option results in additional financial transactions which may be more complicated for the public to understand.

Option 4 is the recommended ownership option of the project group.

Interim Governance Arrangements

The current DVML/DVL Board members were appointed in August 2009 with identical membership on both Boards.

While a single board of directors has provided the governance for both Stadium companies to date, it is recommended that the boards are changed to have separate governance as the skill sets required for the two companies are different. The separation also allows for robust discussions between the two companies and removes the possible conflict between landlord/tenant. The current directors fully support the proposed change.

In the interim, it is recommended that the DVL board of directors be replaced with the DCHL directors. DVML directors, currently being changed under rotation, will remain in place and will focus solely on the business of operating the Stadium. A new set of DVL directors will focus on managing the physical Stadium asset (but DCHL will fill this role in the interim). DCHL would then review the DVL governance arrangements and report back to Council with their recommendations. It is also recommended that the name of this CCTO be examined as part of their review, to better reflect its purpose of owning a single asset.

Other Factors: Benchmarking and Stadium Turf

Benchmarking of operational management against the Westpac Stadium in Wellington has been undertaken and the option of changing the playing surface to an artificial turf has been considered.

Benchmarking

The benchmarking was difficult because venues all operate under slightly differing models and this is the case when trying to compare the Forsyth Barr Stadium to other stadiums such as the Westpac Stadium in Wellington. For that reason, any financial benchmarking information is difficult to compare directly.

The following comparisons have however been made:

- Forsyth Barr Stadium salary expenditure in the 2011/12 and 2012/13 years was $1.4 million and $1.9 million respectively. The budget for the 2014/15 year is $1.6 million.
- Westpac Stadium salary expenditure in the 2011/12 and 2012/13 years was $1.9 million and $1.9 million respectively.
- Forsyth Barr Stadium operating deficits in the 2011/12 and 2012/13 years were $3.2 million and $1.0 million respectively. The budgeted deficit for the 2014/15 year is $1.2 million.
- Westpac Stadium operating surpluses in the 2011/12 and 2012/13 years were $3.9 million and $3.1 million respectively.

As discussed above, there are a number of reasons why this information should be viewed with caution. Some of those are listed here to illustrate the point:

- The 2011/12 year was the first year of operation for the Stadium
- The Forsyth Barr Stadium operation includes the Stadium, Dunedin Centre, Town Hall and Porter's Lounge
- The operating and funding models are different, for example there is no rental charged to the Westpac Stadium

Stadium Turf

One of the issues often raised by the public is the option of having artificial turf at the Stadium on the assumption that this would increase utilisation. This assumption is based on the view that access to the main arena is restricted due to the time needed to rest/repair the surface.

The Stadium turf is currently natural grass reinforced with artificial fibres.

The project group sought information around this option and have concluded that this would not make any material difference to the operation of the Stadium. It would appear to be sensible to wait for future developments in the use of artificial turf for international rugby to determine its acceptance, rather than be an early adopter. A more detailed discussion on this option is provided in Attachment 4.

Summary

In conclusion, it is recommended that the Stadium continues to be owned by DVL, and operated by DVML. A strong commercial focus and clear lines of accountability are critical to the success of the Stadium and it is recommended that this is best achieved by placing the ownership of the Stadium companies under DCHL and separating their boards.

SECTION 3: FUNDING

Whatever option is chosen for the ownership/operation of the Stadium, the funding arrangements need to be considered. The original financial model is no longer appropriate and the review needs to find a way to rectify the ongoing budget deficit to enable DVML to meet budget.

There are three financial factors that have been identified during the course of the review that have to be considered. These are the future renewals requirements of the Stadium, the rent and the level of debt. Each of these factors is now detailed below.

Future Renewals Requirements

The DVML budget provides an adequate level of funding for on-going operational maintenance. However, there is currently no provision in the DVL budget for any capital/renewal expenditure.

A long term asset renewal programme has been developed by DVML. The expenditure profile of the future renewal requirements varies significantly from year to year. Table 4 shows the expenditure requirement over the next 10 years and the following 10 years.

Table 4

Stadium Estimated Renewals	**$m total**	**$m average per year**
Total expenditure over next 10 years	10.464	1.046
Total expenditure over following 10 years	41.391	4.139

As with any asset, there is a need for a capital renewals budget and the project group recommends that the Council starts providing for the expenditure requirement that has been estimated over the next 10 years as part of the outcome of this review. Although the quantum of the expenditure varies significantly from year to year, it is desirable from a Council perspective to provide equal amounts annually. It will then be up to DVL to manage this appropriately. Providing equal annual amounts will provide certainty for both DVL and the Council and avoids significant variations in the Council's budget in future years.

The future funding option considered below, incorporates the required expenditure for the first 10 years. Beyond the 10 year period, the expenditure required on renewals will be greater as some higher value items including seating, catering equipment and the roof are due for renewal during this period. In years 11-20 however, the debt in DVL should be such that any increased renewal requirement could be managed without additional funding from the Council. The recommendations are based on the first ten years and it would be prudent to review this funding arrangement every three years as part of the Council's Long Term planning processes to assess if there are any changes required or if the assumptions still hold true.

Rental Review

A valuation report prepared by Darroch Limited in April 2011 established the annual market rental for the Stadium at $4 million using an "affordability basis". This was based on the projected DVML budget at that time. The Board of DVML accepted the challenge posed by the budget (including the level of rent) and worked diligently towards achieving it. As has been outlined earlier in the review however, this budget was overly optimistic and has not been able to be met.

A review of the amount of the rental payment made by DVML to DVL has been considered as a normal commercial response to a situation where current rental charges are unsustainable. Such a review potentially provides a long term solution to the ongoing DVML operating deficit.

We now have information around how DVML is operating and it is appropriate to consider a rental review based on the actual trading results achieved from the Stadium. It is normal practice for the tenant DVML, to seek to renegotiate the level of rent with the landlord, DVL, based on DVML's ability to pay. This is a normal commercial response between landlord and tenant where there is now actual trading results on which to base these negotiations.

It is proposed that the annual market rental is reviewed by DVL based on actual financial performance and the updated DVML budget. It is likely that the revised market rental will be less than $4 million. Initial indications are that the rental assessment is likely to halve.

In order to see the overall impact of this proposal, it has been assumed that the annual rental would reduce from $4 million to $2 million. Table 5 provides a summary of the DVML budget if the rental was reduced by $2 million. Please note, however that the 2014/15 year remains unchanged because it has been assumed that any change would be effective from 1 July 2015.

Table 5

DVML Financial Summary	**2014/15 Budget $ million**	**2015/16 Budget $ million**	**2016/17 Budget $ million**
Revenue	8.40	9.04	9.11
Expenditure (excluding rent)	6.08	6.52	6.59
Rent	4.00	2.00	2.00
Net Profit/(Loss)	(1.68)	0.52	0.52
Net Profit/(Loss) after subvention/tax	(1.21)	0.37	0.37

Table 6 shows the change in the annual ratepayer contribution to DVML before and after the change in rental.

Table 6

Annual Ratepayer Contribution to DVML	**Existing Ratepayer Contribution $ million**	**Revised Ratepayer Contribution $ million**	**Increase / (Decrease) $ million**
Community Services	0.750	0.750	0.000
Event Attraction Fund	0.400	0.400	0.000
Cash	1.440	0.000	(1.440)
Total Ratepayer Contribution	**2.590**	**1.150**	**(1.440)**

If the rent was reduced by the amount assumed, it won't be necessary to provide an operational subsidy to DVML. However, as indicated earlier in this report, there will always be some risk with the financial results of DVML due to the commercial nature of the business. The budget will still need to be reviewed annually to reflect updated circumstances and assumptions.

This is a step towards achieving a balanced budget and a commercially viable operation at the Stadium. It provides a long-term solution to the DVML financial situation and would improve staff morale at the Stadium.

If this proposal was to be pursued further, an issue for DVL arises. This is because DVL uses the rental income from DVML to make interest and loan repayments. For this reason, this proposal cannot be considered in isolation to the impact on DVL.

Level of Debt

The level of DVL's debt needs to be considered in order to ensure a sustainable asset owning company with the appropriate debt to equity ratio. Our recommendation is that a ratio of 50% is considered sustainable for a property company with long lived assets. A $30 million reduction in DVL debt achieves this. The overall debt position of the Council group is not affected by this transfer.

Funding Option 1: $30 million of DVL debt transferred to Council

An option whereby $30 million of DVL debt is transferred to the Council has been considered as a means of maintaining the financial viability of DVL by reducing the debt servicing costs when the DVML rental costs are reduced.[4]

This $30 million amount results in an improved ratio of debt to total assets. In the 10 years from 2015/16 to 2024/25, the average is 47% and ranges from 53% in the 2015/16 year to 37% in the 2024/25 year.

This means Council (as shareholder) would be required to pay DVL $30 million in order for them to repay debt. On the assumption that Council would borrow the amount, this would increase Council debt by $30 million, which the Council would need to service.

Debt in the Council is increased by $30 million and as a result, future interest and loan repayments are increased. Note that this option does not alter the overall debt position of the group. It has been assumed that this debt would be repaid in the same timeframe as the existing DVL loan which, based on current assumptions, will be repaid in January 2031. This option assumes an average interest rate of 6.50% per annum. The total annual cost is $2.700 million, which includes interest and principal repayments.

[4] The $30m would be subscribed by way of additional share capital in DVL

The Council could consider a different repayment term for this debt. For example, if the loan was repaid over 20 years, the annual cost would be $2.400 million.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- This option provides a solution to the funding shortfall that is likely to eventuate once the Stadium rent review has been completed
- A stronger Balance Sheet in DVL because there is less debt as well as a more financially sustainable longer-term outlook

Disadvantages

- Additional ratepayer funding is required
- The Financial Strategy for the Council has a debt limit target of $200 million which is yet to be achieved. The current timeframe as per the 2014/15 Annual Plan for achieving the $200 million target is 2020/21. Any additional debt will mean that Council has to reconsider this target or amend the Financial Strategy. Further information on this will be provided to the 2015/16 - 2024/25 Long Term Plan meeting in January 2015.

Financial Impact

The ratepayer impact of the proposed funding changes is an increase of $1.810 million per annum. Table 7 provides a summary of the overall ratepayer contribution.

Table 7

Annual Ratepayer Contribution to the Stadium	**Existing Ratepayer Contribution $ million**	**Revised Ratepayer Contribution $ million**	**Increase / (Decrease) $ million**
Foregone Dividend (debt servicing)	5.250	5.250	0.000
Cash to DVL (debt servicing and renewals funding)	2.000	2.550	0.550
DCC annual cost of $30 million debt		2.700	2.700
Cash to DVML (breakdown provided in table 6 above)	2.590	1.150	(1.440)
Total Ratepayer Contribution to the Stadium	**9.840**	**11.650**	**1.810**

Other Considerations

City Property Investment Portfolio

The project group considered the option of transferring the City Property Investment Portfolio to DVL which would then be set up as a Council-owned investment property company but various issues including legal matters related to the endowment portfolio meant that this option was discounted early in the process.

Summary

It is recommended that the annual renewals requirement over the next 10 years be provided to DVL as part of their budget.

It is recommended that the rent is reviewed and the budget adjusted accordingly.

Funding Option 1 is the recommendation of the project group. Debt of $30 million is transferred to the Council from DVL noting that this will require additional ratepayer funding.

The Council may wish to look at options for minimising the impact of the debt transfer. This could be achieved by reviewing the term that the $30 million of debt is to be repaid within and considering the sale of surplus property assets.

CONCLUSION

The review of the Stadium has now been completed. The review identified a number of factors that needed to be resolved if the Stadium is to continue to operate. These include the lack of funding for renewals, the level of rent paid by DVML and the level of debt.

The recommendations result in additional annual ratepayer funding of $1.810 million and a transfer of $30 million DVL debt to Council. The report recommends a review of the rental amount. This is a normal commercial response to a situation where current rental charges are unsustainable. The recommendations ensure sufficient funding is provided to DVL to meet annual renewals expenditure requirements over the next 10 years. However, it should be noted that the level of renewals expenditure will increase beyond this period.

The review also recommends that both DVL (owner of the Stadium) and DVML (operator of the Stadium) are made subsidiary companies of DCHL and their boards restructured and made independent.

The goal of the review was to establish an operational model that succeeds, reduces financial risk and volatility and provides certainty to ratepayers about the ongoing financial viability of the Stadium.

However, it was clear from the outset that whatever option the Council chooses will result in additional ratepayer funding and that there will always be some risk with the financial results due to the commercial nature of the Stadium. This risk is similar to other Council trading activities which rely on outside revenue. In the case of other Council trading activities having an unfavourable result, this can normally be accommodated or offset by another Council activity having favourable results. This isn't possible for the Stadium and it needs to be recognised that the financial performance of the Stadium will need to be reviewed regularly so that any unfavourable results can be addressed.

It is recommended that the proposed changes, if approved by the Council, be refined and developed further for incorporation into the draft 2015/16 – 2024/25 Long Term Plan.

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Attachments

1 Economic Benefits of the Stadium
2 Cost of Demolition
3 DVML Operational Improvements
4 Artificial Turf

Economic benefits of the Stadium

In 2004 BERL identified three types of economic benefits that could accrue from an upgrade to Carisbrook Stadium, which could be seen as relevant to the operation of the Forsyth Barr Stadium: direct economic benefits; existence benefits and other benefits.

Economic benefits arise from the flow-on economic activity from the stadium to the wider economy, through increased business and employment opportunities and incomes. This includes sports and other events which attract visitors to the city or region leading to additional spending, value added GDP and employment. The economic impact of an event is estimated by surveying event attendees about where they come from and their spending while they are in the city. This information is used to estimate direct expenditure in the city and the increase in Dunedin and Otago GDP. An increase in GDP is not a pure benefit, because there are costs associated with generating this increase, such as workers having to work longer hours, businesses having to invest more capital to cope with increased demand, and non-venue visitors being put off visiting Dunedin by a lack of available accommodation and other services. Hence the net benefit is much less than the net increase in GDP.

In addition to these more measurable economic benefits, existence benefits also arise from the opportunity to attend sports and other events, particularly those which would not have otherwise been held in Otago. BERL considered this an option which has value whether or not any particular resident choses to exercise it. Other benefits were considered to include civic pride, opportunities for regional marketing and promotion; promoting increased participation in sport and physical leisure; and the ability of the region to attract/retain residents and businesses. BERL noted that these benefits are highly uncertain.

Since the stadium opened it has hosted a range of events from A grade test matches to club rugby finals, football, league, concerts, rodeo and equestrian events, Otago University Students Association orientation events, live Motocross, meetings and conferences.

High level estimate of the economic impact of stadium events[5]

There is limited information available to estimate the economic impact of stadium events. Economic impact studies have been completed for two stadium events; the Elton John concert in 2011 and the Bledisloe Cup match in 2013. This information, together with audience numbers, has been used to prepare a high level estimate of the economic impact of Stadium events. Staff advise caution in the use of these estimates because they are based on limited information, and recommend that in future more information be collected to enable a more accurate estimate of the economic impact of stadium events.

This estimate of impacts is based on the following stadium events: rugby tests (All Blacks versus South Africa in 2012 and the Bledisloe Cup match in 2013), super rugby, football and league games, concerts (Elton John, Paul Simon and Aerosmith) and entertainment events (Nitro Circus, Ride the Rhythm 2013 and Ride the Rhythm 2014) between August 2011 and April 2014. The Rugby World Cup games in 2011 have not been included in this estimate. DVML obtained audience numbers from the ticketing company, and where the tickets were purchased is used as a proxy for the usual residence of the audience, as shown in Table 1.

[5] This estimate of the economic impact of the stadium has been reviewed by Butcher Partners Limited

Table 1: Audience numbers and estimate of numbers from outside Dunedin and Otago[6]						
	Test matches	**Super Rugby**	**Football and league**	**Concerts**	**Entertain-ment**	**Total**
Total audience numbers	57,915	217,812	41,799	55,749	17,177	404,611
Audience from outside Dunedin	27,799	62,497	11,896	25,160	9,025	139,894
Audience from outside Otago	19,112	39,587	9,120	17,318	5,411	92,424

Note audience numbers for Super Rugby do not include the 4,000 to 7,000 (per match) Stadium and Highlanders members who purchase the rights to all games. Stadium and Highlanders members have not been included in the economic impact as it is assumed they will be predominately Dunedin residents rather than visitors.

Visitors to the 2013 Bledisloe Cup test match had an estimated average spend of $537 per person during their stay in Dunedin and visitors to Dunedin for the Elton John concert were estimated to have spent $526 on average. These average spend estimates are high when compared to other events for which Economic Impact studies have been conducted. The 2013 Bledisloe Cup Economic Impact and Audience Survey Report notes:

> *A small number of high spenders significantly affect the total spend, and hence the average spend per person. Only 14% of respondents spent over $1,000 during their stay in Dunedin, but their spending was 48% of the total spend.*

An Economic Impact study of the All Blacks versus South Africa test at Carisbrook in 2003 indicated an average spend of $302 (with 84% spent in Dunedin city). A study in 2009 on *The Value of Rugby to Taranaki* by BERL used an estimated $266 average spend for a visitor to an international test based on regional tourism forecasts. A survey of 491 visitors to Wellington, undertaken for Wellington City Council, found international fans to the 2011 Rugby World Cup spent around $277 each per day, while domestic visitors spent around $151 per day which the report authors considered to be higher than historical norms[7]. The average spend per stay would have been higher since many visitors to the test would have stayed more than one day.

Based on an assumption by BERL[8] in 2003 on spending patterns for Super 12 games at Carisbrook, all events apart from test matches and the Elton John concert are assumed to have a 10% lower average spend than these large events.

The average spend by visitors to an event, along with the number of visitors from out of town, is a key input into estimating the economic impact of an event. If the average spend for stadium events overall is different to the average spend for the two events studied, this would result in a different estimate of the economic impact.

A number of assumptions were used in the calculation of this estimate. Based on the Elton John and 2013 Bledisloe Cup Economic Impact Studies it is assumed that 20 percent of visitors to events would have come to Dunedin even if the event hadn't been on. On the basis of the 2013 Bledisloe Cup Economic Impact Study it is assumed that 44 percent of the spending of these visitors is attributable to the event.

This estimate of the economic impact of the Stadium takes no account of the following:

- Revenue from local ticket sales to visitors from out town[9]

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[6] Source: Dunedin Venues Management Limited

[7] Ministry of Business, Innovation and Employment (2011*) The Stadium of Four Million – Rugby World Cup 2011: The New Zealand Experience*

[8] BERL (2003) *Potential Economic Costs and Benefits of Options to Upgrade Carisbrook Stadium*

[9] Revenue from ticket sales for the 2013 Bledisloe Cup Economic Impact Study were estimated to be equivalent to 1.3 % of employment and 4.1 % of value added associated with all other visitor spending.

- Spending by other visitors who accompanied a person going to an event but who did not attend themselves[10] as these visitors can have different spending patterns to those who attended the event
- Spending by officials or event participants from out of town

Based on the data available and the assumptions outlined above, the total direct expenditure of the stadium events to date (excluding the RWC) has been estimated at $60 million for the Dunedin economy and $40 million for the Otago economy. Total value added is estimated at $50 million for the Dunedin economy and $30 million for the Otago economy. The stadium is estimated to have contributed 710 job-years to the city and 490 to the Otago economy.

Staff advise caution in the use of these estimates because they are based on limited information. Staff recommend that in future information on audience numbers and where they are from, along with the spending patterns of visitors for a range of events be collected, to enable a more robust estimate of the economic impact of stadium events.

The estimated direct spend of visitors to Dunedin, total value added and additional employment to the Dunedin economy is shown in Table 2 below.

Table 2: Estimate of the Economic Impact of Visitors to Dunedin[11]

Event	Test matches	Super Rugby	Football and league	Concerts	Entertainment	Total
Total direct expenditure ($m)	13	27	5	11	4	60
Total value added ($m)	10	21	4	9	3	50
Employment (job-years)	160	320	60	130	40	710

The estimated direct spend of visitors to Otago, total value added and additional employment to the Otago economy is shown in Table 3 below.

Table 3: Estimate of the Economic Impact of Visitors to Otago[12]

Event	Test matches	Super Rugby	Football and league	Concerts	Entertainment	Total
Total direct expenditure ($m)	9	17	7	8	2	40
Total value added ($m)	7	14	3	6	2	30
Employment (job-years)	110	210	50	90	30	490

The economic impacts for the Dunedin economy are larger than for the Otago economy. This is because some of the visitors to Dunedin are residents of Otago, and so from the Otago perspective does not generate any addition

[10] It was estimated that 8% of visitors to the 2013 Bledisloe Cup were accompanied by somebody else who did not go to the test match.
[11] Note figures in the table have been rounded
[12] Note figures in the table have been rounded

Cost of Demolition

An estimate has been made of what the remaining debt would be if the Stadium was closed and demolished.

A number of factors have been taken into account including the estimated debt of both Stadium companies, the net cost of demolition, contractual obligations and operational costs incurred while the companies are closed. These costs are then reduced by the net working capital of the companies and the proceeds from the sale of land.

The debt position post closure and demolition is estimated to be $133.1 million. A breakdown is provided in Table 1 below.

Table 1

Estimated Debt post closure	**$ million**
Liabilities and or expenses:	
Debt	133.5
Net demolition cost	3.5
Contractual obligations	2.6
Operational costs incurred during 2014/15 year	0.5
Subtotal liabilities and expenses:	***140.1***
Less:	
Net working capital from both Stadium companies	0.4
Less proceeds from land sales	6.6
Subtotal proceeds:	***7.0***
Estimated Debt post closure:	**133.1**

In the existing operating model, using current interest rate assumptions, the debt in DVL is scheduled to be repaid over 18.5 years. If the debt under this option was to be repaid over the same period of time, the annual ratepayer contribution would need to increase to $13.6 million per annum for interest and loan repayments, an increase of $3.76 million per annum. This is summarised in Table 2 below.

Table 2

Annual Ratepayer Contributions	**$ million**
Annual Debt Servicing cost on $133 million	13.60
Existing Ratepayer Contribution	9.84
Increase in annual Ratepayer Contribution	3.76

DVML Operational Improvements

One of the aims of this review is to ensure that DVML is operating in an environment that will enable it to succeed.

To assist the project group in coming to a conclusion on their recommendations for this company it was important to understand the activities and projects occurring within DVML.

In summary the following actions have taken place or are currently underway;

- The Board has appointed a new CEO (Terry Davies) with significant experience in the operation of facilities similar to those managed by DVML.
- Following a settling in period the CEO has initiated a series of staff restructuring reviews to better align the operations of DVML with the strategic goals of the business. This has focused the business in two distinct areas being operations and commercial.
- The restructure has also resulted in changes at the Dunedin Centre operations with the realignment of staff skills and roles.
- It is proposed that the changes to the staffing structure will reduce DVML's total FTE from 27 to 25. The number of staff affected is greater than the two FTE reduction. Several new hires have been made to better align the required skills. There has also been a realignment of staff from the Dunedin Centre to Forsyth Barr.
- Shared service arrangements have been put in place with the Council taking over some of the accounting functions for the company. It is anticipated that this will increase the access to appropriate skills, improve reporting and increase transparency.
- The restructure has also given the CEO the opportunity to align staff members' responsibilities through a thorough performance review process giving staff members the opportunity to understand their responsibility, focus on key outcomes and be accountable for their actions.
- DVML has initiated a stakeholder engagement programme focused on building relationships with key suppliers and sponsors. This has received a positive response.
- DVML has initiated a series of relationship building sessions with key promoters in Australia and New Zealand. This has resulted in onsite visits by the two key promoters to identify opportunities at Forsyth Barr. Three concerts have been confirmed including Rod Stewart, Jimmy Barnes and Lorde.
- DVML has been working with key partners in the City, specifically the Airport Company and key accommodation providers. Positive opportunities have been identified to overcome logistical issues that are often seen as barriers to Dunedin hosting key events.
- Management are developing a specific membership programme initiative aimed at maximising the benefits for members to assist in the renewal process which is due within the next 24 months.
- DVML management have completed a review of supplier contracts with a view to maximising value, ensuring compliance and identifying opportunities to improve operations.
- Management have reviewed the support services required by DVML and have entered into a shared service arrangement with the City for key services. This includes accounting and financial management support, insurance and collective energy provision. The current CFO has indicated he will be retiring in the near future and this role will be serviced through a service level agreement with the City.
- The DCC finance team have worked with DVML management to reconstruct their current budgets and tested the key assumptions. This work has been confirmed by the DVML Board (see summary below).
- The governance oversight of the company has formally been delegated by Council to DCHL. Regular reporting and face to face sessions have been instigated and full

disclosure of issues and activities is occurring. This has significantly strengthened the relationship between DVML and the City both at Board and management level.

- Independent external reviews have taken place on specific issues arising from internal reviews and the public domain. In each case these reviews have highlight potential to improve processes. The DVML Audit and Finance Committee is working with management to continue the development and implementation of key policies for the business.

Artificial Turf

The option to change the Stadium playing surface to an artificial turf has been considered. The Stadium turf is currently natural grass reinforced with artificial fibres. This option is considered because of the possibility of providing more flexibility for the Stadium because the Stadium can be used for a greater variety of events.

The cost of installing an artificial turf is estimated to be around $1 million. It is anticipated that operational costs would not vary significantly. There is the potential that additional amateur and/or community events would take place at the Stadium because sports that are not normally played on grass may be able to be accommodated. However this would potentially increase the net costs to operate the Stadium, for example through additional security, staffing, administration and cleaning, without a corresponding increase in revenue. Some of the increase in usage may be a transfer from groups currently using other facilities, resulting in no net benefit to the city but additional costs. In addition, changing the markings on an artificial turf could be an issue and could also end up creating additional costs.

Given the current heavy usage of the Stadium by rugby, it is important to consider the risk to matches with a change of surface. Although the International Rugby Board has approved the use of artificial surfaces for rugby, at this point in time, no international rugby matches are played on artificial turf. There is no guarantee that teams would play on it now or in the future. This option clearly puts at risk the economic benefit that the city derives from hosting international rugby test matches. The Millennium Stadium in Cardiff (home ground for the Wales national team) is carefully reviewing the use of the artificial turf installed at Cardiff Arms Park. It would appear to be sensible to wait for future developments in the use of artificial turf for international rugby to determine its acceptance, rather than be an early adopter.

There is also a level of uncertainty relating to whether the New Zealand Rugby Football Union (NZRFU) and SANZAR[13] would approve Super Rugby and provincial rugby fixtures to be played on an artificial surface. Whilst artificial turfs are used for some professional rugby fixtures around the world, this would be a new concept for New Zealand and would require formal approval from the NZRFU and SANZAR before it could be undertaken.

The review team also sought information on the maintenance and flexibility of artificial turf. The introduction of artificial turf at the Stadium will draw current participants from venues such as the Edgar Centre. DVML believe there would be no additional usage but a cannibalisation from other venues. What must also be considered is that, due to the ability to use the artificial surface for other sports codes, for example, netball, hockey, badminton and basketball, there will be significant additional costs. The additional costs would include after-hours labour, power usage and maintenance due to extended hours of use, vast mix of content and additional water, electricity and gas usage.

The relative advantages and disadvantages of this option have been considered and are summarised below. This list is not exhaustive but highlights the main points.

Advantages

- Provides more flexibility for the Stadium because a greater number of local community events could be hosted but not without additional cost

Disadvantages

- This option increases risk for the Stadium as there is potential for loss of international rugby, Super Rugby and provincial rugby fixtures along with corresponding negative economic impact
- Potentially ends any opportunity for international/high quality rugby league and/or high quality soccer

[13] SANZAR is the body charged with running Super Rugby (the Super 14) and The Rugby Championship (the Tri-Nations).

- Potential issues for other venues arise
- Potential for additional operational costs
- Artificial sports turf is new to New Zealand, sports teams may be resistant to playing on it
- Additional capital expenditure requirement of around $1 million

This option can be reconsidered at some point in the future but at this point it would appear to be sensible to wait for future developments in the use of artificial turf and for international rugby to determine its acceptance, rather than be an early adopter. Further work would also need to be done on the effects such a change would have for other Dunedin venues.