

**Submission Number:**

**Enquiries to:** Customer Services Agency  
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26 June 2009

Ratepayers  
Dunedin City

Dear Ratepayer

Thank you for your submission to the Dunedin City Council's (DCC) draft Long Term Council Community Plan.

This comprehensive response is intended for all those who, like yourself, submitted on the Stadium, whether for or against, whether you spoke to your submission or whether you preferred not to.

It attempts to succinctly respond to the many aspects of the Stadium that were canvassed by submissions and, we trust in sufficient detail to address the matters raised by you, or other submitters.

For ease of reference, the various issues raised in the submissions are addressed under the relevant headings.

**Current Status**

You will now be aware that an application for a judicial review of the decision to proceed with the Stadium was dismissed by Justice Chisholm in the High Court in Christchurch on 24 April 2009. An appeal against that decision to the Court of Appeal was lodged on 8 May 2009.

Separately, another application for a judicial review of the Otago Regional Council's decision to support the Stadium has been heard and dismissed in the High Court in Dunedin this month.

Following the Christchurch High Court decision on the application for a judicial review in Dunedin City Council's favour on 24 April 2009, and in accordance with its earlier resolutions, a guaranteed maximum price contract (GMP) with the main contractor, Hawkins Construction Limited, was signed on 27 April 2009 for \$130.4 million.

**Carisbrook should be upgraded**

No-one doubts the historic resonance of Carisbrook, also affectionately known as "The Brook" and the "House of Pain".

In 2003 the Dunedin City Council established a working party comprising the Chief Executives of the Dunedin City Council, the Otago Regional Council, the Community Trust of Otago, the Otago Rugby Football Union and community representation. This Working Party was asked to identify how Carisbrook could be upgraded and also to explore other options to achieve a category A rugby test status. This Working Party, with the support of Beca Consultants, identified three possible options which it reported to the Council in December 2004. These were:

- do nothing - which was maintaining the ground as well as possible;
- a progressive upgrade - costs were identified as between \$20 and \$50 million; and

- a replacement with a new, high-class, waterfront stadium at an estimated cost of greater than \$100 million and a likely cost of \$146 million based on updated costs for the Westpac Stadium in Wellington.

This work was subsequently passed to the Carisbrook Stadium Trust which then presented four options to the Council on upgrading Carisbrook in February 2007. These options ranged in cost from \$29.3 million to \$184.1 million. Given the location of Carisbrook there would have been no interest from the University of Otago in supporting the project and it would have essentially remained a rugby stadium. The Dunedin City Council also noted that the long-term economic benefit to the city was also lower than for a new multi-purpose stadium at a new location on Awatea Street.

### **Carisbrook should be used for public good purposes when freehold ownership passes to the Council**

At this time the Council has not discussed this matter, nor has any detailed research on options been carried out. Prior to any decision on the future of Carisbrook the Council will consult with the community and sporting organisations.

### **There have been no studies of the options**

As discussed earlier the Council, the Otago Rugby Football Union, the Community Trust of Otago and the Otago Regional Council have all, from time to time, helped fund options studies. MWH delivered an in-depth report on the engineering needs, financial requirements and usability of a Carisbrook site redevelopment. Beca Carter undertook some designs and costings for an upgraded Carisbrook. The Carisbrook Stadium Trust also undertook further work on options and presented the Council with six that are set out below:

#### **Construction Costs (2007 dollars)**

<b>New</b>		<b>Carisbrook Upgrade Options</b>			
<b>1a</b>	<b>1b</b>	<b>2a</b>	<b>2b</b>	<b>2c</b>	<b>2d</b>
New Stadium with roof	New Stadium without roof	Minor upgrade to meet NZRU requirements	Replacement of Burns Street main stand	New Stadium design with roof	New Stadium design without roof
\$186 million	\$150 million	\$29.3 million	\$69 million	\$184.1 million	\$131 million

(Source: Carisbrook Opportunity, Dunedin Master Plan and Feasibility Report, February 2007, Carisbrook Stadium Trust)

Prior to the inclusion of this proposal a significant amount of consultation was undertaken by the DCC's Working Party and subsequently the Carisbrook Stadium Trust with the Dunedin residents as well as the wider Otago region on options for upgrading Carisbrook, doing nothing or building a new multi-purpose stadium near the Awatea Street site based on the example and experience of Westpac Stadium in Wellington. This included a telephone survey, a leaflet put into every letterbox of the region and the holding of public meetings throughout the Otago region.

### **There are too many risks**

The DCC believes it has reduced the risks by securing a guaranteed maximum price construction contract, setting in place a venue hire agreement for the major event owner, fixing interest rates for 70% of the opening debt and by proposing the establishment of a commercially driven venues management company to promote events and integrate the Stadium with other Council owned venues.

### **Ratepayer contributions will become greater as the years go by**

In 2008/09 the average value residential property is paying \$40 for the Stadium. In 2009/10 this will become \$66, an increase of \$26 per annum (pa). No increase beyond \$66 pa is forecast - based on the current differential between residential, farmland and commercial property. The forecast rate increases for Dunedin over the next three years are caused by debt servicing on the Settlers' Museum, the Dunedin Centre, sewage treatment, water extensions, new roading projects and increased operating costs on all these and other activities.

*It should be noted that beyond 2009/10, forecast rates increases are not attributable to the Stadium.*

### **Stadiums are not profitable**

This is not correct as the audited financial statements for the Westpac Stadium in Wellington for the last seven years show:

<b>Year</b>	<b>Surplus \$</b>
2001/02	1,146,000
2002/03	1,919,000
2003/04	374,000
2004/05	2,536,000
2005/06	2,279,000
2006/07	2,051,000
2007/08	2,984,000

*(Source - Chartered Accountants Journal, Feb 2009)*

It is noted that Wellington City Council (\$15 million) and Wellington Regional Council (\$25 million) advanced unsecured loans on which no interest has been charged. However, the conditions which have to be met before the Wellington Regional Stadium Trust is obliged to repay the loans gives the loans many of the characteristics of equity contributions, a fact recognised by their write-down to \$395,000 in the 2007/08 financial report.

The return on total assets in 2007/08 is 2.86% and on Trust Funds (the equivalent of equity on a private sector balance sheet) is 4.8%. While a profitable, well managed, private sector business might expect higher returns, the Wellington Regional Stadium Trust makes it clear that it manages a community asset (24% of its 2007/08 events were community events) in a business-like manner.

There is rarely, if ever, an expectation to achieve an economic return on community assets such as pools, art galleries and libraries.

### **A change in the farmland differential means they pay more**

Year one of the ten year proposal to change the general rate differential has the proportion paid by farmland unchanged, at 5.8%. The Council has asked its Rates Working Party to review this.

Farmland ratepayers have been paying for general rate funded activities such as Roothing, Parks and Reserves, Libraries, the Otago Museum, the Otago Settlers' Museum, the Dunedin Public Art Gallery, the Botanic Garden and others on the current basis ever since capital value rating started. The method of rating for the Stadium is no different.

It is worth noting that farmland ratepayers with high capital values earn a proportionately higher credit from Council's investment income. The rates calculator on the DCC website illustrates this point. Go to [www.dunedin.govt.nz](http://www.dunedin.govt.nz), click on Rates information, click on Rates calculator, enter your property's capital value, whether it is residential, non-residential or farmland for rating purposes, and press 'enter'. Scroll all the way down to see the amount you contribute to each activity and at the bottom see what the credit is from Council's investment income.

### **Capital value rating for the Stadium is unfair**

Capital value based rating has one decisive advantage. It condenses many variables such as distance from schools, shops, health services and public transport, housing quality, connection to water and wastewater, proximity to roads, soil type, income potential, climate etc into a single number. For this reason, two identical homes, one in Dunedin and the other in Middlesbrough, will have different values and, as a consequence, different rates. The way these variables act on property values is effectively a "natural" differential.

It can be argued, therefore, that a further differential is not required because all the variables that affect values are already built in. Moreover, an artificial distinction, such as a ward boundary, might attribute to one property a variable, eg distance from schools, that is not relevant but deprive another where it is. Hence, a distinction created by lines on a map deprives the rating system of the subtleties and flexibility of a capital value based system.

### **The effect on ratepayers is not clear**

In Volume One (page 19) of the Council's Draft 2009/10-2018/19 Community Plan, under the headings "Stadium effect" and "Cash flows from CCTOs [Council Controlled Trading Organisation]" how the funding of the new Stadium will affect ratepayers is described. For the average value property owner, the current \$40 pa will rise to \$66 pa (incl GST) in 2009/10 and remain at that level for 22 years when the last of the Stadium debt in the CCTO is paid off. The 22 years comprises two years of construction plus 20 years for the loan duration.

Of the total population of residential properties in Dunedin, 64% have rating valuations that are lower than average.

It is worth restating how the ownership and operation of the Stadium will work. Following the successful model adopted by Christchurch, the Stadium, will be managed by a council owned company, provisionally known as Dunedin Venues Management Limited. It will be charged with operating the Stadium in a professional, business-like manner, co-ordinated and integrated with other Dunedin venues, to better ensure its commercial success. A second company, Dunedin City Venues Limited, also owned by the Council, will own the physical assets and carry the debt previously borne by the Council. The cash required to service the debt comes from the collective cash flows and financial efficiencies from within the group of council-owned companies as well as the release of the companies from an obligation to remit \$5 million pa to its Council shareholder. In other words Council ratepayers contribute \$5 million pa for the 20 years of the Stadium loan. The need to make up the dividend shortfall gives rise to the need to raise rates to the extent that the owner of the average value residential property will pay \$66 pa for the duration of the loan.

### **There is no major tenant**

The Otago Rugby Football Union has signed a Venue Hire Agreement for 35 years as the major tenant with a right of extension.

### **The World Cup is already set for Carisbrook**

The World Cup organisers have reserved the right to shift the matches to the new Stadium if it is completed. The Crown's \$15 million contribution comes with an expectation that the Stadium will be available for the Rugby World Cup.

### **Operating revenue pays for capital costs**

Cash flows are the most important thing - like all business, some cash goes to meet operating costs, some is invested and some repays debt. The Stadium will have to optimise those cash flows.

Accordingly, again like any other business, part of the "seating products" revenue (from the sale of corporate lounges, memberships, open club reserves, founders club) will be used to service the bridging finance that was needed when the market indicated it wanted to pay by instalments in arrears rather than lump sums up front. For now, the modelling assumes 75% of the lounge memberships and open club reserves will have been sold by opening day and that 70% of the annual income will be used to repay the estimated bridging loan of \$30 million needed to fund the construction of the Stadium by the end of the 2010/11 year.

### **Only those who use the Stadium should pay for its construction**

This view opens up the notion that people who do not use city facilities need not pay for them. If this argument was accepted the same approach would have to be taken for facilities such as the libraries, museums, art gallery, Dunedin Centre and so on. It is unlikely the city would have any of these facilities at a quality expected by residents. We suggest that attempting to apply this would be chaotic in practice. For the most part, the residents of a city accept that, even though there are services and facilities they do not use, they are still prepared to pay for them.

### **There are no economic benefits**

A BERL study of the Westpac Stadium in Wellington concluded there were positive economic outcomes and favourable social outcomes.

The economic benefit of the options presented by the Carisbrook Stadium Trust in February 2007 are set out in the table below:

Impacts \$ 2007	Options					
	1a	1b	2a	2b	2c	2d
	New Stadium with roof	New Stadium without roof	Minor upgrade to meet NZRU requirements	Replacement of Burns Street main stand	New Stadium design with roof	New Stadium design without roof
Positive Economic Impact (\$million)	365.5	266	78.1	134.7	241.7	184.2
Average annual positive economic impact (\$million)	24	17	4	7	15	11
Opportunity cost (\$million)	142.1	106.0	23.3	57.0	154.4	109.4
Net Economic Impact (\$million)	223.4	160.0	54.8	77.7	87.3	74.4
Economic Impact Ratio	2.6	2.5	3.4	2.4	1.6	1.7

(Source: Carisbrook Opportunity, Dunedin Master Plan and Feasibility Report, February 2007, Carisbrook Stadium Trust)

The new Stadium with a roof (Option 1a) is the option chosen by the Council now known as the Forsyth Barr Stadium at University Plaza. The analysis shows that over a 50 year period and discounted back to 2010 dollars there is a positive economic impact estimated at \$365.5 million with an average annual positive economic impact of \$24 million for the Stadium. The value of using this money for other purposes, which is known as an opportunity cost, was estimated at \$142.1 million which results in a total net economic impact in 2010 dollars of \$223.4 million over the 50 year life of the Stadium. It is calculated the economic benefit will be driven by increased visitors to Dunedin City and the Otago region, the holding of events which will include international rugby, professional rugby in the form of the Highlanders, other promotional opportunities including an annual concert and the impact of obtaining additional students to the University of Otago. The Stadium will provide an opportunity to showcase the lifestyle available in the city and regional generally.

There will also be a positive and strengthened association with the University of Otago, which will create opportunities for improved teaching and research facilities. The Council understands from discussions with the University of Otago that it will assist in their ability to recruit and retain both lecturers and students. The majority of students do not reside in the Otago region or the city of Dunedin.

### **Council keeps missing deadlines**

In a project of this size and complexity it is impossible to be able to see every step along the way. Those unforeseen obstacles and delays have meant that some milestones have not been met. However, the bigger objectives have been met and the programme of construction, now that it has cleared the planning, design, funding and approval hurdles, is on track to be completed in time to host the Rugby World Cup in October 2011. This was the intention when the Carisbrook Stadium Trust presented its Master Plan and Feasibility to the Council in February 2007.

### **Ratepayers should not fund the bridging loan**

The private sector funding bridging loan is serviced and repaid entirely by a portion of private sector funding of seating products. It is not intended ratepayer funding goes towards repayment of that debt. Refer to paragraph under Operating Revenue pays for Capital Costs on page 4 for further detail.

### **Central Government's contribution has bailed out the private sector**

The Central Government contribution of \$15 million has been made because they want the project to succeed in time for the World Cup. It covers the:

- 1 timing changes when private funding will be received
- 2 expected number of sales of seating products prior to opening
- 3 increased costs in the project due to the unavailability of a surplus on disposal of Carisbrook, an increase in site acquisition costs and a shortfall in the anticipated contribution from the Community Trust of Otago.

Whether the Crown's grant is viewed as support for private sector, public sector or CTO funding does not matter in the long run. The Crown's \$15 million is a cash grant, expected on or about 1 July 2009. It is not an underwrite in the usual meaning of that word.

### **Targeted rates should be levied on those that benefit most**

The Council recognises that there are likely to be activities (land uses) that receive greater benefit than the average ratepayer. On the day of a big event, it is not hard to work out who they are. The Council's Rates and Funding Working Party has considered options that might reflect the extra benefit obtained by those land uses eg accommodation, hospitality, retail. To date, it has not been able to identify a genuinely equitable method of allocating this extra benefit.

### **Capital value rating does not reflect incomes**

We have compared median property values to median household incomes, (the average values were not available), for all Dunedin City Council census meshblocks (copy attached). Clearly there is a strong correlation between median household incomes and median property values. Secondly, councils have no authority in legislation to raise revenues on the basis of household incomes. The Council also does not have access to Inland Revenue Department records which are the only reliable source of income.

It needs to be noted that high value residential property, which provides no income potential, is faced with a similar situation. Equally, a business may not be producing net income but if it owns its premises it, too, is faced with rates along with, in their case, a differential of 3.03 in 2009/10.

The Council's view is that it has no wish, even if the law permitted it, to know ratepayer incomes.

### **Funding options**

In 2007/08 the Council first consulted on funding options. Under the option proposed at that time, Dunedin City Holdings Ltd (DCHL) contributed additional dividends of \$60 million (\$3 million pa for 20 years) for the purpose of repaying the principal on the loan taken out by the Council. The remaining interest and principal loan repayments were to be funded by ratepayers from a mixture of:

- 1 general rate (on capital value)
- 2 targeted rate 20 year loan of \$2.5 million capital value for non-residential activities.

This was clearly set out in the summary sent to all ratepayers with the 2007/08 Draft Annual Plan incorporating amendments to the 2006/07-2015/16 Community Plan:

	<i><b>Principal</b></i>	<i><b>Interest</b></i>
Loan 1 \$60 million	DCHL	Ratepayers
Loan 2 \$31.4 million	Ratepayers	Ratepayers
Total \$91.4 million		

At the time of that 2007/08 consultation the cost to a \$175,000 capital value property was identified as between \$75 and \$88.50.

By structuring the ownership and operation of the Stadium as described on page 5 under the heading "The effect on ratepayers is not clear" not only are operating efficiencies and synergies expected but also financial efficiencies.

### **Consultation**

The planning documents in which the Stadium has appeared for consultation are as follows:

- 2007/08 draft Annual Plan
- 2008/09 draft Annual Plan
- Full page publication of details of the proposal in the Otago Daily Times 29 March 2008.

Additional detailed information on the proposal to build a stadium was published in the April 2007 edition of "City Talk" which was delivered to all Dunedin households.

The DCC and the Otago Regional Council undertook consultation including a telephone survey, leaflets being dropped in each Otago residence and public meetings held throughout the province.

Explanatory material has been on the DCC's website since April 2008.

Articles varying from comprehensive, detailed analyses to much briefer stories have been published. Interviews on radio and television, local and national, have been widely broadcast over the last two years.

In short, aside from widespread formal consultation there has been a considerable amount of detailed information available to the public from many sources.

### **Conclusion**

For those who have submitted we thank you. While you may still have reservations about the Stadium project, you may be assured that Councillors and the Carisbrook Stadium Trust have always sought the best advice and had it peer-reviewed before making final decisions. In this way the Council believes it has reduced the risks of the project to the point where we can be as confident as we can on undertakings of this size that it will be completed on budget and will operate successfully.

After considering all submissions, the Council resolved to keep the proposed funding for the Stadium in the LTCCP and to proceed with its construction.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Peter Chin', with a stylized flourish extending from the end.

Peter Chin  
**Mayor**

Encl

## Correlation of Property Values to Household Incomes (Medians)

