CARISBROOK STADIUM TRUST

REPORT FOR DUNEDIN CITY COUNCIL - 16 APRIL 2008

Contents Page

1.0 INTRODUCTION

This report provides an update on the multi-purpose stadium project at Awatea Street, Dunedin for the Dunedin City Council Finance & Strategy Committee Meeting on 23 June 2008.

The contents of this document are broadly set out around the format of the DCC Resolutions that were passed on 17 March 2008.

2.0 EXPENDITURE

A sum of $11.5m was committed by Dunedin City Council to fund the work of the Carisbrook Stadium Trust in the financial year to 30 June 2008.

At the current time, the forecast expenditure to the end of the year is expected to be approximately $8.1m, some $3.4m under the level of expenditure anticipated back in May 2007. The main reason for this difference has been less expenditure on design fees due to a longer than expected timeframe for land acquisition, for the plan change to be adopted and for Dunedin City Council to commit to the project. As such, CST reduced expenditure on the design until such time as these milestones were reached. The expected cost to the end of the year for design fees amounts to $5.8m compared to a budget of $8.9m, a difference of $3.1m.

It should be noted the above does not result in cost savings, rather that the timing of the expenditures have been delayed.

Indicative cash flows for the remainder of the project have been issued to the DCC executive previously. These will be continuously monitored and updated for the duration of the project, with a further update due in the next few weeks as the cost plan has once again been updated on completion of the preliminary design stage. No significant differences for the timing and level of expenditure is expected.

3.0 LAND

All agreements relating to the land required for the stadium, University and the SH88 road realignment have been executed by the Trust as Agent and/or Nominee of DCC.

While three of the smaller interests have already been confirmed, the remaining are all due to be confirmed on 30 June 2008. CST and DCC's legal advisers have all but completed the due diligence process with the only outstanding issue being a further review of the tenancies of one of the land interests. While this has already been reviewed previously, it is a matter of double checking. CST will, on the satisfactory completion of this be writing to our legal advisers to confirm the sale and purchase agreements can go unconditional and will nominate DCC as the purchaser.

4.0 DESIGN & PROCUREMENT

4.1 Design

On 3 June 2008 the project team reached a significant milestone with the CST approving the preliminary design. The design is in accordance with the report which was issued to the DCC for their March 2008 decision to commit to the project. Information on the preliminary design which was presented to the stakeholders at a session on 11 June 2008 is attached in Appendix A.

The cost plan has also been updated to reflect the preliminary design and while CST has not yet received a full copy of this, Rawlinsons have confirmed the preliminary design budget for design and construction elements is $162.8m compared to the requirement of $165.4m.

Some of the queries that have been raised during the course of the last couple of months have included the concerns of rising steel and concrete prices. The project team are fully aware of these issues and have factored them into the updated cost plan.

Some concerns have also been raised during the Annual Plan submission process on the ETFE material proposed for the roof covering. The project team have answered these in a separate paper which is attached in Appendix B.

4.2 Procurement

Now that the preliminary design has been approved more focus can be applied to the procurement strategy and how the project will be tendered. Since June 2007 the Trust has received from the project team a number of papers on procurement strategy. The latest paper provided an overview of the recommended strategy and further discussion and meetings are now taking place to finalise the delivery methodology for the project.

In the next few months the design will be progressed to a sufficient enough stage to enable a contractor or contractors to be selected who will then work with the project team through the detailed design stage at the end of which a GMP contract will be finalised. It is hoped that the final GMP will be agreed by the end of the year although this will certainly be no later than the end of January 2009.

5.0 UNIVERSITY

The Trust and the University have been working together under the framework of a Heads of Agreement that was executed in September last year. Under that agreement a number of conditions needed to be progressed and these have now recently been confirmed to the University, though it should be recognised that some of these will be ongoing due to the nature of the project (for example, satisfactory aesthetics to the University building design).

At a University Council meeting on 10 June 2008, it was resolved that the University will contribute a sum of $5.6m for the cost of the land upon which their buildings will occupy. This is subject to the University entering into a legal agreement with DCC to ensure that a transfer of value takes place. The University are discussing this agreement directly with DCC.

The contribution to land costs is part of the $10m 'indirect contribution' that has been allocated to the funding of the project. The remainder of this amount of cost sharing can only be confirmed as the design of the University buildings progresses.

6.0 PLANNING

The Trust lodged a plan change with the DCC on 18 December 2007. There have been delays to the progressing of this due to the DCC funding decision which occurred in March and some amendments that the DCC wished to make to the documentation before adopting it. On 9 June 2008, DCC decided to adopt the plan change.

It is the Trust's understanding that the plan change is due to be notified during week of 16 June 2008, which will then lead in to the submissions and hearings process.

As has been noted previously the plan change is on the critical path programme. Any delay to the process directly affects the commencement date of construction works on site. Assuming that construction is able to commence on site in February 2009, the stadium will be completed by May 2011.

The possibility of a delay in the process also has implications in terms of the cost of the project. The project team have continued to report the cost plan on the basis of cost to complete the project and it is escalated to the end of 2011. Any delay beyond December 2011 would therefore see construction costs increasing.

7.0 FUNDING

In terms of both private and public sector capital fund raising, the following is a summary of the current status of current commitments:

Source	Current Commitments
Dunedin City Council	$85M
Otago Regional Council	$37.5M
University of Otago	$5.6M
Private Sector	$14.2M
Total	**$142.3M**

7.1 Dunedin City Council

The funding commitment from DCC is of course conditional upon a number of items outlined in the resolution passed on 17 March 2008. The above table does not include the additional $6.4m that has been allocated by DCC as a depreciation allowance.

7.2 Otago Regional Council

While this has not formally been approved by ORC, the recommendation from the Finance & Corporate Committee meeting on 11 June 2008 was that ORC part fund the new stadium, subject to a number of conditions.

Having reviewed the conditions there are none that give the Trust any cause for concern. The key condition for CST is securing a construction tender for a GMP of not more than $165.4m by 2 February 2009, which at this stage looks very much achievable.

7.3 University of Otago

As noted above the University has confirmed it's approval to pay $5.6m for the land which it's facilities will occupy. Based on some early work the contribution of the University toward site infrastructure, the cost of the plaza, it's share of fees and other shared costs appears to be in the ballpark of $5m. This would take the total indirect contributions to $10m to $11m. The overall cost of the University buildings will be estimated in line with their brief, which has yet to be developed. However, this could cost the University a further $30m to $40m.

7.4 Community Trust of Otago

There are no commitments by the Community Trust of Otago other than a decision in principle to support an application being made for $10m of funding. Once the decision of ORC is ratified on 25 June 2008, this application is able to be progressed.

7.5 Private Sector Funding Update

7.5.1 Progress to Date

To date two key products have been progressed by CST in the market place: the corporate suites and the lounge club memberships. A third, open club reserves, has just been released.

At the time of writing this report, the Trust has received written expressions of interest for all of the corporate suites available as well as for 505 lounge memberships. In addition we have received a written offer for head naming rights, however this is on the understanding that because it does not meet the Trusts expectations the Trust may continue to market this sponsorship product. The offer, however, remains valid for 6 months. In addition to the above, we currently await the outcome of a further, yet smaller 'sales initiative' where further expressions of interest are expected during the week of 16 June 2008.

The total level of written expressions of interest received at the time of writing this report equates to a capital funding contribution of $14.2m. In addition, the revenues that these generate for the operational projections amount to around $6.5m for the first ten years, a total contribution of $20.7m. An update on further expressions of interest received will be provided at the finance and strategy meeting.

Our funding consultants advise that after the excitement of the DCC March decision died down, doubts appeared in the market place over the ORC funding decision which had an impact on the ability to maintain the level of interest in funding products. This is also reflective in some feedback the Trust was receiving directly during this time. However, with the ORC decision all but confirmed, further interest is now expected.

7.5.2 Benchmarking

In order to understand how the private sector fundraising is tracking, our funding consultants have carried out a review of other comparable stadia, those being Skilled Park on the Gold Coast (completed Jan 2008), Westpac Stadium and AMI Stadium. The results of this are attached in Appendix C, while in summary the findings are as follows:

<u>AMI Stadium</u>

- The information obtained does not offer a good enough comparison for timing of sales, but it does provide some background on the cost of products, which shows our pricing is reasonable

<u>Skilled Park</u>

- Only operates on a season to season basis and currently is a one sport stadium.
- Nonetheless, the products offered are very similar to Dunedin
- Expressions of interest were taken through a website 12 months prior to opening (about a year after construction commenced) with the sales process commencing 6 months before opening.

<u>Westpac Stadium</u>

- Probably the most comparable stadium
- The lounge membership sales reached 470 (20% of inventory) when launched in October 1997, which was two months after the construction contract was let.

- This timeframe equates to where Dunedin is in the project. We currently have 505 expressions of interest (35% of inventory) approximately seven to eight months before the construction contract is likely to be let.
- Following commencement of sales, Westpac did not experience another significant leap in sales until the roof over the stands was completed 21 months later. In between, sales trickled in regularly each month rather than being significant.

In the light of this information the sales process to date should be seen as a reasonable success. However, the Westpac pattern combined with the feedback that we are getting from the market place indicates that until the construction process commences there is unlikely to be a significant escalation in sales activity, rather it should be expected that there will be a steady flow.

7.5.3 Next Steps

To date the 'sales' of products has been derived from targeted groups such as ORFU suite holders and members, Chambers of Commerce, business owners and so on. Beyond June, the products and packages will be able to be marketed more widely and more confidently with the decision of the ORC to be ratified on 25 June 2008.

With the preliminary design having been approved, terms and conditions for the lounge memberships and corporate suites can be finalised. These will be issued to those who have submitted expressions of interest to date so that the process of allocating suites and seats can commence.

The open club reserves product is now finalised and is currently being released, while the final product to be released will be an annual ground membership seat. The benefit of certainty in the design now enables the funding team to market all product mixes rather than products in isolation which have the potential to confuse if they are marketed individually over a period of time.

There remains a high level of confidence that the private sector funding targets will be achieved.

8.0 FINANCIAL PROJECTIONS

8.1 Updated Projections

Since the last report a significant amount of discussion has taken place with the ORFU. One of the key issues has been the advice that the format assumed for rugby in the operating projections, being the same format as today, is unlikely.

ORFU has advised the format is much more likely to be an expanded Super rugby format, the conservative scenario being home and away fixtures (although more teams in the event is a possibility). The impact of this is the current Air NZ Cup will be downgraded to amateur status. This has now been reflected in the operating projections.

Some further minor changes to the design as well as some more detailed reviews of operational issues have also impacted upon the projections. Some of the key issues are as follows:

- There was an inconsistency between the design and the projections in terms of the number of open club reserves. This has been adjusted in line with the design, although it should be noted that there is the possibility of more being able to be added to the design.
- A review of the food and beverage spend has revealed what the Trust believe to be an optimistic level for the various events. A more conservative approach has therefore been taken.
- A lease payment was allowed for due to the potential of 1,000m2 of commercial accommodation above the concourse of the north stand. While this space remains as an opportunity, the lease revenue has been removed as the preliminary design does not allow for this space to be built in as part of the stadium construction.
- A further space has been created on level 1 of the south stand for commercial space. This is 600m2 in area, but being about 7m in height has the opportunity for a split floor to be constructed, conservatively taking this to around 1,000m2. Accordingly, as this is base build space lease revenue has been allowed.
- An additional payment was made for lounge memberships in year 6 onwards to allow for inflation as well as additional events, comparable to Westpac Stadium. In reviewing how terms and conditions are being structured, this has been adjusted to a straight CPI adjustment being paid from year 6 at a lower level. This has also been applied to the suites and open club reserves.

In addition to the above the Trust is now commencing some more detailed discussion and investigations around such issues as the catering, temporary seating, video replay screen and so on to confirm any contractual issues that may impinge on the financial projections. With regard to the fit out of the main kitchen, there may be a possibility of sharing the University kitchen and discussions are ongoing with regard to this.

The outcome of the recent work that has been undertaken indicates that the average annual net cash flow is a surplus of $201,393 for the first ten years. In year ten, however, there is a loss of around $1.2m as there are no suite or open club reserve payments in this year other than the CPI adjustment. This is because the first year's payment has been allocated to capital funding and therefore there are only 9 payments over the first ten years of operations. Nonetheless the cashflow built up is sufficient to cover this loss.

In addition, after year 10 the income from the lounge memberships is allocated to operational revenue whereas prior to then it is allocated to capital funding. The impact of this is to raise the average annual net cashflow over the first fifteen to $1,448,243.

It should be noted that while the above represents a much more pessimistic view than previously adopted it should be recognised that there remains, due to a number of revenue opportunities that have not been accounted for, possibilities of significant upside to the projections.

8.2 Agreement with ORFU

As noted above discussions have continued with the ORFU regarding their venue hire arrangements. The focus in the recent period has been aligning both the ORFU and the CST operating projections for 2011 onwards, which has now been completed. This has enabled both parties to understand the impacts of the various principles around the venue hire arrangement.

The current situation is that while it is anticipated there will be continuing updates to the projections, particularly over the course of the next couple of years, both parties have agreed in principle to the current projections. As such we are now at a point where the final issues should be resolved imminently enabling a venue hire agreement to be drafted.