



# Confidential Report

**TO:** Finance, Strategy and Development Committee

**FROM:** Chairman, Project Delivery Team  
CEO, Dunedin Venues Management Ltd

**MEETING DATE:** 14 March 2011

**SUBJECT:** **FORSYTH BARR STADIUM BASE BUILDING FURTHER REQUIREMENTS**

## SUMMARY

This report summarises the need to confirm changes to the Forsyth Barr Stadium project to achieve both the financial revenues projected and readiness for the Rugby World Cup (RWC).

The changes are due to :

- a) A change in scope or Operating clients requirement
- b) The originally proposed strategy for funding has not proved successful.

All significant changes to the approved scope of work must be authorised and approved by the Stakeholder. The PDT and DVML have been involved in compiling this summary.

The matters in hand are :

### *Initial*

- Catering fit out to service the Stadium
- Internal and external way finding signage
- Movement of the media suite from its present position in the South stand to a new position on top of the redesigned North stand and Academy of Sport.
- Permanent or re-locatable toilets to the West stand
- Big screen for stadium.

### *Subsequent*

- Upgrade in the fit out of level 2a
- A Wi-Fi system throughout the stadium required for conferences, meeting, etc
- A telephone exchange to connect the stadium to the outside world.

The Council are therefore asked to consider the additional funding requirement acknowledging that there have been changes in the original scope of work and that where an original strategy for securing funding or allocating costs was allowed for at the beginning of the project, some of these have not been successful.

The timeframes are considered to be highly important in the case of the first five items, which if unresolved, will have an immediate impact upon the Rugby World Cup.

**IMPLICATIONS FOR:**

|  |  |
|--|--|
| (i) <b>Policy:</b>                     | No   |
| (ii) <b>Approved Annual Budget:</b>    | Yes - Servicing the additional debt may require additional rates although this will be offset in part by additional unplanned revenue. |
| (iii) <b>LTP/ Funding Policy:</b>      | Yes - as above   |
| (iv) <b>Activity Management Plans:</b> | No   |
| (v) <b>Community Boards:</b>           | No   |
| (vi) <b>Sustainability:</b>            | No   |

**RECOMMENDATIONS**

1. That the Council approve the additional capital expenditure on the "Initial" list comprising catering fit out, big screen, relocation of the media suite, internal and external way finding, toilets to the west stand and additional toilets on level 4 at a combined cost of up to \$5.15m.
2. That the Council approve additional borrowing of \$5.15m required to fund the capital expenditure, noting that additional unbudgeted revenue arising from the expenditure will contribute to the debt servicing costs.
3. That the Chief Executive be authorised to draw down the loans to the limit authorised by Council in stages, as and when required.
4. That the Council note the items on the "Subsequent" list at a further cost of \$650,000.
5. That the Mayor be given authority to release all or any of this information at a time deemed appropriate by the Council.

**BACKGROUND**

Two lists are provided. The first, described as the "Initial" list because of the need to make a decision urgently, includes items that the approved project budget did not provide for. The second "Subsequent" list comprises items that may be considered at a later date.

**Initial**

1. Catering fit out to service the Stadium
2. Internal and external way finding signage
3. Movement of the media suite from its present position in the South stand to a new position on top of the redesigned North stand and Academy of Sport
4. Re-locatable toilets to the West stand
5. Big screen for stadium.

**Subsequent**

6. Upgrade in the fit out of level 2a
7. A Wi-Fi system throughout the stadium required for conferences, meetings etc
8. A telephone exchange to connect the stadium to the outside world
9. External building signage.

Further to a substantial review by both the Project Delivery Team (PDT) and DVML, the following cases for further capital being made available are provided. As appropriate, justification for each is provided through business cases and customer expectations:

### Catering

The catering projections for the stadium were initially developed by Horwath HTL and were published in February 2007 along with the Master Plan and Feasibility report completed by the Carisbrook Stadium Charitable Trust (CSCT) when recommending to proceed with the option for a new stadium to be located at Awatea Street.

The Horwath report assumed that the potential capital cost for the kitchen equipment and some fit-out would be offset against an expected \$2m to \$2.5m contribution from a Caterer. In the original construction budget the CSCT was aware that there was a fit-out contribution deficit that any available construction contingency would be allocated as a priority. Currently there is no available contingency to allocate.

The caterer for DVML venues has been selected through a competitive tender process. The offer that has emanated from this process will see a capital contribution of \$3m made to DVML, in addition to the annual revenues which are returned to the venue, details of which are noted below.

#### *Business Case*

The DVML design considerations come with cost implications. A significant amount of work has been undertaken to ensure that the design costs are minimised, however the total additional funds required to complete on this basis will be in the order of **\$2.4m**. The breakdown of this requirement is as follows:

|   |         |
|---|---------|
| Equipment cost, including refrigeration             | \$2.6m  |
| Contingency on equipment                            | \$0.25m |
| Fit out to base build and changes                   | \$2.55m |
| Beer system cost                                    | \$0.7m  |
| Less:   |         |
| Contribution from caterer                           | -\$3m   |
| Contribution from brewery for beer systems          | -\$0.7m |
| Total requirement                                   | \$2.4m  |
| Takings over 10 years (with potential for increase) | \$3.9m  |

A contingency of \$250,000 has been allowed on the equipment cost while contingencies are already included in the \$2.55m for base build fit out and changes.

There is also a risk that major power changes would be required as part of understanding the increased load on any design. This value has not been included but could be in the order of a further \$250,000. If this situation eventuates the cost will be covered from the contingencies noted above

#### *Conclusion*

The PDT is building in accordance with the base build and does not allow for the building fit out works that are needed before the equipment can be installed.

If the design is followed there will still be an additional cost requirement, potentially in the order of \$2.4m. DVML's projections show catering commissions of \$390,000 in the first year of operation, which is approximately aligned with the Horwath projections, with potential to rise to \$570,000 per annum by year 10.

The DVML design is supportive of achieving DVML's projections and importantly of establishing the stadium's reputation in terms of the customer experience offered. However to achieve this, additional funding of up to \$2.4m is required.

A decision is required in respect of this, as funds have been expended on extra design and changes to the base building for the new layouts to maintain programme. Any delay to this timeframe will put at significant risk the ability to have a complete catering operation in time for RWC.

### **Internal/External Way finding Signage**

The GMP provides for signage to exit the building in full compliance with current building regulations in case of an emergency.

Way finding signage was originally assumed to be part of the naming rights package offering. This strategy was not successful. Consequently such costs are being put back to the construction budget. This signage includes signs to direct patrons to their stand, block and row, where their seat is located, guide people to merchandise, catering, customer toilets, first aid or information booths.

The cost of such signage has been put out to tender by the PDT and while returns are currently being evaluated, it is anticipated that the costs will be in the order of \$400,000.

### **Media Suite**

This opportunity is a new scope of work. There were two options originally considered:

1. Move all media to the North Stand and refit South Stand with corporate suites (250m<sup>2</sup>).
2. Move only the broadcasting (TV production and commentary) and leave other media in South Stand. Possible option to move later (125m<sup>2</sup>).

The existing Media Suite on Level 3 of the South Stand contains two coaches' boxes, four radio commentary/video referee boxes, one television production area and a television commentary area. The total area is in the order of 250m<sup>2</sup>. The plan is only to relocate the radio and television areas only.

The current location places the North Stand as the backdrop to coverage of events. This coverage drives two areas of commercial revenue, namely advertising and stand sponsorship. However, the North Stand is anticipated to be the less, well-used stand of the two permanent stands, which will drive down the commercial values. In addition it has less area for signage. Furthermore, as a method of keeping costs down, management may have considered closing the North Stand for lower attended events. However with TV coverage focussed on this stand, it would need to remain open and therefore event costs would remain high.

### *Business Case*

Through the development of the facilities within Academy of Sport in the North Stand, it has been identified that the relocation of these media facilities will have a positive economic effect in three areas. The business case is summarised as below:

1. The redevelopment of the existing media space could see at least four smaller hospitality suites developed. The design suggested by DVML is to provide 4 x 12 seat suites in contrast to the larger 20 seats currently being offered. The marketing strategy is to allow the smaller suites to appeal to smaller companies who are unable to pay the fees for larger suites.
2. The commercial rights in stand sponsorship and advertising on the South Stand is greater than the North Stand. The estimated net effect would be an increase of overall commercial revenue by an anticipated \$30,000 per annum.
3. From an operation perspective, the change would allow the operator to reduce the usable seating space or close the entire North Stand for lower attended events. This level of management could see significant savings in the areas of security, catering and cleaning.

In addition to the economic effects, there is the added benefit of the relocation of the media facilities improving the coverage for TV companies as it positions the cameras with the sun at their backs. This mitigates any risk on the current situation where sun glare could become a discussion point.

The business case has been summarised as follows:

|   |             |
|---|-------------|
| <u>Expenses</u>   |             |
| South Stand   | \$350k      |
| Redevelopment costs of existing space into 6 x hospitality suites |             |
| Establishment of 2 lines of seating in front of suites            | incl.       |
| New media to North Stand  | 1.0m        |
| <br>Total Expenses  | <br>1.350m  |
| <u>Income</u>   |             |
| Suite hire over next 10 years:                                    |             |
| 1. 3x12 seat suites   | \$800k      |
| 2. 1x12 one off lets  | \$200k      |
| 3. 1x20 seat suite  | \$500k      |
| Increase in South stand sponsorship                               | \$500k      |
| Decrease in North stand sponsorship                               | -\$400k     |
| Increase in South Stand advertising                               | \$300k      |
| Decrease in North Stand advertising                               | -\$100k     |
| Annual saving of operational costs                                | \$200k      |
| <br>Total   | <br>\$2.00m |

The business case for this change is strong and the Council is commended to finance the capital change at \$1.350m, noting that a revenue of \$2m during 10 years is forecast to offset the initial expenditure

This opportunity is not essential before the RWC, however there are synergies with the construction of the North Stand Extension.

### **Permanent or re-locatable Toilets to West Stand**

The permanent West Stand toilets were removed as part of the approved budget on the basis the original business case forecast only three events where the maximum capacity would be required. For this number of events it was considered that a hire-in solution under the operating costs could be a better option than costs for a permanent solution

It is considered that to have a stand containing 5,300 patrons for a sold out event will place a significant burden upon toilet provisions. In particular it should be noted that patrons would not be able to access other stands and therefore use toilets located in them.

These capacity events will be the stadiums show pieces and therefore the strategy of providing portable toilets to this stand may not now be prudent.

Therefore it is suggested that the provision of permanent toilets in this area would be a sensible way to proceed. It is understood that the building of permanent toilets would be at a cost of approximately \$500,000. However, there is no obvious commercial offset in this instance.

### *Potential Mitigation*

A hire-in option is still available.

### **Big Screen for the Stadium**

These can be characterised as either replay screens or video screens generally between 9 metres and 16 metres wide and are either hung from the roof of the stadium or loaded onto a stand and moved to parts of the stadium. These are considered to be an enhancement to customer experience and are seen at stadiums widely throughout the world.

The construction GMP did not include a screen as a feature. The screen was included as a hire-in option as part of the Horwath financial projections. It was considered that in this scenario costs would be recovered from the hirer, however they would then keep any sponsorship

However, if a purchase option is to be pursued then the breakdown of this requirement is as follows:

|                               |         |
|-------------------------------|---------|
| Estimated cost for a screen   | \$400k  |
| Supported steel work & motors | \$300k  |
| Contingency                   | \$100k  |
| Sponsorship from DVML         | -\$400k |
| Total requirement             | \$400k  |
| Expected revenues (per annum) | \$130k  |

### *Mitigation*

The mitigation strategy has been to hire the screen on a one off basis for events. The cost of circa \$15,000 per hire is significant. If the screen were owned there is the opportunity for external hire to other organisations with revenue being derived from this. If it is not owned this revenue opportunity would be lost and there would be an ongoing cost to supply screens to hirers.

### *Conclusion*

These screens have become features of modern arenas and stadiums across New Zealand and the rest of the world. The original strategy to hire in and/or find a sponsor has not come to fruition. Given the opportunity for revenue for external hirers, this system is likely to make a significant contribution and pay off its capital financing within a 10-year period.

DVML is aiming to obtain either a significant sponsorship or joint venture arrangement.

The maximum underwrite expected for this, either from sponsorship or from a joint venture would be 50% of cost, i.e. in the order of \$400,000. DVML are confident in securing this 50% contribution should the DCC be willing to fund the balance.

### **Additional toilets on Level 4**

Following observations by a number of visitors and the conversion of media suites which will add another 80 persons to level 4, the quantity surveyor has indicated that a further \$100,000 would alleviate issues around toilet facilities on this level. The lounges which would also serve as medium sized dinner spaces would have their needs much better met.

### **Upgrade in the fit out to Level 2a**

Within the original and approved budget, an allowance was made to construct a mezzanine floor above the main concourse on level 2 to utilise the structure and the space. This area was deemed suitable for a sports related office space and was assumed to be managed as

part of the city property portfolio. A revenue of \$140,000 per annum was allowed in the Horwath projections, while DVMLs projections are a little more conservative with an income stream of \$100,000 commencing in the 2012/13 financial year.

The intent is to create a business hub with several bodies working together. CSCT and DVML have had discussion with four bodies, namely the ORFU, Sport Otago, Otago Polytechnic and Tourism Dunedin. These bodies have all confirmed a willingness to move into the area in writing.

However, at present the GMP base build allows for a shell finish. Members should note at the time of design development this approach was appropriate, with landlords having the upper hand in negotiations. However, in today's market the tenant has the upper hand. To achieve the anticipated revenues contained within the projections the shell needs to be considerably upgraded by the landlord to entice potential tenants to take up residency.

The basic business plan is as follows:

|                             |         |
|-----------------------------|---------|
| Estimated cost of upgrade   | \$400k  |
| Contingency                 | \$100k  |
| Total requirement           | \$500k  |
| Expected revenues (10 year) | \$1.00m |

### *Conclusion*

The business case for this development was contained within the original documentation and remains strong today. The extra investment will see a significant return.

Therefore the Council is asked to take a two-stage approach to this project, namely:

1. Initially to approve the expenditure.
2. At a future date to approve the forwarding of the money. The date would be dependent on obtaining conditional contracts with potential tenants.
3. This work is not required to be completed prior to the RWC event.

### **Wi-Fi System**

When the stadium design was first conceived in 2006, Wi-Fi was a communication technology that did not really exist in stadium developments. Over the intervening period, however, this has become increasingly important in venues.

As the financial projections have developed for the stadium there has been an increasing reliance on the meetings, incentives, conferencing and exhibitions industry. This industry now requires as standard Wi-Fi coverage at venues. Without it the ability to attract such events becomes difficult. It has also become a more standardised technology in stadiums to enable them to distribute relevant content to their patrons.

RWC organisers will be providing an overlay for the stadium, which will see Wi-Fi installed to various points at the stadium. There is an opportunity for the cost of these installations to be shared with RWC (or offset), which, even though some reconfiguration will be required on completion of the event, will see the stadium obtain a Wi-Fi system in an extremely cost efficient way. However, as no funding currently exists for this the Council is asked to consider funding this.

### *Mitigation*

We suggest that should RWC install as part of their requirements for the event, there may be a contribution required to leave it in place when they are completed.

## PABX & Phone System

The PABX is effectively the internal telephone exchange system within the stadium. This equipment as well as the phone system (software, equipment and handsets) was considered by CSCT to be installed by the operator.

DVML's selected ICT provider has indicated that the cost of a PABX, phone system, handsets and some related data infrastructure, such as network switches, will be in the order of \$150,000.

## RELEASE OF INFORMATION TO THE PUBLIC

As the matters contained in this report are commercially sensitive it is recommended that the Council authorise the Mayor to release relevant parts of this information as appropriate.

## CONCLUSION

The following is a summary of the anticipated costs for each of the items noted above:

| Item  | \$               |
|---|------------------|
| <b>Initial</b>                                    |                  |
| Catering fit out                                  | 2,400,000        |
| Internal and external way finding signage         | 400,000          |
| Media suite relocation and new suite construction | 1,350,000        |
| Relocatable toilets                               | 500,000          |
| Big screen  | 400,000          |
| <b>Sub total</b>                                  | <b>5,050,000</b> |
| <b>Subsequent</b>                                 |                  |
| Upgrade in the fit out of level 2A                | 500,000          |
| Wi-Fi system – leverage from RWC                  | 0                |
| PABX and phone system                             | 150,000          |
| <b>Total</b>                                      | <b>5,700,000</b> |

The design and construction budget at \$165.4m (as part of the \$198m total budget) is extremely tight, with no unallocated client contingency available for some of these items that have not been able to be delivered through original strategies.

For a major project of this nature we had started the actual construction with less than the ideal contingency. It was always going to be tight.

DVML has no budget for capital expenditure items, such as those listed above. We have benchmarked our operating costs on other NZ stadia projects and confirm we are comparable.

The items we are now considering for further funding assistance are not exclusions from the overall project as managed by CSCT. There were strategies assumed for the funding of the original items which in some cases have not been provided for.

Furthermore since the start of this project the CSCT have been absolutely clear that we must remain feasibility driven on all our key issues and drive for accountability through using robust NZ Stadia benchmarks as a guide.

The issues that arise in this summary are those that should be addressed now, in advance of stadium opening, as they impact on fundamental customer experiences as well as either maintaining the projected revenues or providing opportunities for further revenues.

The decisions on all of these matters have been brought together in one comprehensive paper to allow Council to consider in its entirety the number of items noted.



The Council should note that the first five items are urgent and the lead times for orders, design and the build process, particularly in the case of catering, is now at a critical point to enable the installations to be completed in advance of RWC.

Stewart Barnett  
**Chairman**  
**Project Delivery Team**

David Davies  
**CEO**  
**Dunedin Venues Management Ltd**

Approved for submission by:

Athol Stephens  
**Acting Chief Executive**

Date report prepared: 4 March 2011

### **Attachments**

1. Schedule of Additional items