



DUNEDIN CITY COUNCIL
2008/09 ANNUAL PLAN
INCORPORATING AMENDMENTS TO THE 2006/07-2015/16 COMMUNITY PLAN



**DUNEDIN CITY
COUNCIL**
Kaunihara-a-rohe o Otago

ECONOMIC DEVELOPMENT AND CITY PROMOTION

THE STADIUM STANCE

SUMMARY

The Council resolutions of June 2007 called for a significant reduction in the cost to the ratepayer. Over the first 10 years of the project, including this construction phase, a reduction, on average, of 25% has been achieved. If the Rates and Funding Working Party can obtain a further \$20 million to reduce ratepayer funding, the overall reduction will be about 56%.

Risks remain but the council's resolutions and measures such as the formation of a venues management company and the appointment of an independent person to the project control group will mitigate most.

Resolution of the Dunedin City Council on Monday 17 March 2008

To enable a complete understanding of every element of the resolution, it is reproduced in full below.

"That the Dunedin City Council commits to the Awatea Street Stadium project on the following terms and conditions:

- 1 *The project cost is confirmed at not exceeding \$188 million. The Council's share of the projected budget cost from 1 July 2008 is a further \$79.9 million made up of \$73.5 million plus \$6.4 million as a depreciation allowance. It is noted that the sum of \$11.5 million was committed in the current year to 30 June 2008 making a total Council commitment of \$91.4 million to the project.*
- 2
 - a) *The Mayor in consultation with the Deputy Mayor and CEO confirm within seven working days that property contracts are satisfactory in all respects and will enable the Council to meet its commitments arising from these resolutions.*
 - b) *The Council notes that in two property transactions there are conditions imposed by the vendors which need to be removed because the Council has no power to consider them under the provisions of the Local Government Act 2002.*
- 3 *That a public tender process is entered into with a guaranteed maximum price for construction.*
- 4 *That a contract is entered into with the University of Otago in relation to the land it is to purchase and written confirmation be given by the University of Otago as to the facilities that are proposed to be built on the land.*
- 5 *A satisfactory conclusion to the planning process and adoption of a Plan Change.*
- 6 *That a Service Level Agreement, based on the draft that is included in the "public excluded" part of the agenda of this meeting, is signed as soon as possible and that a project control group will be established in accordance with that agreement and that the Council will be represented by personnel with significant experience in construction, project management and financial marketing. It is noted that the Service Level Agreement will provide inter alia that the Trust reports regularly to the Finance and Strategy Committee.*
- 7 *The acceptance by the Council of a tender price is subject to:*
 - a) *confirmation of Otago Regional Council funding of not less than \$37.5 million.*
 - b) *the sighting and approval of agreements between the Otago Rugby Football Union and the Carisbrook Stadium Trust for the sale and purchase of the Union's property assets.*
 - c) *the sighting and approval of occupation and revenue agreements between the Carisbrook Stadium Trust and the Otago Rugby Football Union.*
 - d) *the Council being satisfied as to the progress made to achieve the private sector funding target of \$45.5 million and any further funds required for the servicing of any bridging finance arranged by the Carisbrook Stadium Trust."*
 - e) *the Rates and Funding Working Party continues to identify ways in which the ratepayers' contributions to the capital cost of the stadium can be reduced by \$20 million providing it comes from sources other than the Holding Company and in that regard regular reports will be made available to the Finance and Strategy Committee.*
- 8 *The Council will receive written confirmation from the Community Trust of Otago (as set out in the Council's cashflow information) that they will provide funding in accordance with the following programme:*

Community Trust of Otago	31 March 2009	\$2.5
	31 December 2009	\$2.5
	30 September 2010	\$2.5
	30 April 2011	\$2.5
		\$10.0

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That where resolutions 1-8 above conflict or are inconsistent with any prior resolutions of the Council the above resolutions 1-8 prevail."

The effect of this resolution, taken as a whole, is to permit the project to continue and, by placing milestones along the way, still provide for the possibility that if some or all of the risks that have been identified come to pass in a substantial manner, the Council can still exit the project.

The following summarises the main points of the report that was considered by Council. The full report may be found on the Council's website at CityofDunedin.com/City Council/Governance/City Council Minutes and Agenda/Council Standing Committees/Finance and Strategy Committee 2008/Report 17 March 2008 - Proposed Stadium at Awatea Street.

Cost of Project

The Council continues to take the view that the project cannot exceed \$188 million. All of the proposed sources of funds are predicated on that basic requirement. While the Carisbrook Stadium Trust has advised on difficulties, in securing land at the expected values, nevertheless it believes, and has advised the Council accordingly that \$188 million is expected as follows:

Otago Regional Council	\$37.5 million
Community Trust of Otago	\$10.0 million
University of Otago	\$10.0 million
Dunedin City Council	\$85.0 million
Private Sector Funding	<u>\$45.5 million</u>
Total	\$188.0 million

An additional \$6.4 million from Dunedin City Council will be set aside as a capital maintenance fund.

Resolution 7(e) requires the Rates and Funding Working Party to continue identifying ways of reducing the ratepayers contributions by \$20 million.

Who will own the Stadium?

Dunedin City Council will own the stadium directly up to its completion. It will then be transferred into the ownership of a 100% council owned company. The Council believes that the management of the stadium by a CCO in a business-like manner will better ensure its commercial success, at the same time ensuring that the benefits of public ownership are retained. This will remove the debt servicing costs from being a direct charge on ratepayers, but it will have the effect of reducing the dividends from the companies.

The proposal in the draft 2008/09 annual plan does not specify how the stadium would be owned and operated. It simply calculated the cost to the ratepayer of servicing the debt. This new proposal, that a CCO own and operate the stadium, is compared to direct council ownership in the Tables 1 and 2.

What will it cost ratepayers?

For residential ratepayers, it is estimated that the average value residential property, which is valued at \$289,000, would pay \$66 per annum. Table 1 below sets out the rates payable under this proposal and compares those amounts with the amount payable if the stadium was held in direct council ownership.

Table 1: Rates on individual properties, direct Council ownership compared to CCO ownership

	Value type	Value	Rates pa under direct Council ownership	Rates pa under CCO ownership	Difference
Residential	Mode	225,000	\$68	\$51	\$17
	Median	250,000	\$76	\$57	\$19
	Average	289,000	\$88	\$66	\$22
	Other example	400,000	\$121	\$91	\$30
	Other example	500,000	\$151	\$114	\$37
Non-residential	Median	320,000	\$295	\$223	\$73
	Average	965,000	\$891	\$672	\$219
Farmland	Median	475,000	\$129	\$97	\$31
	Average	716,000	\$194	\$147	\$47

On average, over the ten years from 2008/9 to 2017/18, the ownership and operation of the stadium by a CCO reduces the charge on ratepayers by 25%. The second table shows the total amount of rates saved by using a Council-owned company.

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Table 2: Total council rates, direct Council ownership compared to CCO ownership

Ratepayer impact \$'000	08/09 \$'000	09/10 \$'000	10/11 \$'000	11/12 \$'000	12/13 \$'000	13/14 \$'000	14/15 \$'000	15/16 \$'000	16/17 \$'000	17/18 \$'000
Revised ratepayer impact with CCO	3,704	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
2008/09 draft annual plan	2,954	6,936	7,851	7,928	7,673	7,418	7,163	6,908	6,653	6,398
Incr(Decr)	750	(1,936)	(2,851)	(2,928)	(2,673)	(2,418)	(2,163)	(1,908)	(1,653)	(1,398)
% Incr(Decr)	25%	(28%)	(36%)	(37%)	(35%)	(33%)	(30%)	(28%)	(25%)	(22%)

Other Requirements of the Resolution

The resolution has a number of other requirements, many of which are self-explanatory.

The requirements around obtaining planning permission and of obtaining resource consents are complex and have the potential to become drawn out.

The interests of the public sector entities that are providing funding need to be protected carefully throughout the construction phase to ensure that, on the one hand, the stadium stays within budget, and, on the other, that a venue is built that Dunedin, Otago and the whole country can be proud of. To that end, the Council has moved to appoint independent persons to a project control group who will have the right to report independently to the Council.

Clause 7 of the resolution lists five milestones that must be attained before the Council accepts a final tender price.

No particular difficulty is anticipated in reaching those milestones, although some of them carry greater risks than others.

Indeed, the task of estimating costs, revenues, expenses, and funding arrangements, given the inherent uncertainty of the future, means that while the estimates have been made with as much accuracy as possible, in the end there are bound to be variations.

Risks

In common with any other big project there are risks. The following are considered from a financial point of view. These include:

- Interest rates. The relatively high interest rate setting we are in today reduces the risk of increases. Indeed some commentators are suggesting that a reduction in interest rates is more likely.
- Construction costs. According to the Council's peer reviewer, reasonable allowance has been made for escalations in costs and for contingencies.
- Funding risks. This is the risk that in spite of everyone's best efforts the required private sector financing cannot be achieved. This risk is partly mitigated by the requirement in its resolution for the Council to be "satisfied as to the progress made to achieve the private sector funding target of \$45.5 million" before a tender price is accepted.
- Operating risks. These are the risks that, once completed and operating, the venue will not produce enough cash flow to sustain itself. The Council believes this risk will be reduced by forming a Venues Management company that will market, promote, co-ordinate and integrate this venue along with other Dunedin venues and that there will be valuable cost savings from that.
- Trading group results. The council-owned companies operate in competitive markets and conditions in those markets can vary. That said, the record of the companies in the last decade is of steadily improving returns.
- Planning risks. This is the risk that protracted planning appeals will tie up capital and delay construction such that construction costs increase, events are lost, revenues are missed and operating costs increase. Potentially this risk will be the most difficult to mitigate.