

Report on Review of Forsyth Barr Stadium Costs for Dunedin City Council

11 May 2012

Table of Contents

Table of Contents	2
Introduction	4
Approach and Background to the Review	5
Process	6
Interviews	6
Documents	7
Background to the construction of the stadium	8
Key Project arrangements	10
Council decisions to proceed	10
What was the position when Council committed to the Stadium?	13
Service Level Deed	14
Stadium Costs	18
Land costs	19
Building works as originally specified (excluding Plaza)	20
University of Otago Arrangements	21
Variations – Catering	24
Other variations	27
Land rental and recoveries	28
Administration fees to CST	28
Interest	29
Stadium Funding	30
Otago Regional Council	30
Otago Community Trust	30
Other Trusts & RWC 2011	31
Profit on sale of Catering Equipment	31
Government Grant	31

Sponsorship / Seat Sales	32
Dunedin City Council	33
<hr/>	
Unfavourable Variance Reconciliation.....	35
Comparison of projections at signing of contract to final outcome	35
Comparison with report to Council on 20 February 2012.....	36
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Learnings	39
Summary and conclusion	41
Abbreviations.....	42
Key Terms of Business.....	43

Introduction

1. This report is presented in accordance with the Letter of Engagement between PricewaterhouseCoopers (PwC) and Dunedin City Council (DCC) to review costs associated with the development of the Forsyth Barr Stadium (the Stadium). This report is issued with a separate bundle of documents¹. A draft copy of this report was supplied to Dunedin Venues Management Ltd, University of Otago, Carisbrook Stadium Trust and DCC's CEO for feedback. We have reviewed the feedback received and made such adjustments as we considered appropriate.
2. The DCC CEO was advised by staff that there has been an overrun of costs to complete the construction of the Stadium and requested PwC to investigate and give an independent view on:
 - The total cost of the Stadium;
 - A comparison of total costs against any budgets;
 - Whether there was an overrun of costs;
 - The reasons for any overruns;
 - How the project was funded;
 - How funding was approved; and
 - Any learnings from the project.
3. We were specifically asked to report on the DCC's calculations submitted to The Mayor and Councillors (Council) on 20 February 2012 which indicated an overrun of \$7.3 million². This information was reported to Council on 20 February and is the current basis on which Council was to consider the DCC's final debt position resulting from the construction of the Stadium. We understand that from this review DCC is seeking clarity as to the final debt position resulting from the development of the Stadium.
4. There are some learnings from the construction of the Stadium which we comment on below. We do consider however, that it is important to place our findings and suggested learnings in context: The Stadium cost \$206.4 million to build plus interest of \$18 million, a total of \$224.4 million. Excluding interest, the Stadium was constructed at approximately 4% over budget estimates and on time.
5. The balance of this report is structured as follows:
 - Approach & Background to the Review;
 - Key Project Arrangements;
 - Stadium Costs;
 - Stadium Funding;
 - Unfavourable Variances Reconciliation;
 - Learnings; and
 - Summary and Conclusion.
6. A Table of Abbreviations is attached at Appendix A and a summary of our key terms of business and restrictions at Appendix B.

¹ Schedule: Bundle of documents (PwC Document #1)

² DCC Stadium Cost, Funding and Debt 20 February 2012 (#2)

Approach and Background to the Review

7. Our review has involved reviewing documents and interviewing a number of people. We have corroborated information where we could; however, we have not conducted a forensic audit of the project.
8. Neither our review nor this report seeks to establish or comment on:
 - The viability of the project;
 - The Stadium's future financial viability; or
 - The legality of arrangements entered into including any possible conflicts of interest.
9. Some of the figures included in this report vary from those which have formed the basis of previous calculations and decisions made by Council. This is partly because we have taken a view that all relevant costs which contributed to the construction of the Stadium in accordance with the "Master Plan" (referred to below) and to have it readied for Rugby World Cup 2011 (RWC2011) should be included. In the course of our review we came across amounts that were not initially included in the DCC's calculation of costs but which we consider should be included as part of an assessment of the costs of development. An example of this is the temporary seats which were purchased after an initial plan to rent. We discuss this in further detail below.
10. We recognise that this view is not shared by the DCC's Finance team. They consider, for example, that decisions made by the operator Dunedin Venues Management Ltd (DVML) which are relevant to the Stadium's construction, particularly where funded by DVML, should not be included. They say this because such transactions do not directly impact on the debt that is required to be serviced by Ratepayers from the construction. Similarly, they consider that to the extent amounts have been recovered from ratepayers through the rating process, the DCC's funding of the Stadium should be reduced. We do not agree. In our view it is relevant to include all costs and funding sources to ensure:
 - the full cost to construct the Stadium can be known; and
 - the overall position of DCC's contribution to the Stadium can be ascertained, whether that be funded directly by Council or indirectly through DVML, its wholly-owned subsidiary.
11. For these purposes we have not reduced the gross amount of DCC funding by any amounts recovered from ratepayers. Our focus is primarily on establishing the funding level to which DCC was exposed as a consequence of entering into the project, irrespective of how it was going to recover those amounts from its ratepayers.
12. The question of the final debt position resulting from the Stadium development is the net of total costs incurred less recoveries made. For our analysis of costs and recoveries, PwC has applied the following assumptions:
 - Where assets were acquired for the project and subsequently sold (i.e. sale of land to the UoO), only the cost of the **net** assets retained by the project were included.
 - Where assets were acquired for the project by means of third party funding (i.e. Grassmaster turf reinforcement), the **gross** cost of the asset has been recorded as a project cost and the funding has been recorded as a revenue (i.e. no netting was done).
13. We note that costing and funding figures used are those which we expect to be final figures for the project. Some items are subject to finalisation still.

Process

14. We adopted the following approach during our review:
- a) An initial review of available material and potential interviewees. This was done both remotely and on-site at DCC;
 - b) An analysis of information to form a view (to the extent possible) of the costs incurred, the accounting treatment(s) by the various entities involved, and understanding as far as possible the reasons for the overrun;
 - c) A review of authorities for expenditures;
 - d) Meetings were held with relevant parties, the details of whom are recorded below. DCC staff assisted us in making arrangements;
 - e) A draft report was prepared and discussed with the CEO and the Governance Manager; and,
 - f) This report was finalised and submitted to the CEO.
15. At the CEO's request we utilised only personnel from our Auckland office. We have not involved the Dunedin office of PwC.

Interviews

16. We met with a number of people either in person or on the telephone for interview. Other than the Mayor who chaired the Stakeholder Group, we did not interview any other elected representatives. Had we concluded that it was necessary to interview any of the Councillors involved we would have done so.
17. We interviewed the following:
- a) Dave Cull, the current Mayor of Dunedin who was Chair of the Stakeholder Group at times relevant to these matters;
 - b) Paul Orders, the current Chief Executive of DCC who instructed us for this review;
 - c) Athol Stephens, DCC General Manager Finance and Resources who for the period 21 January to 18 September 2011, also held the position of Acting Chief Executive;
 - d) Sandy Graham, Manager Governance at DCC who was our main point of contact within the DCC;
 - e) Carolyn Howard, DCC Financial Planner;
 - f) Renuka Bayly, DCC Financial Analyst;
 - g) David Davies, the CEO of DVML;
 - h) Darren Burden, the Operations Manager at DVML and initial CEO of Carisbrook Stadium Charitable Trust (CST);

- i) Guy Hedderwick, the Commercial Manager at DVML who was and is responsible for seat sales and sponsorships;
 - j) John Patrick, Chief Operating Officer at University of Otago (UoO). Mr Patrick was the UoO's representative on the Stakeholder Group;
 - k) Jim Harland, former Chief Executive of DCC. Mr Harland left the DCC in January 2011 but stayed on in the Stakeholder Group, independent of the Council, following his resignation;
 - l) Malcolm Farry, chair of the CST;
 - m) Sir John Hansen, chair of DVML. Sir John was also on the Stakeholder Group;
 - n) Lale Ieremia, project manager for the project from Arrow International (Arrow). Mr Ieremia was involved in the project from initial scoping prior to the decision to proceed up to the present day;
 - o) Andrew Millard, Principal in the Quantity Surveyors firm Rawlinsons. Mr Millard was involved in costings, including scoping of aspects of the construction;
 - p) James Young, Senior Quantity Surveyor with Rawlinsons. Mr Young prepared costings on DVML's instructions for the catering fitout;
 - q) Stewart Barnett, a trustee of CST and chair of the Project Development Team (PDT); and
 - r) Mike Coburn, a member of the PDT.
18. Through DCC, Ms Bev Butler, former President of *Stop the Stadium Inc* made herself available to us; however we did not consider it necessary to interview her. As mentioned below she supplied a document which made reference to some of the issues we covered in our review.
19. Many other people were involved in this project, including the politicians who made the decisions, other funders, constructors, sponsors, other trustees of CST, the PDT and others. We have turned our minds to who might usefully assist in our review and are satisfied that we obtained the information and explanations we required to properly complete the review.

Documents

20. We were given access to a large number of documents at DCC and documents were also obtained from other sources. A summary of documents made available to us is as follows:
- a) Documents made available at DCC's offices by DCC staff. Many of these have been uploaded into a secure shared virtual storage space by DCC staff and we have been able to access this material remotely;
 - b) DCC provided a folder of accounting information to support the costing and funding figures supplied;
 - c) DCC sourced documents from CST in consultation with its Chair, Mr Malcolm Farry;

- d) DCC supplied us with the contract relating to stadium naming rights for viewing only. We were not permitted to take a copy because of the commercial confidentiality that is attached to the parties and the contract;
 - e) A document intended for us and supplied to DCC by Ms Bev Butler was supplied to us;
 - f) Documents were supplied to us by DVML including electronic copies of all documents relating to the PSF.
 - g) UoO via its Chief Operating Officer Mr John Patrick supplied documents to us relating to the arrangements between UoO and DCC;
 - h) PDT supplied a spreadsheet summary and report via its Chair, Mr Stewart Barnett. This information was based on that maintained by Arrow;
 - i) Arrow provided information in a spreadsheet detailing costs on the base construction project; and
 - j) Rawlinsons provided the same information as Arrow.
21. We received cooperation from all those involved and all requests for documentation were met. No documents or information were withheld from us as far as we could tell.

Background to the construction of the stadium

22. Carisbrook Stadium was an open air Stadium in Dunedin utilised for a range of sporting events, including rugby and cricket. It had limited covered seating and by the early part of last decade was considered widely to be in need of renovation or replacement. Since late 2005 the New Zealand Rugby Football Union has considered Carisbrook unsuitable for international games, although three Tests were played between 2008 and 2010. Carisbrook and some surrounding properties were subsequently purchased by DCC during this period.
23. In 2003 the Otago Rugby Football Union approached DCC and ORC to see whether the two parties, along with Otago Community Trust (OCT), might be prepared to each contribute \$5 million towards a redevelopment of Carisbrook.
24. The two Councils decided to fund a working group, the Carisbrook Working Party (CWP), to explore options for upgrading or building a new stadium. A feasibility study “Carisbrook : Future Upgrading and Development Options –Background Report” set out three options – do nothing, upgrade or build a new stadium. Region-wide consultation favoured the upgrade option and an independent trust was set up, at the time of the disestablishment of CWP. Mr Farry chaired the new trust, CST, which was formed as a Charitable Trust and launched in 2006, although not signed by the trustees until 9 August 2006³. An application for charitable status was made on 9 July 2007.
25. Mr Farry is a local businessman with a range of business interests and governance positions. He is a former Dunedin City Councillor. His involvement in the Stadium development was extensive. As well as leading the CWP feasibility study, he interacted closely with potential funders,

³ The Carisbrook Stadium Charitable Trust Deed (#3)

presented key proposals to Council, was an active member of the Stakeholder Group which oversaw the project, reporting regularly on progress on behalf of the CST.

26. CST was asked by the Councils to assume control of the redevelopment process, to continue assessing options and bring a proposal back to the Councils for them to consider.
27. One of CST's stated "Objects" in its Trust Deed was *"to be responsible for the planning, acquisition, development, construction, ownership, operation and maintenance of the Stadium as a high quality, multi-purpose sporting, community and cultural venue"*⁴.
28. In November 2006 CST briefed the Councils and other potential funders advising that a new stadium could be built for somewhere between \$150 and \$180 million. Further funding of \$200,000 each from DCC and ORC was provided to produce a further report – known as the Master Plan.
29. The Master Plan was produced in February 2007 by CST with six options – two for a new Stadium – one with a roof, one without, and four options for redeveloping Carisbrook. It recommended a new roofed stadium be built in Awatea Street at an estimated cost of between \$180 and \$195 million with an indicative figure of \$188 million suggested⁵.
30. These early investigations indicated that a redevelopment of Carisbrook would not provide optimum benefits to the city and the region. This information is summarised in the Service Level Deed (the Deed) subsequently entered into between DCC and CST.
31. The Councils funded a further \$800,000 of research and investigation to obtain information about costs and funding sources, as suggested in the Master Plan.
32. On 17 March 2008 the Council resolved to commit to what was known as the "Awatea Street Stadium Project" subject to a series of terms and conditions (discussed below).⁶
33. DCC let the main construction contract in April 2009, and subsequently entered into the Deed which formalised its arrangements with CST, on 27 January 2010.⁷
34. Legal proceedings were commenced by Stop the Stadium Inc. in an attempt to injunct the Council from continuing with the Stadium project. Those proceedings were unsuccessful.
35. The Stadium with roof as proposed in the recommendation was built and formally opened on 5 August 2011 in time for RWC2011.

⁴ The Carisbrook Stadium Charitable Trust Deed (#3)

⁵ Master Plan February 2007 (#4)

⁶ Council Minutes 17 March 2008 (#5)

⁷ Service Level Deed DCC and CST (#6)

Key Project arrangements

36. Once the recommendation to proceed with the Stadium project was accepted in principle, it was brought to Council on a number of occasions prior to a final decision to proceed and award the main construction contract. Various reports commenting on the estimated costs and funding arrangements that were under consideration were mentioned in these reports. We have included in some detail the narrative of what was decided by Council so as to make plain the conditions that Council was placing on proceeding and the information that it had during that time.
37. The projected financial commitment that Council would need to make is discernable from these documents.

Council decisions to proceed

38. The first substantive resolution by Council to proceed with the new Stadium was on 17 March 2008. The key points from this resolution in relation to funding are, in summary⁸:
- a) Council's commitment was a total of \$91.4 million;
 - b) Project cost confirmed at not exceeding \$188 million;
 - c) Consultation occurs to ensure that the property contracts are in order;
 - d) A public tender process entered into;
 - e) That a contract is to be entered into with UoO in relation to sale of land;
 - f) Planning process and Plan Change are satisfactory;
 - g) A "Service Level Agreement" (which became the "Service Level Deed") is entered into; and
 - h) Acceptance by the Council of a tender price is subject to:
 - ORC funding of not less than \$37.5 million;
 - Sighting and approval of ORFU and CST for sale and purchase of ORFU assets;
 - Council being satisfied as to progress on the Private Sector Funding (PSF) target of \$45.5 million;
 - Rates and Funding Working Party continue to identify ways in which the ratepayers' contributions can be reduced by \$20 million; and
 - Written confirmation of OCT funding of \$10 million (in four tranches of \$2.5 million each).
39. Council updated the 17 March 2008 Resolution on 29 September 2008. It is this Resolution that is included in the Service Level Deed between DCC and CST (referred to below). Any changes to clauses from the 17 March 2008 Resolution are identified as follows (using our summary above)⁹:
- a) Council's commitment was a total of \$91.4 million *[remained the same as 17 March 2008 resolution]*;
 - b) Project cost confirmed at not exceeding \$188 million *[remained]*;

⁸ Council Minutes 17 March 2008 (#5)

⁹ Council resolutions of 17 March 2008 as updated on 29 September 2008 (#7)

- c) Consultation occurs to ensure that the property contracts are in order *[remained]*;
- d) A public tender process entered into *[remained with added reference to Council's Procurement Process]*;
- e) That a contract is entered into with UoO in relation to sale of land *[remained]*;
- f) Planning process and Plan Change are satisfactory *[remained]*;
- g) A "Service Level Agreement" (which became the "Service Level Deed") is entered into *[remained]*; and
- h) Acceptance by the council of a tender price is subject to:
 - ORC funding of not less than \$37.5 million; *[remained]*;
 - Sighting and approval of ORFU and CST for sale and purchase of ORFU assets *[remained with the addition of it being completed in time for Council's Finance and Strategy Committee meeting on 1 December 2008]*;
 - Council being satisfied as to progress on the PSF target of \$45.5 million *[changed to read "That a minimum of 60% of the private sector funding target of \$45.5 million and Council's satisfaction as to progress in achieving the balance and any further funds including those required for the servicing of any bridging finance arranged by the Council for the Carisbrook Stadium Charitable Trust is confirmed, with signed contracts conditional on the stadium proceeding. This information is to be provided in time for consideration at the Finance and Strategy committee meeting on 9 February 2009"]*;
 - Rates and Funding Working Party continue to identify ways in which the ratepayers' contributions can be reduced by \$20 million *[remained]*; and
 - Written confirmation of OCT funding of \$10 million (in four tranches of \$2.5 million each) *[remained]*.

40. Council officers reported to Council on 9 February 2009 with financial assumptions and noted the following¹⁰:

- a) Land costs for one property purchase had increased by \$3 million;
- b) The offset from the sale of Carisbrook will not be available;
- c) OCT had reduced its contribution by \$3 million;
- d) PSF would not start to be received until 2011, previously anticipated to be received in 2009 and 2010;
- e) Interest rates had reduced;
- f) An underwrite of \$15 million had been incorporated into the model; and
- g) An independent report by Deloitte had been issued on the PSF contracts.

41. The following financial projections were attached to the 9 February 2009 report to Council¹¹:

¹⁰ DCC report to Council 9 February 2009 (#8)

¹¹ DCC report to Council 9 February 2009 (#8)

- a) Cashflow required for the project to be \$198 million; and
 - b) DCC's debt position to fund project construction would peak at \$154 million including capitalised interest (reducing to \$148.5 million when external funding was received).
42. Council noted, in relation to its 17 March 2008 resolution as amended on 29 September 2008, Council, in its Resolution of 9 February 2009, the following¹²:
- a) Total cost now \$198 million;
 - b) Property purchases confirmed;
 - c) Tender process within GMP has been achieved;
 - d) Contract for sale and purchase of land to DCC now confirmed;
 - e) Service Level Deed completed. As noted below this was not signed until January 2010;
 - f) In relation to funding:
 - i. Funding confirmation from ORC awaited;
 - ii. Arrangements with ORFU were either complete or required some revision;
 - iii. That 51.1% of PSF target of \$45.5 million has been confirmed and that pending agreements, if they are confirmed then 60% of the PSF would be achieved; Council noted that an additional \$15 million was required for servicing bridging finance;
 - iv. Rates and Funding Working Party had been unable to secure a \$20 million source of additional funding; and
 - v. \$7 million, not \$10 million had been confirmed from OCT; and
 - g) Council again committed to the Stadium project subject to items including:
 - i. Confirmation of ORC \$37.5 million funding;
 - ii. A funding source for the additional \$15 million required from the PSF shortfall be confirmed; and
 - iii. That CST is instructed to investigate ways to:
 - o Save on the GMP;
 - o Additional funding over and above the \$45.5 million target; and
 - o Address the \$3 million shortfall from OCT.
43. *Stop the Stadium Inc.* filed proceedings in the High Court on 17 April 2009, seeking an injunction to stop the Council signing construction contracts. This was unsuccessful both in the High Court and on subsequent appeal to the Court of Appeal¹³.

¹² Council Resolution extract 9 February 2009 (#9)

¹³ Media Extracts (#10)

44. Council resolved on 20 April 2009 to sign the construction contract with Hawkins allowing for a construction cost of \$165.4 million (the GMP). Other matters noted by Council on 20 April 2009 were¹⁴:
- a) ORC funding confirmed;
 - b) A Government grant of \$15 million had been confirmed;
 - c) That progress in meeting the Council's resolution of 9 February 2009 as identified in 42.g)iii above be noted. The Resolution records *"The CST and its project delivery team were aware of the need to investigate ways to find the \$3 million shortfall in funding from the CT.....and also continuing to raise funding over and above the \$45.5 million private sector target"*.

What was the position when Council committed to the Stadium?

45. Council was clear in its own resolutions that its contribution to the Stadium was to be \$91.4 million and that the cost of the Stadium was initially to be \$188 million, later increased (on 9 February 2009) to \$198 million¹⁵.
46. It is apparent that whatever funding could be secured, DCC as the primary contracting party would always be the backstop to fund any shortfall from the other anticipated funding sources. The lack of certainty around some of the other funding sources at all key decision-making times meant that the \$148.5 million of debt anticipated in the cashflow documents attached to the Council papers on 9 February 2009 was always likely to be the level of financial commitment from DCC¹⁶.
47. Aspects of the expected funding anticipated over the period from March 2008 until April 2009 did not eventuate:
- a) Contributions were expected from ORFU from the sale of Carisbrook that did not materialise.
 - b) The PSF was delayed and in the end contributed only nominally to the Stadium. We comment on this separately below.
 - c) Cashflow projections for the PSF post-opening of the stadium included a \$15 million underwrite. No underwrite eventuated.
 - d) The "Rates and Funding Working Party" were requested to secure an additional \$20 million in funding which they did not achieve.
48. One source of additional funding, the \$15 million grant from the Government, was secured. This essentially covered the proposed underwrite.
49. All of these matters were available to Council. Some of these matters were noted as concerns by DCC Officers in a confidential report on 28 April 2008 to the Finance and Strategy Committee, a year prior to the final decision, as follows¹⁷:

¹⁴ Council Minutes 20 April 2009 (#11)

¹⁵ DCC report to Council 9 February 2009 (#8)

¹⁶ DCC report to Council 9 February 2009 (#8)

¹⁷ DCC report to Finance and Strategy Committee 28 April 2008 (#12)

- a) The value of the land owned by ORFU was lower than expected and would reduce funding available for the project by \$3.5 million. This is a reflection of the initial proposal that the DCC would receive proceeds from the sale of Carisbrook. As mentioned above, in the end this did not eventuate.
 - b) That the risks associated with PSF had increased. The primary concern was the timing of any revenue from seat sales. The report identified that any shortfall would have to be met by DCC. This is what did in fact occur.
 - c) DCC's ability to borrow because of the international credit squeeze could be under pressure.
50. To summarise, the known estimated position from information available to Council as at 20 April 2009, the date of the Council's Extraordinary Meeting, can be summarised as follows¹⁸:
- a) The total development cost was estimated at \$198 million. This can be ascertained from the cashflow forecasts attached to the DCC report of 9 February 2009;
 - b) The GMP totalling \$165.4 million had been settled. This was recorded in the Council's resolution of 20 April 2009;
 - c) ORC funding of ORC \$37.5 million had been confirmed. This was recorded in the Council's resolution of 20 April 2009.
 - d) The Government had committed to a grant of \$15 million. This was recorded in the Council's resolution of 20 April 2009;
 - e) OCT funding had been reduced to \$7 million from the \$10 million originally hoped for. This is noted in the DCC report of 9 February 2009;
 - f) PSF funding for the construction was estimated in the 9 February 2009 cashflows to amount to only \$1.2 million;
 - g) Cashflow projections indicated that \$10 million was expected from UoO;
 - h) From the cashflow projections, the balance of DCC's debt from the Stadium project would be \$148.5 million by June 2011.

Service Level Deed

51. DCC and CST entered the Deed on 27 January 2010. We understand this formalised arrangements which had effectively been in place since early 2008¹⁹.
52. The Deed summarised the activity to date on the Stadium Project, agreed a structure (The Structure Plan) the arrangements of which were pictorially represented, and outlined the parties' duties and responsibilities. There are a number of matters about the Deed which we note as follows.
53. The Deed was signed on 27 January 2010, almost two years after it was anticipated – see Council resolution 17 March 2008, clause 6²⁰:

“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

¹⁸ Council Minutes 20 April 2009 (#11)

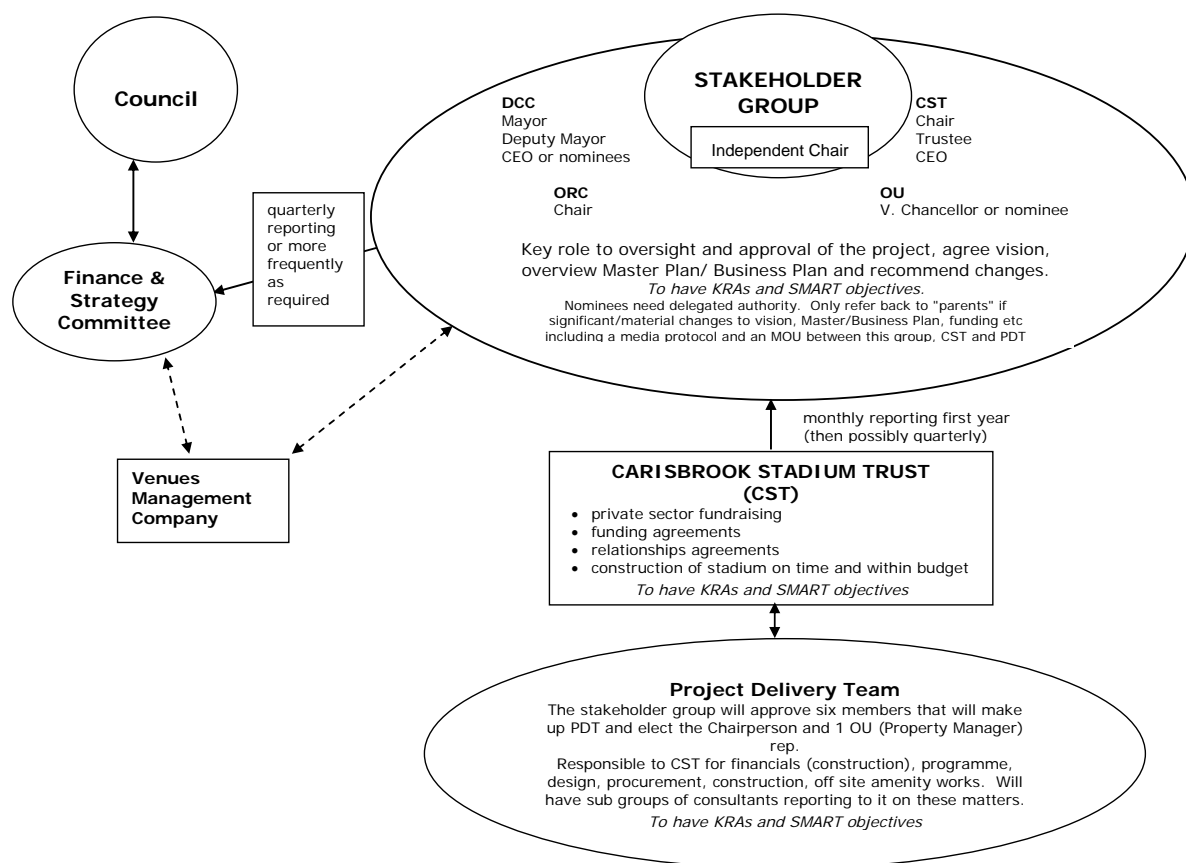
¹⁹ Service Level Deed DCC and CST (#6)

²⁰ Council Minutes 17 March 2008 (#5)

marketing. It is noted that the Service Level Agreement will provide inter alia that the Trust reports regularly to the Finance and Strategy Committee”.

54. It has not been explained to us why it took so long for the Deed to be signed, but in the event it appears that the terms of the Deed were generally followed from March 2008. It is clear that the Deed went through revision after March 2008 as there are references in minutes to the draft deed. For example, the Finance and Strategy Committee’s minute of 28 April 2008 records Mr Harland tabling a draft Deed²¹. In the Deed itself, there is reference (Background L) to DVML having been registered on 31 August 2009²².
55. The Deed incorporates a “Structure Plan” (section 2) which “*depicts the main organisations and parties involved in the Project from a governance/implementation perspective*” and is diagrammatically recorded in Appendix II of the Deed and replicated below. A clearer copy is attached as document 14 in the Bundle of Documents²³.

Appendix II – Structure Plan



56. Within the Structure Plan of the Deed (clause 2.2), the DCC is recorded as²⁴:

²¹ Council Finance and Strategy Committee meeting Minute 28 April 2008 (#13)

²² Service Level Deed DCC and CST (#6)

²³ Diagram from Service Level Deed (#14)

²⁴ Service Level Deed DCC and CST (#6)

“the party which has the final say on whether the conditions of the March Resolution have been met;

the purchaser of the land, the developer and owner of the Stadium, a major funder, a member of the Stakeholder Group and the party to whom all groups shown on the Structure Plan are ultimately accountable in respect to their respective roles with regard to the Project”

and (Clause 4 .1 a)

“The DCC has overall right of final approval as the owner, developer and a substantial funder of the Project, and is the party to whom all parties as shown on the Structure Plan are ultimately accountable in respect to their respective roles with regard to the Project.”

57. The Stakeholder Group was charged with agreeing the proposed Vision and Master Plan and any proposed changes to it from CST before final approval by DCC. The Stakeholder Group (Clause 2.2 b.) which is said to comprise *“representatives from the major financial donor to the Project being DCC which must ensure its funding is applied in accordance with the approved Master Plan”*. The group also included representatives from CST, UoO and chaired by the Mayor. The diagram records, and we understand this is what occurred, that there would be representatives from DVML and ORC in attendance, some as required.
58. UoO, ORC and OCT were not party to the Deed. We discuss the arrangements with UoO in detail below.
59. The Chief Executive of DCC or his nominee was to administer all aspects of the Deed (Clause 9.1). Until January 2011 this was Mr Jim Harland and then Mr Stephens, in an acting capacity, a role he held concurrently with his CFO role, until the appointment of the current Chief Executive Mr Paul Orders, in September 2011. In our assessment DCC's CEO was always the person with the ultimate responsibility to ensure that the interest of the DCC were represented.
60. CST is recorded as being responsible for the construction of the Stadium. It is appointed as DCC's special agent in accordance with the laws of agency to ensure the Vision and Master Plan is achieved (Section 3).
61. The PDT is described as a sub-committee of CST which was to manage and oversee the construction of the Stadium under delegation from CST (Clause 2.2 d). It was agreed that members of the PDT shall be persons who have significant experience in construction, procurement, project management, financial management and marketing.
62. The Deed included the Council's minute of 17 March 2008 (as Appendix I) with amendments from the Council meeting of 29 September 2008 where DCC committed to the Stadium project. This minute is referred to above²⁵.
63. Schedule 1 of the Deed *“CST Strategic Involvement in the Project”* describes CST's involvement in the project in terms of the Master Plan and includes reference to a construction budget of \$165.4 million. This figure, the GMP, became a cost driver for those involved in the Stadium construction, and is referred to by those we spoke to from CST, PDT, Arrow and Rawlinsons the Quantity Surveyors as something they worked hard to achieve. We discuss this budget below.

²⁵ Council resolutions of 17 March 2008 as updated on 29 September 2008 (#7)

64. Once the contract was let Arrow International became the lead project manager with Hawkins Construction the primary construction contractor with a number of smaller contracts also entered into. CST was authorised under the Deed to commit to payments that were within the budget approved (Schedule 2 Clause 5).
65. The requirements of Council for funding to be in place or secured prior to proceeding with the Stadium project were known by CST, although CST was not obliged to ensure Council's conditions were met.
66. In addition to the construction role, CST took responsibility to keep potential funders on-board and for securing the PSF. Led by its Chair, it assured funders and seat purchasers that the DCC was on-board, while giving assurances to Council that the PSF targets would be achieved, all prior to DCC entering the Construction Contract. Although the PSF streams were not, and are still not fully secure, Mr Farry remains confident that the full PSF will be realised.
67. An example of CST's involvement in the funding processes can be seen in the email from its Chair Mr Farry to the Minister of Finance Hon. Bill English on 2 February 2009 confirming that the OCT had confirmed a grant of \$7 million to the Stadium project²⁶. This was in the context of Council shortly to make a final decision and seeking a Government grant. These matters are referred to below.

²⁶ Email Mr Farry to Mr English 2 February 2009 (#15)

Stadium Costs

68. Construction Costs, which we have been taken to be incurred up to the date of practical completion, are summarised below. We have compared the actual costs to costs anticipated in April 2009 when Council confirmed its final decision to proceed. A discussion of how we derived these figures and consideration of any differences between these figures and the original projections follows.

<i>\$million</i>	Actual	\$198m 'Budget'
Land Costs	36.1	35.6
Less: Proceeds on Land Sales	(11.7)	(6.2)
Net Land Costs	24.4	29.4
Building works as originally specified (excluding Plaza)	163.2	164.2
Plaza (gross cost)	4.1	1.2
GMP	167.3	165.4
Variation – UoO Shared Wall	0.9	-
Variation – catering fitout	6.2	-
Other Variations	7.0	-
Admin Fees	5.4	3.7
Other Construction Costs	19.5	3.7
Total Construction and Land Costs	211.2	198.5
Less:		
University of Otago Shared Costs (planning & demolition of \$1.4m and plaza contribution of 2.5m)	3.9	-
Land Rental & Recoveries	0.9	0.5
	(4.8)	(0.5)
Total Project Costs (before interest)	206.4	198.0
Net Interest Costs to 31 July 2011	18.0	-
	224.4	198.0

69. Variances between the actual and budget as set out in the table above are discussed later in this report.

70. Comments on specific items are set out below.

Land costs

71. Land was acquired in a number of lots from a number of different vendors at a total cost of \$36.1 million. Any transactions to do with State Highway 88 have not been considered.
72. The Cash out forecasts of February 2009 show gross land cost of \$35 million less \$6.7 million in land and rental recoveries. This figure excluded the sale of land to UoO which was included in DCC's "Cash In" portion of the cashflow projections as part of an aggregate figure from UoO of \$10 million²⁷.
73. In calculation of the net land cost it is properly netted down to reflect all land sold/available for other uses, including the parcel sold to UoO. This is why our expressed Net Land Cost figure is lower than that indicated on the DCC's \$198m 'Budget' of February 2009. It is not lower by the full amount of the UoO sale due to fluctuations in actual costs and sales that varied from the February 2009 estimates.
74. Three portions of land reduce the overall cost of the land purchased for the stadium. This is represented by the figure of \$11.7 million as "Less Recoveries" in our calculations above.
75. Details of those three pieces of land are as follows:
 - a) Sale of the land to UoO at the West end of the Stadium enabled UoO to build a substantial building and provide land for a pedestrian plaza, jointly owned with DCC. The land was sold to UoO for \$5.6 million. The Plaza and other arrangements with UoO are discussed in further detail below;
 - b) Land was sold to New Zealand Transport Agency (NZTA) to enable the realignment of State Highway 88 to be completed; and
 - c) A block of land on the other side of SH88 from the Stadium is available for sale or other use by DCC. It has been valued at \$2.8 million and is properly accounted for as a reduction on costs associated with the Stadium.

²⁷ Cashflow Projections 9 February 2009 (#16)

Building works as originally specified (excluding Plaza)

76. This is the cost of the base construction – the GMP – which was managed by CST and PDT.
77. The GMP was the contracted amount which Council resolved to sign a construction contract for in April 2009²⁸. It is CST/PDT's position, supported by information provided by Arrow and Rawlinsons that the GMP budget was met.
78. The GMP is made up of the following broad areas:
- a) Consulting Fees: Arrow was the lead project manager and costs included in this figure include other professionals such as engineers and architects. The original budgeted figure for this work was \$23.95 million and came in at \$24.055 million; and
 - b) Base Building work: This is the work completed by Hawkins and a number of other smaller contractors to complete the construction. The budget for Hawkins-completed work was \$130.4 million and this came in at \$131.5 million. The budget for the other contracted work was \$11 million and this came in at \$11.7 million.
79. The combined effect of this work was to take the GMP spend from \$165.4 million to \$167.3 million, an increase of \$1.9 million.
80. The key reasons for the difference in the GMP was unanticipated spending on both the Plaza and the Catering Fit-out.
81. For comparison purposes, in the Budget column we have separated out from the \$165.4 million the \$1.2 million that was included in that figure for the Plaza development. This is because the increased cost of the Plaza development was not something that CST/PDT were responsible for.
82. As discussed below, the catering fitout beyond bare walls and capped services, was not included in the GMP. There are other items included in the variations below which should, in our view, have been allowed for in the GMP. This includes the west stand toilets, all the temporary seats required for RWC2011 requirements and possibly the reinforcement for the pitch. We comment on the impact of not including them below.

²⁸ Council Minutes 20 April 2009 (#11)

University of Otago Arrangements

Snapshot of financial arrangements

Cost Description	Overall Cost	UoO Contribution	DCC/CST Contribution	
Site Master Planning	\$287,000	\$143,500	\$143,500	a
District Plan Change	\$679,584	\$339,792	\$339,792	a
Site Infrastructure	\$3,757,070	\$564,281	\$3,192,789	b
Demolition	\$2,343,617	\$351,992	\$1,991,625	b
Shared Wall	\$1,843,502	\$917,021	\$926,481	c
University Plaza	\$4,054,498	\$2,494,750	\$1,559,748	d
Total Shared Costs	\$12,965,271	\$4,811,336	\$8,153,935	
Land	n/a	\$5,602,356	\$5,602,356	e
Total Arrangement Cost	n/a	\$10,413,692	\$13,756,291	

Notes:

a. 50/50 cost share as agreed at PDT meeting held on 15 September 2011.

b. University agreed to pay a proportion of these costs as per the following calculation:

50% of Plaza plus University Footprint	10,302 sq. m.
Divided by: Total Land Consumed by Project (excl. surplus)	68,588 sq. m.
University Proportion of Infrastructure and Demolition Costs	15.019%

c. Based on 50/50 split of shared portion plus a small additional DCC cost which represents additional wall height required by Stadium construct. Gross amount paid by UoO.

d. UoO proportion of 61.53% as agreed per QS CA 139. Constructed by DCC.

e. Includes University purchase of site for Building One (adjoining stadium) and Building Two plus 50% of the Plaza Land.

Summary of contractual arrangements

83. UoO was supportive of the Stadium and entered into contractual arrangements with DCC in relation to a building constructed at the west end of the Stadium and development of an adjoining public plaza (referred to above as "the Plaza"). The agreement to purchase the land appears relatively straightforward: a sale and purchase of a portion of land the DCC had acquired for the Stadium, for \$5.6 million.
84. Public statements by those associated with promoting the Stadium in the early stages of the proposal indicated that UoO would be contributing \$10 million to the cost of the Stadium. This figure was included in DCC cashflow projections. However it is clear from UoO's perspective that they were only ever prepared to pay for value i.e. the land and contributions to shared costs. The then Vice-Chancellor Professor David Skegg is on record²⁹ as saying in 2006 "that the University involvement could not extend to any investment in "seats or turf" at the stadium". This approach is firmly reiterated by Mr Patrick and we doubt anyone could have seriously believed otherwise.
85. In the supporting financial information supplied to Council on 9 February 2009, UoO is recorded in the "cash in" portion for \$10 million. Included in this \$10 million was the land sale by DCC to UoO. What this meant was that the \$198 million cost in the 9 February 2009 cashflow should have been reduced by the proceeds from the land sale, and the 'cash in' sum reduced accordingly.

²⁹ www.scoop.co.nz 10 August 2006 and UoO Annual Report 2008

This \$10 million is not a direct contribution to the project but rather payment for land and other matters associated with the construction of UoO's building.

86. The finalisation of the formal agreement between UoO and the DCC relating to other matters, including the shared wall at the West end of the Stadium, the Plaza development and contributions to cost, was protracted. We are told that the agreement went through over 20 drafts.

87. The Service Level Deed between DCC and CST records in relation to UoO (Clause 2.2 e)³⁰:

"The University of Otago: the parties shall use their best endeavours to have the University of Otago accept the following roles:" which are recorded as being co-developer and owner of adjacent building, member of the Stakeholder Group, and implementing the development agreement with the DCC.

88. The Development Relationship Management Deed between DCC and UoO was signed by UoO in July 2010, in December 2010 by DCC and January 2011 by CST³¹. The Deed records the impact on costs to DCC/CST on a proportional or 'to be agreed' basis. So even when the agreement was signed, there was no certainty for DCC as to the costs or revenue. DCC have since reached a final determination on the amount owing by UoO to DCC.

Plaza

89. The GMP included \$1.2 million in the budget for Plaza development. The Plaza is a public area at the West end of the Stadium, west of the UoO building. It comprises land owned in part by UoO and DCC. It was originally anticipated by DCC/CST that UoO would contribute 50% of the \$1.2 million, and this was effectively included in the balance of the 'cash in' discussed above.

90. Original specifications were for a fairly plain area finished in Bitumen. UoO required a more costly design in keeping with the Plaza's intended use. This was allowed for under the Development Relationship Management Deed. As we comment below, because the details were not tied down prior to the project, DCC/CST were limited in their negotiating ability over this issue. The Plaza project was completed at a cost to DCC of \$4.1 million. An updated pro-rata cost sharing calculation has been carried out by UoO's Quantity Surveyors resulting in UoO being prepared to reimburse DCC for \$2.5 million as contribution to the Plaza costs.

Shared Wall

91. DCC paid a further \$0.9 million to UoO as a contribution to the shared wall that UoO paid for as part of constructing the UoO building. This amount was not anticipated or budgeted for at the commencement of the project. It was paid by DCC as it considered it had a legal obligation to pay. It was at the time, in disagreement with UoO over other costs. Any commercial negotiating advantage DCC might have had over the amounts owing between the two parties was lost once it paid the \$0.9 million.

Overall impact

92. The UoO arrangements resulted in an overall increase on the cost to the Council of the Stadium project from GMP of \$1.9 million (net of recoveries from UoO). This \$1.9 million is made up of DCC's contribution to the Shared Wall (\$0.9 million) and the Plaza (\$1.0 million – \$1.6 million less \$0.6 million budgeted for).

³⁰Service Level Deed DCC and CST (#6)

³¹ Development Relationship Management Deed between CST, UoO, DCC and DVML (#17)

93. UoO has agreed to pay for a percentage of costs relating to a shared wall, the Plaza and costs associated with the preparation and planning for the site. The preparation and planning costs are included in the original budgeted building works, some of which would have been incurred whether or not the UoO was involved e.g. demolition, site preparation.
94. UoO's commitments are based on its Quantity Surveyor calculations as provided for in the Development Relationship Management Deed and DCC have invoiced UoO for the final amount outstanding.
95. In our view the arrangements with UoO should have been settled prior to the Council agreeing to proceed. It left DCC in a weakened position, exposed to costs that could not be accurately anticipated. This is evident from our discussions with all parties involved. It led to a situation where DCC was required to pay for the shared wall, when there was a larger amount owing by UoO to DCC, but in dispute.
96. The failure to settle the arrangements and properly agree with UoO the specifications of the Plaza prior to commencement of the Stadium meant the budget was always exposed to an overrun in this area.

Variations – Catering

Other Variations Snapshot

	(\$000)
Catering fitout Costs	
Performed by Hawkins	550
Performed by Others	5,685
Total catering fitout Costs	6,235
Catering Equipment	
Equipment Deposit	1,000
Equipment Final Payment	1,861
Total Equipment Costs	2,861
Less: Sale of Equipment	3,000
Gain on Sale of Equipment	139
Net catering fitout Costs	6,096

97. The original GMP included completion of the catering areas as bare areas with services capped to the room or area planned for catering facilities. This was always going to mean that someone was going to have to incur the cost of equipment and fitout. It was anticipated by the various parties managing the construction that these additional costs would be covered by a combination of contingency within the budget and caterer's contribution. The initial plans were devised using a concept that is used in the Westpac Stadium in Wellington, with only one kitchen and a number of reheat facilities.
98. CST/PDT have advised that the catering proposal which they included in the budget was consistent and verified by them as being consistent with what was done successfully at the Westpac Stadium.
99. After DVML was formed further research was done to reassess the requirements for the Stadium. An international consultant was engaged and a catering solution was developed which involved considerable additional cost. This became a requirement for DVML and all parties tell us this became a very difficult issue to deal with.
100. We have not sought to determine which of these two concepts was preferable. As operator of the Stadium DVML need to ensure that it has the capability to deliver the financial results expected of it. CST/PDT put a proposal that they considered would work based on the experience at the Westpac Stadium. Both views appear genuinely held.
101. DVML engaged Rawlinsons in Dunedin to complete cost estimates for the catering fitout. Mr Young, a senior quantity surveyor with Rawlinsons, who was also working on the Stadium project with Mr Millard, completed this work for DVML.
102. Mr Young completed an initial rough order of costs in August 2010 based on drawings supplied by DVML. His costings had a number of exclusions. An updated order of costs was supplied in December 2010, following a site visit to the Stadium. Again, there were exclusions including the ducting, extraction and some kitchen fixtures which Mr Young says would involve considerable cost. He says, as others do, that because most of the construction of the Stadium had been

completed, the proposed fitout was a retrofit. He says that his costs allowed for this. He was not asked for further input or to review any subsequent tender documents.

103. DVML did not go back to Rawlinsons but rather raised the exclusions with Arrow. In DVML's view the exclusions were either catering equipment which was to be paid for by the Caterer, or items that should already have been allowed for in the Stadium base build. DVML's view was that PDT had made it clear that all aspects of the Stadium construction were to be managed through Arrow. He agrees with this approach and DVML essentially left it to Arrow to manage the catering fitout. All parties agree that there was discussion about cost-savings and although some concessions were made by DVML, the proposal in principle that they wished to implement for the catering fitout was followed.
104. A joint paper from DVML and PDT was submitted to the Finance and Strategy Committee of the Council for its meeting on 14 March 2011 entitled "Forsyth Barr Stadium Base Building further Requirements"³². A total of \$5.15 million was sought for a number of items listed as "Initial" with \$650,000 indicated as being required in the future under "Subsequent". These items are dealt with under "Other Variations" below. The catering fitout funding component included on the "initial" item list was a net \$2.4 million taking into account contributions from the caterer and the brewery. The funding was approved by Council Committee³³.
105. In speaking to the various parties, those intimately involved with the construction and DVML say that it became clear very early on that the costs of the DVML-initiated catering fitout were going to exceed the \$2.4 million plus contributions approved.
106. With the benefit of hindsight, it is possible to interpret the documents in isolation as indicating that the catering fitout was not going to be achieved within the additional budget sought. For example, the rough estimates of Rawlinsons have exclusions recorded that were clearly going to cost a significant amount. However, DVML are clear that they understood that those exclusions were provided for elsewhere and Arrow clearly worked hard to keep costs within either the catering fitout or base build.
107. The difficulty of completing the additional work was described to us. Because most of the construction of the Stadium had been completed, it was necessary to do significant remedial work including demolishing completed walls and building new ones. It is evident that the work done was in effect a retrofit, and because of the time pressures, contractors were designing as they went. As a result of these factors, costs increased.
108. Arrow worked hard to keep costs as low as they could but were under clear instructions from CST/PDT to complete the DVML-specified catering fitout as approved by Council when they agreed the additional \$2.4 million. They, like the PDT, were also hopeful that the overall costs could be managed within the overall GMP.
109. The PDT said that they took potential cost-savings on the catering fitout to DVML in an attempt to deal with the increased costs. Some items were agreed to be changed. DVML remained optimistic that despite any potential overrun in the catering fitout, that they would still be able to complete overall works within the GMP, i.e. there should be some contingency within the GMP to cover the overrun.

³² PDT and DVML paper to Council Finance and Strategy Committee 14 March 2011 (#18)

³³ Minute Extract from Finance and Strategy Committee Meeting 14 March 2011 (#19)

110. Overall however, over and above the \$2.4 million approved, an additional \$3.7 million was spent on the upgraded catering facilities, making for a net total (after deducting the caterer's contribution) of \$6.1 million.
111. No formal authority from the Council was obtained for this additional \$3.7 million of spending.
112. This difference in approaches and the subsequent cost overrun has been the subject of considerable debate between CST/PDT and DVML and we were asked if we could attempt to identify areas of common understanding of the reasons for the cost overrun. We can see that there is consensus on the following points:
- There was a budget within GMP for a catering fitout as described. It anticipated an operator supplying equipment and contributing to the cost of the fitout and equipment;
 - When DVML as operator reviewed the project, it required a different, more costly fitout;
 - CST/PDT questioned this but in the end joined with DVML to seek further funding from DCC;
 - This funding of \$2.4 million from Council was approved;
 - The fitout as required by DVML cost considerably more, by approximately \$3.7 million; and
 - Following installation, equipment purchased at \$2.9 million was sold to the caterer for \$3 million as part of the catering contract.
113. Views on the different catering fitout options were and are genuinely held and in our assessment, despite the disagreement over what the fitout should have been, all parties worked to achieve the best result as they saw it.
114. The overrun appears to have occurred because of a combination of:
- End operator not being involved with original design;
 - Extensive "retrofit" nature of new fitout;
 - Pressures on contractors with the looming RWC2012 deadline; and
 - Multiple parties (Arrow, DVML, CST/PDT, DCC, Rawlinsons) all being involved within the complex project reporting and relationship structure.
115. We have not received a clear explanation of why the overrun was not taken back to Council for approval as it should have been. There are indications that it might have been thought at times that the overrun would be contained within the GMP contingencies.
116. In the course of this review, we obtained commentary and explanations as to why formal Council approval was not obtained for the catering fitout overrun. We have passed this information and our findings to the CEO of DCC for his consideration in the context of this report.
117. It is relevant to note, however, that in the context of the entire project, this is not a significant percentage of the overall cost.

Other variations

Other Variations Snapshot

Cost Description	Cost (\$000)
Construction Consulting Costs (Non-Arrow)	647
Media Suite Relocation	1,300
Wayfinding	300
Replay Screens	870
West Stand Toilets	481
Temporary Seating	1,266
Level 2 Fit-out	180
Phone System	1,317
Grassmaster (paid to Desso and Arrow)	662
Total	7,024

118. Several other variations arose subsequent to the Council committing to the project. These total \$7.0 million and include the level 2 fitout upgrade, telephone and Wi-Fi Systems, grass reinforcement for the pitch, temporary seating required for the RWC2011 and the West Stand toilets, which is where one stand of the temporary seating is located.
119. At the same time that Council committee approved the additional \$2.4 million for the catering fitout³⁴ further requirements totalling \$5.7 million were also put up for consideration. Approval for \$5.15 million of those items as these items was given. Ultimately, the remaining items, which included the fitout on level 2 and installation of the telephone and Wi-Fi systems, came at a total cost of \$1.4 million. This was paid for by DVML borrowing \$1.4 million and a \$90k (rounded to \$0.1m in our tables) contribution from RWC2011.
120. Some of these items were funded by contributions from external parties. We deal with this below under “Stadium Funding”.
121. It was originally proposed that all the temporary seating be rented, however the costs of doing that were almost as high so a decision was reasonably made, to purchase rather than hire, the seats at the west end of the Stadium.
122. It was suggested to us that the temporary seating purchased should not be considered as part of the construction cost of the Stadium. With reference to the Service Level Deed Schedule 1 “Master Plan” the Vision of the project includes³⁵:

“a) Vision: The vision of the Project as set out below:

Construction of a multi-purpose stadium located at Awatea Street opposite Logan Park and associated spaces and facilities which has a minimum of the following qualities:

...

iv. Maximum capacity of 30,000 patrons to meet NZRFU category B requirements as set out in 2008

³⁴ PDT and DVML paper to Council Finance and Strategy Committee 14 March 2011 (#18)

³⁵ Service Level Deed DCC and CST (#6)

- v *A minimum permanent seating capacity of approximately 18,000 with an ability through temporary seating or other methods (e.g. standing terraces) to increase the capacity to at least 30,000 patrons”*

123. Even though the decision to purchase rather than rent was an operational one taken by DVML, it is still a cost of readying the Stadium for purpose and in our view legitimately included in the cost calculations.
124. Our view is that all the temporary seating needed to be included, particularly given the requirements of RWC2011, which was an intended use that the Stadium was to be put to. There is ample other evidence to suggest that the Stadium was being built for use in RWC2011. For example, the government’s grant of \$15 million was made on the basis of the Stadium being available for RWC.
125. Of the total of the variations of \$7.0 million, approximately \$1.4 million was paid for by grants from third parties; hence the net cash overrun of other variations was approximately \$5.6 million. This is not particularly significant in the context of this project.

Land rental and recoveries

126. The rent is rent received by DCC after the purchase of some properties when, prior to demolition, the previous owner stayed on as tenants. Even though the land available for sale has not been sold the appropriate accounting treatment is to include it as a reduction of land costs. We have included the \$1.4 million in grants and third party contributions in the revenue received.

Administration fees to CST

127. Payments were paid to CST. These are properly included in the costs of the project. The payments made were for monthly fees and expenses which included travel, marketing, legal and other administrative costs.
128. Initially set monthly fees were paid to CST and when personnel transferred to DVML once it was set up, the set fees ceased and reimbursement only was made for cash costs incurred.
129. We have calculated these payments from September 2007. This is the date from which the DCC included costs from in their cashflow “Budget” of February 2009. There are earlier costs attributable to CWP which have not been included. These costs can be described as exploratory, when the Councils with ORFU were considering options for redevelopment of Carisbrook Stadium or building a new stadium.
130. Projections for these costs were included in the original Cashflow documents of 9 February 2009. Those projections were for total costs of \$3.7 million. In the end \$5.4 million was expended³⁶.
131. It is unsurprising that CST/PDT were incurring costs. Staff was employed, marketing programmes were developed and under the Service Level Deed, CST as the DCC’s Special Agent took significant responsibility for the project.
132. In broad terms these payments can be described as follows: administration (includes set monthly payments) for CST (\$2.09 million), PDT (\$1.10 million), Marketing (\$1.30 million) with the

³⁶ Cashflow Projections 9 February 2009 (#16)

balance relating to CST's involvement in the property purchases, various reviews and costs associated with the project planning and setup.

133. It does appear that the CST/PDT's budget was not considered in detail by the DCC. The only reference appears to be the inclusion in the 9 February 2009 cashflow which is all that is available to compare³⁷.
134. A similar issue arises as with the catering. Had the matter been fully considered as part of the budget then either:
- a) A budget for CST/PDT that met expectations could have been developed; or
 - b) Items that were paid for by CST/PDT, e.g. marketing, might properly have been included in the GMP.
135. Following an agreed payments approval process CST/PDT invoices were passed to DCC staff for payment. Having gone through the process of approval, they were paid. No regard appears to have been taken of the level of payments, i.e. was the amount within the budget or not.
136. In our view the structure of the project led to a lack of clarity around the two key processes when making payments:
- a) *formal approval* which relates to a process to be followed typically, with designated authority and/or legal obligation; and
 - b) *budget allocation* i.e. do we have the money to spend?
137. In summary, it appears that the arrangements for approval precluded DCC staff from properly checking those amounts against budget until they came to DCC for payment. The fact that Trust costs went beyond budget expectations must have been known at the time and we can find no evidence that anybody at DCC took that up with CST or the Council. We were told that Council staff considered that they had no choice but to pay the Trust expenses because those expenses had gone through the Trust's own approval process.
138. Only the *approval* aspect of the payments to CST/PDT appears to have been addressed, and not whether there was *budget*.
139. If the budget was being tracked it would have been obvious to DCC personnel that it was about to, and eventually was, exceeded. The correct approach again would have been to seek additional funding from Council. This was not done.

Interest

140. This is the cost of interest incurred on the DCC's borrowing for the project up to 31 July 2011, immediately prior to practical completion. Interest costs continue to accrue on the borrowings. We have not included any calculation in the \$198 million 'budget'; however interest was included in funding calculations made by DCC at the same time.

³⁷ Cashflow Projections 9 February 2009 (#16)

Stadium Funding

141. Stadium Funding is as follows:

Source of Funds	\$million
ORC	37.5
Otago Community Trust and Other Trusts	8.3
Profit on sale of catering fitout	0.1
RWC2011	0.1
Government Grant	15.0
Sponsorship/Seat sales (to November 2011)	0.7
Dunedin City Council (all sources including DVML)	162.7
Total	224.4

Otago Regional Council

142. From the onset of the Stadium project, the ORC was a significant contributor by committing \$65,000 to the CWP during the research stage, which produced the report referred to in paragraph 24 above.
143. After ORC and DCC surveyed residents in April 2007 the ORC decided, in June 2007, to put on hold any further decisions about its involvement with the proposed stadium until the DCC confirmed its commitment to the project. The ORC maintained that if it were to fund the stadium development it was important that the stadium be a regional asset.
144. The ORC resolved, on 24 June 2009, to confirm contributions amounting to \$37.5 million towards the cost of construction of the Stadium subject to conditions being met that included (but were not limited to) the stadium having a roof and permanent on-site construction works having commenced³⁸.
145. ORC contributed \$37.5 million in seven tranches from 2009 to 2011 in line with the funding schedule set out in a letter sent by ORC's Chairman to DCC's Mayor Peter Chin on 17 April 2009.

Otago Community Trust

146. A condition of the Council's resolution of 17 March 2008/29 September 2008 was that OCT would provide written confirmation that it would provide \$10 million funding before Council committed to the Construction Contract. The final contribution of the OCT was \$7 million and this was known to Council when the commitment to build the Stadium was entered into³⁹.
147. The \$7 million contribution from the OCT came in four tranches of \$1.75 million made from 2009 to 2011.

³⁸ ORC report 30 July 2009 (#20)

³⁹ Council minute 20 April 2009 (#21)

Other Trusts & RWC 2011

148. These funding sources, as described below, contributed to the stadium project to cover the cost of specific work or to acquire certain assets necessary to achieve complete the Stadium.
149. New Zealand Community Trust contributed \$605,556 in September 2010 to be used towards the installation of the Grassmaster system installed in the stadium. This was the reinforcement system for the Turf.
150. The Southern Trust contributed \$50,000 in September 2010 that was to be used for freight and fees incurred to import the Grassmaster system installed in the stadium.
151. The Lion Foundation contributed \$300,000 in May 2011 that was to be used for the purchase of some relocatable stadium seating. This aspect of the stadium is not yet complete, however it is included on the basis as described in paragraph 13 above.
152. New Zealand Community Trust contributed a further \$300,000 in July 2011 to be applied towards the media suite relocation.
153. Further funding was approved by Council following the report on 14 March 2011 to the Finance Strategy and Development Committee by PDT and DVML⁴⁰.
154. In accordance with our view that the entire borrowing of DCC and any entities owned by it, the borrowing of \$1.4 million by DVML is included in the overall DCC borrowing for the Stadium.

Profit on sale of Catering Equipment

155. On 22 February 2012, the DCC signed a contract with Compass Group to provide catering services for all events held at the Stadium⁴¹. The contractual arrangements recorded in the agreement appear to have been anticipated during 2011 as part of the catering arrangements. As part of this contract, Compass Group as caterer would pay \$3 million to DCC for catering equipment that DCC was to source, and install. The equipment, as specified in Schedule 4 of the contract, was purchased from Southern Hospitality at a cost of \$2.9 million thus leaving \$0.1 million as a contribution to the overall stadium project costs. DCC may be able to buy the equipment back on termination of the contract.
156. This \$0.1m figure reflects the surplus on sale of catering equipment. As the catering equipment is not an asset owned by the Stadium, we have excluded it from the costs.

Government Grant

157. On 23 December 2008, Mayor Peter Chin sent a letter to Hon Bill English requesting Government support for the proposed multi-purpose covered Stadium⁴². The letter describes other DCC infrastructure projects and the DCC's planned commitment to the Stadium project of \$88 million plus \$6.4 million for maintenance after completion. DCC had already acquired the land. Further, the letter describes a projected \$15 million shortfall by the CST in meeting the 60% PSF

⁴⁰ PDT and DVML paper to Council Finance and Strategy Committee 14 March 2011 (#18)

⁴¹ Agreement Extract DCC, Compass and DVML (#22)

⁴² Letter Mayor Chin and ORC to Mr English 23 December 2008 (#23)

target of \$27.2 million by February 2009 and an additional \$20 million shortfall in ratepayer contribution reductions.

158. As noted above Council was aware of a \$15 million financing cost requirement from the PSF anticipated shortfall.
159. In a letter dated 16 April 2009 from RWC2011 Minister Hon. Murray McCully to Mayor Peter Chin, Government confirmed its commitment of \$15 million towards the construction of the Stadium, conditional only on the Stadium being available to host the Rugby World Cup games⁴³.

Sponsorship / Seat Sales

160. The PSF comprised the sale of naming rights, forward seat/box sales and memberships. DCC originally anticipated recovering \$45.5 million of PSF and Council had required this to be 60% (or \$27.2 million) committed before proceeding. In the event, the Council proceeded although the commitments were not certain – refer to paragraph 50.f).
161. Documents provided to Council before entering the Construction Contract made it clear that:
- a) These were largely operational revenues for seat sales and other sponsorships; and
 - b) The majority of these forecast receipts would be received in the years following completion and the Council would be funding them in the meantime.
162. Most of the revenue is agreed (or in some anticipated, as all the lounge contracts can be terminated after 5 years) to be received over the next 10 years. A separate report by accountants⁴⁴ on the PSF dealt with the projections on the basis of assumptions (as requested by DCC) that all funding over the 10 year period would be received.
163. Council resolved on 17 March 2008⁴⁵, (Appendix I to the DCC/CST Deed), to commit to the construction contract on certain terms and conditions. One such condition was that the council be satisfied that a minimum of 60% of the PSF target of \$45.5 million be achieved and supportable with contracts conditional on the stadium proceeding. A DCC cashflow forecast dated 3 March 2008 detailed the expected ratepayer contributions toward the \$188 million Stadium project cost⁴⁶. The cashflow anticipates that the full \$45.5 million PSF would be received by December 2010 (\$9.5 million in 2009 and \$36.0 million in 2010). That assumption proved to be incorrect and was plain to Council by April 2009.
164. In an affidavit sworn by Mr Stephens on 22 April 2009⁴⁷ in relation to the *Stop the Stadium Inc.* action Mr Stephens stated that “until 17 March [2008] CST had been assumed that all of the PSF (memberships, sponsorships, suite rentals etc) would be received in full, in advance of the stadium completion” and that “the new assumption was that only 53% of PSF would be received in advance of opening”. No impact was assumed to the ratepayers as the estimated \$19.2 million in new debt on the Council’s books would be serviced by receipts from further PSF sales. On the day the Council met on 9 February 2009, originally the time where the 60% PSF threshold was to be met, the Draft 2009/10-2018/19 Community Plan anticipated that only 3% of PSF would be

⁴³ Letter Mr McCully to Mayor Chin 16 April 2009 (#24)

⁴⁴ Report on Factual Findings 27 February 2009 (#28)

⁴⁵ Service Level Deed DCC and CST (#6)

⁴⁶ Cashflow forecast 3 March 2008 (#25)

⁴⁷ Affidavit Mr Stephens 22 April 2009 (#26)

received before the Stadium opening. The overall impact of these changes was that the DCC would take on \$42.645 million more debt at a cost of an additional \$10 million in debt carrying costs (interest) during the terms of the borrowing.

165. In a supplementary affidavit dated 7 August 2009⁴⁸, Mr Stephens states that there were contracts signed as at 5 August 2009 amounting to \$26.82 million of PSF with a further \$5.57 million of seating products under serious consideration, total \$32.39 million. This is up from the 27 February 2009 *Report of Factual Findings*⁴⁹ prepared by Deloitte which recorded signed contracts amounting to \$19.6 million. The contract amounts and validity are not in dispute. However, the cashflow projections that accounted for these contracts were not discounted or provisioned to reflect an allowance for contracts that might not be honoured or could be cancelled.
166. As at November 2011, \$678,000 of the PSF had been received.
167. In our opinion, the treatment of seat sales as a contribution to capital costs was misconceived. Put simply, seat sales are operational revenue rather than capital contributions. The correct approach is to establish the capital construction costs and consider that in conjunction with an operational feasibility study recognising all likely operating revenue and costs.

Dunedin City Council

168. DCC underwrote the project and contributed funds, directly or indirectly to the balance of \$162.7 million.
169. As indicated above we have taken a whole of entity approach with funding by DCC. This means that we have included:
- a) Funds borrowed directly by DCC which are still owed;
 - b) Funds borrowed by DCC for which ratepayer contributions to repay have already been incorporated into existing annual rating plan;
 - c) Funds borrowed by DVML.
170. As mentioned at paragraph 10 above this approach is different to that which the DCC Accounting staff take. DCC Accounting staff have treated funds already included in Annual Rating Plan and funds borrowed by DVML as not part of the Stadium funding.
171. The 9 February 2009 Cashflow projections showed the cost of the Stadium project to be \$198 million, with expected recoveries from third parties during construction of \$62 million (including \$1.1 million of PSF), leaving the Council funding the balance of \$136 million plus interest.
172. That compares to our calculations which show that DCC was left to fund \$162.7 million or \$144.7 million excluding interest.
173. While presentation of the data could have been clearer, it was apparent, before signing the Construction Contract, that DCC would be funding substantially more than it had envisaged in 2008 or the stated figure of \$91.4 million.
174. As we have said above, the 9 February 2009 cashflow documents attached to the report to Council made it plain that the level of debt would peak at above \$150 million.

⁴⁸ Supplementary Affidavit Mr Stephens 7 August 2009 (#27)

⁴⁹ Report on Factual Findings 27 February 2009 (#28)

175. The difference between the so-called DCC contribution of \$91.4 million which Council confirmed on several occasions, is made up largely of the PSF, the shortfall from OCT and the increased costs.
176. In our assessment, what was missing at the time was a document that clearly articulated this to those that were interested, setting out the cost and the known funding sources i.e. ORC, OCT, Government and the DCC. This is not a view shared by some DCC Officers who referred us to the spreadsheets supplied to Council and, as an example, the 2008-2009 Annual Plan of DCC⁵⁰. We comment further on this under “Learnings” below.

⁵⁰ Extract DCC 2008/09 Annual Plan (#29)

Unfavourable Variance Reconciliation

Comparison of projections at signing of contract to final outcome

177. In this section we compare the final outcome with what was expected at April 2009 when Council let the construction contract.

178. Immediately prior to the decision to let the building contract in April 2009, DCC considered that the cost of the project would be \$198 million. This is shown in the cashflow projections given to Council on 9 February 2009⁵¹.

179. This was made up of:

	<i>\$million</i>
GMP	165.40
Land (including UoO)	29.00
Trust Costs	3.25
Miscellaneous	0.40
Total	198.00

180. The land costs estimated by DCC have amounts for sale and recoveries (rent received) netted off to achieve the \$29 million figure. It is important to note that the DCC treated the anticipated sale of land to UoO as a revenue item. As we have already stated, in our view this should have been netted off against the land costs.

⁵¹ Cashflow Projections 9 February 2009 (#16)

181. We assess the project cost \$206.4 million net of interest. The difference between \$198 million and \$206.4 i.e. \$8.4 million which is arrived at from the following variances from original budget calculations:

	<i>\$million</i>
Budget	198.0
<i>Deduct favourable variances:</i>	
Land Proceeds (UoO)	5.5
GMP	1.0
UoO – Shared Costs	3.9
Land Rental Recoveries	0.4
<i>Add unfavourable variances:</i>	
Land Costs	0.5
Administration (incl. Trust Costs)	1.7
UoO – Plaza and Shared Wall	3.8
Catering Variations (net of profit made)	6.2
Other Variations (net of recoveries)	7.0
Total Cost	206.4

182. Although for the base build there were detailed budgets (and acknowledging this was the majority of the project) there was not however, any overall and detailed budget prepared and monitored for the entire project to include base build, land and CST/PDT costs. The best information that is available for this purpose is a cashflow schedule, the one provided to Council on which it made its decision to proceed, reporting an overall cost of \$198 million⁵². We have used this as a 'budget' comparison.

Comparison with report to Council on 20 February 2012

183. In this section we compare the final outcome with the figures supplied to Council by DCC personnel on 20 February 2012⁵³.
184. On 20 February 2012, Council was provided with a report and attachment entitled "Stadium Cost, Funding & Debt", a table highlighting a \$7.33 million unfavourable deficit. This \$7.33 million variance relates to the difference in net amounts which DCC expects to fund in respect of the Stadium construction compared to a forecast prepared in May 2009. This forecast represents the latest estimates at the time when the Council made its decision to proceed and sign the construction contract, i.e. April 2009.
185. The forecasted funding deficit assessed in May 2009 by DCC was \$139.1 million which, compared to its current assessment of actual funding deficit of \$146.4 million. This resulted in a funding deficit position of \$7.33 million more than was forecasted. PwC performed a similar analysis, however our starting point is the total DCC contribution rather than just the extent of debt remaining. The main difference, as explained further in paragraph 187 is that PwC did not consider amounts already contributed by ratepayers as a reduction to the DCC total contribution.

⁵² Cashflow Projections 9 February 2009 (#16)

⁵³ DCC Stadium Cost, Funding and Debt 20 February 2012 (#2)

186. Ultimately, the \$146.4 million represents the net amount of total debt outstanding, rather than DCC's total contribution. We recognise that these are two separate questions but consider for this report that a significant question before considering remaining debt was to calculate total DCC contributions.
187. We have calculated the net amount contributed to date by the DCC to be \$162.7 million. Part of the difference between PwC's calculation and the DCC's is the reduction in the DCC's table of \$13.4 million of 'Rates Funding' which we understand to be an amount already included in an Annual Rating Plan. For these purposes we would not reduce the funding requirement by amounts which may have been included in previous rating charges; because we are calculating total cost of the Stadium, and DCC's contribution to that cost. When the \$13.4 million ratepayer contribution is included in DCC's calculation, the overall funding position reached is just under \$160 million, close to our calculations, although there are different assumptions to get to this figure.
188. The following table compares PwC's assessment of DCC's contribution with DCC's 20 February 2012 calculations. This table also records revenues and costs where PwC's analysis differs from the DCC's.

<i>\$million</i>	As Assessed by PwC	As Assessed by DCC	Assessed Variance
Unfavourable Deficit as Calculated by DCC		7.3	
Add: DCC forecast at May 2009		139.1	
Final deficit balance assessed by DCC 20 February		146.4	
Add back: Ratepayer funding to date		13.4	
Total DCC contribution	162.7	159.8	2.9
PwC v. DCC Revenue/(Expense) Comparison:			
Receivable from contribution under UoO cost sharing	2.1	1.5	0.6
UoO payment directly to Arrow for Masterplanning	0.1	-	0.1
RWC 2011 funding of level 2 fitout	0.1	-	0.1
Proceeds on sale of equipment	3.0	-	3.0
Cost of catering equipment	(2.9)	-	(2.9)
Catering Fitout	(6.2)	(6.1)	(0.1)
Shared University/Stadium wall	(0.9)	-	(0.9)
Temporary seating	(1.3)	-	(1.3)
Level 2 fitout	(0.2)	-	(0.2)
Phone system	(1.3)	-	(1.3)
			(2.9)

189. The DCC final calculations excluded items on the basis that they were purchased or funded other than directly by DCC or outside the scope of the project. PwC does not agree with this approach and has endeavoured to include all costs and funding by DCC and DVML. These items include the cost of the shared wall installed by the UoO (paid by DCC), the temporary seating purchased, the cost of the level 2 fitout upgrade and the installation of a phone system. The total net cost of these items was \$3.6 million.

190. Overall, DCC personnel's explanation of changes to forecasts (excluding Ratepayers Funding) are subject to some overs and unders compared to our calculations, but it is broadly correct and does not warrant further consideration.

Learnings

191. There are some learnings to be had. However we consider that the context of these learnings must be that Council resolved to construct a stadium which it did on time, 4% over budget (excluding financing costs) and ended up with the level of debt broadly consistent with expectations.
192. Some aspects that should have been dealt with better we comment on.
193. Papers for Council were unnecessarily complicated and did not clearly record for the reader in one place:
 - a) The full cost;
 - b) How that cost was to be paid for; and
 - c) Operating forecasts enabling the level of ratepayer contribution to be clearly identified.
194. It would not be surprising if the matter was not clear to all Councillors who were being asked to approve the project.
195. As we identified earlier, the information could be pieced together from various documents, especially the 9 February 2009 Cashflow projections. However it was not, for example, stated in any Council Resolution what the simple breakdown of the \$198 million projected cost was. In fact, the \$198 million is not mentioned in the 20 April 2009 Resolutions. Rather the focus was on what the GMP (\$165.4 million) was made up of.
196. This lack of clarity is evident in the discussions recorded about Council's funding commitments. Before entering the main construction contract, the Council knew that it would be funding substantially more than the \$91.4 million noted in its March / September 2008 minute because there was no prospect of material PSF being received prior the completion. Although the PSF was, and no doubt is, significant for the running of the Stadium, it had no measurable impact on the funding required to construct the Stadium and mention of it added little to Council addressing the true funding required of it. Further PSF is effectively payment in advance for services which could only be provided after stadium completion.
197. It was clear that trust administration costs would be incurred during construction but these were not fully considered. In our view this arose at least in part because of the structure put in place to manage the project. As the Trust costs were outside of the GMP management processes, they were not given the same level of budget scrutiny by those managing the construction.
198. Having such a significant project managed by a third party as "agent" for DCC gave greater separation from the DCC. DCC was at all times the primary funder, sponsor and ultimate owner of the project. When costs became challenging, as they did over the catering fitout, the separation of responsibilities and liabilities became stark. We note that all of the cost overruns occurred outside the GMP managed processes. The complexity of the project management arrangements accentuated the difficulties surrounding the cost variations.
199. CST/PDT with Arrow and Rawlinsons were rightly seen as those managing the construction. It was proper to have project managers and although they were managing the most significant portion of the project, the GMP, they were not managing costs which were not part of the GMP i.e. land, trust costs, unbudgeted variations. That fell to DCC staff who were not part of the project team. For completeness we mention that CST/CWP were involved early on in negotiating land

purchases but that the financial implications of those transactions were not within their responsibility once construction began.

200. A stronger DCC contribution to project management arrangements and oversight would have increased the ability of the project as a whole to control costs and budget variations. For most costs, DCC's role was simply to check that others had carried out agreed procedures, rather than to be part of the process of approval and budgeting checking, as costs were incurred.
201. In approving payments, two general principles apply in this case: Is there authority for the payment?; and is there budget allocated for the payment? The arrangements under which the Stadium was constructed enabled scrutiny over approval and budget for those items within the GMP. Items outside the GMP were not subject to the same rigour and it seems that approvals were covered off, but were not adequately referenced to agreed budgets.
202. It is essential that the operator of a facility be closely involved from the commencement and through the process to mitigate against the risk of cost overruns in areas that might impact the operator's financial viability. It was suggested to us by DCC Personnel that this was not possible as the operator had not been formed at the time of the commencement of the project. We consider this to be an aggravating circumstance, rather than any mitigation to this learning. As can be seen from the "Objects" of CST from its Trust Deed it recorded that it was to operate the stadium, an assertion that was in the end did not fully align with what it actually did.
203. It is incumbent on the owner to ensure that the project is specified to a level such that it is fit for purpose prior to commencing work. In this case, for example, not including sufficient toilets for purpose was a clear oversight.
204. Arrangements with other interested parties (such as UoO) should all be finalised prior to proceeding with a project. It is clear that negotiating with other parties and setting up arrangements later led to increased costs. Contracts should have been certain so as to properly budget and obtain approvals in advance.
205. Proper approvals should be obtained for all variations as soon as practicable.

Summary and conclusion

206. The Stadium cost \$206.4 million to build plus interest of \$18 million, a total of \$224.4 million.

207. The base building works as originally specified were completed within the GMP, however more was required to fully complete the Stadium.

208. Overruns compared to original expectations were from:

- Late adjustments to original GMP specifications (e.g. catering fitout);
- Failure to agree the position with UoO on a timely basis;
- Failure to specify the project completely; and
- A lack of transparency, scrutiny and oversight of administration costs.

209. These could have been avoided or reduced by DCC having a stronger contribution to the entire project management arrangements including dealing with all aspects of the development including costs.

210. In the context of a project of this size, we do not consider the overruns particularly significant.

211. The Council has funded \$162.7 million on completion. Given the deferred and contingent nature of PSF, funding of this order was always likely.

212. From here on, we recommend that the Council seeks to maximise its returns from the Stadium with a sharp focus on operational efficiency and high usage.

Yours sincerely

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Abbreviations

Carisbrook Working Party	CWP
Carisbrook Stadium Charitable Trust	CST
The Mayor and Councillors of DCC	the Council
Dunedin City Council	DCC
Dunedin Venues Management Limited	DVML
Forsyth Barr Stadium	the Stadium
Guaranteed Maximum Price	GMP
Otago Community Trust	OCT
Otago Regional Council	ORC
Otago Rugby Football Union	ORFU
Private Sector Funding	PSF
Project Development Team	PDT
Rugby World Cup 2011	RWC2011
University of Otago	UoO

Key Terms of Business

Scope, Disclaimer and Restrictions

The purpose of this Report is to provide DCC with confirmation of the cost of the Forsyth Barr Stadium and how it was funded.

This Report is prepared solely for this purpose and should not be used or relied upon for any other purpose.

The statements and opinions expressed in this Report are based on information available to us as at the date of the Report.

In preparing our Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing our Report has been provided by DCC, and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise.

Accordingly, neither PricewaterhouseCoopers nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in our Report resulting directly or indirectly from any such circumstances or from any assumptions upon which our Report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of our Report, was not brought to our attention, or subsequently comes to light.

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