

Report

TO: The Council

FROM: Chief Executive, Paul Orders

MEETING DATE: 14 May 2012

SUBJECT: **REVIEW OF THE FINAL COST OF THE FORSYTH BARR STADIUM**

SUMMARY

Following the resolution of the Council on 20 February 2012, an independent review has been conducted by PricewaterhouseCoopers (PwC) to determine the final cost of the Forsyth Barr Stadium and to explain the variances that were outlined at that meeting.

PwC have identified that the Stadium cost \$206.4 million excluding interest - \$224.4 million including interest.

The report discusses in detail the reasons for the increased costs, clarifies the final debt position and provides some learnings for consideration of the Council.

IMPLICATIONS FOR:

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| (i) Policy: | No. |
| (ii) Approved Annual Budget: | No |
| (iii) LTP/Funding Policy: | Yes – Council needs to confirm the debt requirement for the Forsyth Barr Stadium |
| (iv) Activity Management Plans: | No |
| (v) Community Boards: | No |
| (vi) Sustainability: | No |

RECOMMENDATIONS

- 1 That Council note the PwC review of the final costs of the Forsyth Barr Stadium.
- 2 That the Council authorise the Chief Executive to drawdown additional stadium debt, until the stadium is transferred to Dunedin Venues Limited, up to a limit of \$7.5 million.
- 3 That following the transfer of the stadium to Dunedin Venues Limited, borrowings made under this resolution be repaid to the Lender in equal quarterly instalments of interest and principal over 40 years, noting that the term of all Dunedin Venues Limited debt will be considered by the Council during the deliberations on the Long Term Plan 2012/13 – 2021/22.

BACKGROUND

At the meeting of 20 February 2012, Council were advised that, following the receipt of a short report from the Project Delivery Team which provided a summary of final costs for the Stadium, I had instructed that a review be undertaken to provide a close-out report for the project, certainty around the final cost, and ultimately, the final debt figure for the stadium.

The review was to focus on the identified variances (notably around the CST costs, the catering fit-out and the plaza and shared wall elements of the project) with a particular emphasis on issues surrounding the catering over-expenditure, and any the relevant authorisations.

PwC have been working on the review for the past eight weeks and the results have now been provided in a comprehensive report that is attached.

DISCUSSION

PwC have reviewed the calculations that were presented to the Council on 20 February 2012 regarding four matters:

- what the stadium cost,
- how do these costs compare to budget?
- if there was an overrun, why was that? and
- how was the stadium funded.

In conducting the review PwC interviewed a wide range of individuals associated with the project and reviewed a large amount of documentary and financial evidence. They advise that to the best of their knowledge, everything they requested was provided to them. PwC took an all-of-group approach to calculating the final position and included costs regardless of whether they were incurred by DCC or DVML.

The report considers the key project arrangements, looks at some detail in the costs associated with completing the stadium, considers various funding sources, examines in some detail and then provides a reconciliation of the unfavourable variances. The report finishes with a series of learnings and their conclusions.

Cost

PwC have determined that the final cost of the stadium was \$224.4 million (including interest incurred during construction of \$18 million). They have further determined that the total cost to the Council is \$162.7 million. They also conclude that the base building works as originally specified were completed within the GMP.

Variances against budgets

Three variances were the focus of the review and are dealt with fully in the report. In summary, the costs of the University Plaza and Shared Wall were \$1.9 million, the CST costs were also higher than the budget by \$1.7 million and the cost of the catering fit-out exceeded budget by \$3.7 million. Taken together these items account for \$7.3 million of the variance. A range of other items (some ups and downs) make a total variance of \$8.4 million.

In reconciling these variances against the \$7.3 million presented to Council on 20 February 2012, PwC have concluded that the final variance is \$8.4 million. Taken with the "approved" budget, PwC conclude that the stadium cost \$206.4 million (excluding interest).

Overrun

They conclude that the overruns, when compared to original expectations, were from the late adjustments to the original specifications notably around the catering fit-out, from a lack of timely agreement with the University with respect to their contributions, and a lack of detailed oversight of administration costs.

Authorisations

In reviewing the authorisations for the variations, PwC advise that they have only identified one example where appropriate authorisation was not obtained from the Council. No formal authority from the Council was obtained for the additional \$3.7 million of spending for the catering fit-out.

PwC have provided me with further information around the matter of the unauthorised over expenditure which I am now reviewing.

PwC conclude that the overall project costs exceeded budget by 4% (excluding financing costs).

Learnings

They detail learnings that can be taken from the project including:

- Papers for Council were unnecessarily complicated and did not clearly record for the reader in one place:
 - the full cost;
 - how that cost was to be paid for; and
 - operating forecasts enabling the level of ratepayer contribution to be clearly identified.
- The focus and concerns at the time of construction contract signing focused on GMP, not holistic project costs (e.g. interest and trust administration costs).
- Not all expenses were subject to equal amounts of scrutiny and controls.
- Proper approval should be obtained for all variances as soon as possible.

These learnings will need to be considered carefully and it is my intention to issue clear guidance to staff on lessons learned in order to inform the management of all DCC capital projects in the future.

Financial Implications for the Council

The 20 February 2012 report to the Council estimated total debt resulting from the construction of the Stadium to be \$146.4 million, \$7.3 million more than budgeted. Some further adjustments have been made since that report resulting in a finalised figure of \$146.6 million, \$7.5 million more than budgeted. It should be noted that this is the debt that will end up in Dunedin Venues Limited (DVL) following the transfer of the stadium. It excludes any Dunedin Venues Management Limited (DVML) debt. Two of the variations included within the PwC report are funded by borrowings incurred by DVML.

The term of the stadium debt will be considered by the Council next week during the deliberations on the Long Term Plan 2012/13 – 2021/22. Until those decisions are made, the recommendation is that the Council approve the additional debt on a 40 year term basis.

Prepared by:



Paul Orders
CHIEF EXECUTIVE

Date report prepared: 11 May 2012

Attachments

- 1 PwC Report on Review Forsyth Barr Stadium Costs for Dunedin City Council