

24 September 2007

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Dunedin City Council  
50 The Octagon  
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Dunedin

Chair Stephen Cairns  
Otago Regional Council  
70 Stafford Street  
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Dear Mayor Chin and Chair Cairns

## **INQUIRY INTO DUNEDIN CITY COUNCIL AND OTAGO REGIONAL COUNCIL'S FUNDING OF THE PROPOSED STADIUM**

This letter is to advise you of the outcome of our inquiry into the funding arrangements of the Dunedin City Council and Otago Regional Council<sup>1</sup> for a new multi-purpose stadium proposed by the trustees of the Carisbrook Stadium Charitable Trust (the Trust).

In this letter, we set out:

- a summary of our findings;
- our inquiry scope and process;
- the principles that ought to guide funding decisions;
- relevant background and contextual material;
- the funding arrangements of Dunedin City Council; and
- the funding arrangements of Otago Regional Council.

### **1 Summary**

- 1.1 The purpose of the inquiry was to review the Councils' funding arrangements with the Trust so that we could provide assurance to the Councils and ratepayers in Dunedin city and the wider Otago region. Overall, we found:

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<sup>1</sup> We refer to the Dunedin City Council and Otago Regional Council together as the Councils.

- The Councils' funding arrangements are appropriate for this stage of the project. It is important to note that the stadium is still at the proposal stage, the outcome of the investigatory phase is uncertain, and neither Council has committed to funding the project.
- A formal and robust funding framework will need to be put in place should either or both of the Councils make a firm commitment to fund the construction phase of the project.

### Dunedin City Council

- 1.2 The Dunedin City Council is the sole funder of the investigatory work currently being carried out by the Trust. In June 2007, the Council amended its 2006/07 to 2015/16 Long-Term Council Community Plan (LTCCP) to include up to \$91.4 million for the proposed stadium, with \$11.5 million allocated in the 2007/08 year for further investigations and design work. Of this, \$5.6 million would be provided before December 2007 so the Council could make an informed decision about the viability<sup>2</sup> of the stadium and commit to its involvement. The December 2007 decision by the Council is important for providing certainty to the Trust about funding, given the timetable for completing the stadium that is currently envisaged.
- 1.3 We found that the Dunedin City Council adequately considered, for this stage of the project and based on the information available to it in June 2007, whether the \$5.6 million would enable it to decide whether to commit further funding to the project. The Council acknowledged that there was a risk element to this \$5.6 million funding, and sought to mitigate this risk by considering whether the expenditure would provide it with enough information to decide whether to commit further funding, whether the overall project costs were credible, and how the Council's \$91.4 million contribution could be funded if it decided to proceed. The Trust recently indicated that satisfactory progress is being made with the investigatory work and milestones required by the Council for December 2007.
- 1.4 The Council has appropriate accountability mechanisms and controls in place for this stage of the project, provided they are fully implemented, and the means to assess whether it is receiving value for money for the investigatory work. These involve:
- the milestones set out by the Council in its resolution of 11 June 2007;
  - the weekly meetings held with the Trust to discuss progress and issues against those milestones;
  - the six-weekly reports on progress by the Trust, and the subsequent decisions by the Council about whether to continue funding; and
  - the Council-controlled release of funding to the Trust following an invoice authorisation procedure.
- 1.5 Importantly, the Council has in place processes to monitor the Trust's progress and obtain up-to-date information to inform its decision-making processes. However, we make some suggestions to the

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<sup>2</sup> This term is used by the Dunedin City Council in its resolution of 11 June 2007, set out in Appendix C.

Council concerning the adequacy of the six-weekly reporting system, and the Council's systems for authorising payments to the Trust.

- 1.6 Although there is a clear view of what needs to be achieved by the Trust and good hands-on control by the Council, in our view accountability and control could have been enhanced by a commitment in writing between the parties, such as a memorandum of understanding.

### Otago Regional Council

- 1.7 In contrast with the Dunedin City Council, the Otago Regional Council has not gone through any decision-making processes on whether to provide for significant funding for the proposed stadium. It decided to "put on hold any decisions [about the proposed stadium] until confirmation is received that the Dunedin City Council will be involved in this activity".<sup>3</sup> Any decision-making processes to be taken by the Otago Regional Council are yet to be determined, but the Council acknowledges that they would need to consider the interests of its wider set of ratepayers.
- 1.8 To date, the Otago Regional Council has made relatively minor amounts available to the Trust. These contributions were made indirectly through the Dunedin City Council, with Otago Regional Council relying on the Dunedin City Council's arrangements with the Trust and the controls being exercised by the Dunedin City Council. This was appropriate for this stage of the project and consistent with its status as a potential funder.

### Going forward

- 1.9 If the proposed stadium proceeds and the Councils decide to provide funding for the project, we would expect to see an enhanced funding framework put in place, consistent with the phase of the project and appropriate to the structure of the project then in place. This would require a greater degree of formality around the accountability and control arrangements between the Councils and the Trust. The Councils recognise that this would be necessary, and Dunedin City Council has begun work on this.
- 1.10 If the Councils decide to provide funding for the construction phase, we would expect to see a comprehensive funding agreement between the parties to protect the Councils should the stadium project not proceed as planned after any final commitment was given. We would also expect to see appropriate risk management strategies to protect the Councils, and their respective ratepayers, against construction and operational risks.

### General comments

- 1.11 In reviewing the background to the inquiry, we did not come across any issues with the consultation and decision-making processes of the Councils that required extending the scope of the inquiry. It had been suggested to us that the Dunedin City Council had not complied with section 84(3)(c) of the

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<sup>3</sup> Resolution of Otago Regional Council, 27 June 2007.

Local Government Act 2002 (the Act)<sup>4</sup> when amending its LTCCP to include the proposed stadium. In our view, the Dunedin City Council's process was not inconsistent with the Act.

## 2 Our inquiry

### Scope

2.1 Our inquiry was carried out under section 18(1) of the Public Audit Act 2001, which provides that the Auditor-General may inquire into any matter concerning a public entity's use of its resources.

2.2 The Auditor-General decided to inquire into this matter because of the amount of ratepayer funds that might be contributed to the proposed stadium, the relationship with a non-council-controlled organisation, and the uncertainty within the Otago region about the nature of the Councils' involvement. We had received several requests for inquiries into various aspects of the Councils' involvement with the proposed stadium.

2.3 Our inquiry focused on:

- the nature of each Council's funding relationship with the Trust, including:
  - the accountability mechanisms that each Council has in place;
  - the Councils' controls around the use of funds by the Trust;
  - the means by which the Councils assess that their payments represent value for money and will achieve the purpose for which they were released; and
- compliance with good practice, as detailed in our 2006 good practice guide *Principles to underpin management by public entities of funding to non-government organisations*.

2.4 We focused on the funding arrangements and controls established by, and from the perspective of, the Councils, and not those of the Trust. The Auditor-General has no mandate over the Trust, which is not a "public entity" within the scope of the Public Audit Act.

2.5 We did not form a view on the merits of the decisions that have been taken, including whether the Councils should support the proposed stadium. This is a matter for the elected members of the Councils.

### Process

2.6 In carrying out our inquiry we met with members, officers, and staff from the Councils, as well as representatives of the Trust. We also reviewed relevant documentation provided by the Councils and the Trust.

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<sup>4</sup> Section 84(3)(c) of the Act requires the statement of proposal for a draft or amended LTCCP to include an analysis of the reasonably practicable options identified by the Council.

### 3 Funding principles

3.1 Public entities are accountable for the use of all public funds that they receive. They must take appropriate measures to ensure that any public funds received, including those devolved to non-public entities,<sup>5</sup> are used lawfully, effectively, efficiently, and with integrity. Public entities are accountable for the measurable achievement of the goals that the funding arrangements were designed to meet.

3.2 The Auditor-General's expectations in this area are set out in our good practice guide *Principles to underpin management by public entities of funding to non-government organisations*.<sup>6</sup> The guide suggests that a principles-based approach be used when public entities decide to enter into funding arrangements with non-government organisations. It acknowledges that entities must manage their business within the resources available, and suggests a risk-based approach for managing funding arrangements.

3.3 The principles outlined in the guide are:

- *Lawfulness* – Public entities must act within the law, and meet their legal obligations.
- *Accountability* – Public entities should be accountable for their performance and be able to give full and accurate accounts of their activities, and have in place governance and management arrangements suitable to address any concerns.
- *Openness* – Public entities should act in a way that is, and is seen to be, transparent.
- *Value for money* – Public entities should use resources effectively, economically, and without waste in achieving their policies and end-user benefits.
- *Fairness* – Public entities have a fundamental public law obligation to always act fairly and reasonably. What public entities do should be open and impartial.
- *Integrity* – Anyone who is managing public resources should do so with the utmost integrity.

3.4 Our inquiry focused on the principles of accountability and value for money.

### 4 Background

4.1 The description of events included below provides context to the funding arrangements discussed in the following sections. It does not include details about all the actions and steps that have been taken by the entities.

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<sup>5</sup> We use the term non-public entity to mean an organisation that is not a public entity within the meaning of section 5 of the Public Audit Act.

<sup>6</sup> Published June 2006.

### Carisbrook Working Party

- 4.2 In July 2003, the Dunedin City Council, Otago Regional Council, and other interested entities (the Otago Rugby Football Union and Community Trust of Otago) established and funded the Carisbrook Working Party to investigate the future of Carisbrook Stadium. This followed the Otago Rugby Football Union requesting funding for an upgrade of Carisbrook Stadium, which it owns, from the two Councils.
- 4.3 The Working Party commissioned a feasibility study of the redevelopment options for Carisbrook Stadium and produced a report (*Carisbrook: Future Upgrading and Development Options – Background Report*) in October 2004. The report discussed three options: doing nothing, upgrading the stadium, or building a new stadium on a new site.
- 4.4 The Working Party carried out region-wide public consultation on the three options in November 2004. The responses favoured upgrading Carisbrook Stadium.
- 4.5 The Working Party recommended to the Dunedin City Council that future work into the redevelopment of the stadium should be handed over to an independent trust. This was done, and the Working Party was disestablished in October 2005. Malcolm Farry, a local businessman, was identified as a suitable chairperson for an independent trust.

### The Trust

- 4.6 The Councils asked Mr Farry to settle a trust and assume control of the redevelopment process. The trust was to continue assessing options begun by the Carisbrook Working Party and bring a proposal back to the Councils to consider.
- 4.7 The Trust was established in August 2006 by six individuals who are now the trustees, led by Mr Farry as the chairperson. Although there was an initial intention that the Councils might be involved in settling the Trust, this did not eventuate. The Trust is independent of the Councils, and neither Council exercises any control under the terms of the trust deed (for example, neither Council can appoint or remove trustees).
- 4.8 The purposes of the Trust include being responsible for the planning, acquisition, development, construction, ownership, operation, and maintenance of a multi-purpose sporting and cultural venue for the benefit of the region south of the Waitaki River.

### Initial pre-feasibility report

- 4.9 In November 2006, the Trust briefed the Councils (as well as other potential funders) on the pre-feasibility stage of its work. The Trust's *Pre-Feasibility Report* stated that preliminary investigations had confirmed that a new multi-purpose stadium was achievable within the \$150-\$180 million cost previously indicated by the Trust (with an indicative cost of \$165 million). The Trust recommended further investment to investigate in more detail the feasibility of the various options, to provide for informed public consultation.

- 4.10 The Councils each agreed to reimburse costs of up to \$200,000 for the preparation of the further feasibility report. The Trust had also received the balance of funds from the Carisbrook Working Party, and funding from other non-public entities.

#### Master plan

- 4.11 In February 2007 the Trust released its *Carisbrook Opportunity, Master Plan and Feasibility Report* (the *Master Plan*) to the Councils. It was also publicly available (with some deletions of commercially sensitive information).
- 4.12 The *Master Plan* contained the results of the Trust's investigation of a new multi-purpose stadium in Awatea Street (opposite Logan Park in central Dunedin) or an upgraded and redeveloped Carisbrook Stadium. It contained six options, two options for the new stadium (roofed and unroofed) and four options for redeveloping Carisbrook Stadium.
- 4.13 The Trust recommended the new roofed stadium in Awatea Street as the best option, and commented in the executive summary:

*One path is to develop a new multi-purpose stadium that is not just used for rugby, nor just for sport. It would have a much wider use which would embrace cultural, educational, entertainment and recreational uses. This will provide significant community benefits, both socially and economically. Of particular importance, this option sees the University of Otago linked into the facility and provides the opportunity to enhance the role of the University and its economic benefit in the community.*

- 4.14 At the time of the *Master Plan*, the roofed stadium was expected to cost between \$180 million and \$195 million, with \$188 million used as the indicative figure. The increase from the \$165 million figure provided in the *Pre-Feasibility Report* was attributed largely to an increase in the cost of the roof.
- 4.15 The proposed stadium is to comprise a roofed stadium with a capacity of 25,000 to 30,000, a university teaching and research space, and integration between the university campus and the stadium. The Trust intends the stadium to be completed by 2011. We were told that this timeframe is driven partly by the requirements of the University for additional space and partly by the Rugby World Cup in 2011, although the intention is that the stadium will be a viable development irrespective of any participation in the Rugby World Cup.
- 4.16 The Trust stated in the *Master Plan* that further work was needed between March and July 2007 (to gather information about construction costs and other funding sources, and progress discussions with land owners and the University) to enable the Dunedin City Council to make a fully informed decision about its possible involvement. This work was expected to cost \$800,000 (excluding GST).
- 4.17 The *Master Plan* also mentioned that the phase from July 2007 to July 2008 was expected to cost \$11 million (excluding GST).

4.18 Appendix A sets out the expected sources of funding for the project, as proposed by the Trust. The Dunedin City Council was asked to provide \$85 million, and it decided that this should also include the \$6.4 million budgeted figure for future “capital maintenance” costs, bringing the total to \$91.4 million. The Otago Regional Council was asked to provide \$37.5 million.

#### The Councils’ processes

4.19 The Dunedin City Council decided in March 2007 to include the proposed funding of the stadium as an amendment to its LTCCP. The Council considered the results of the earlier consultation carried out by the Carisbrook Working Party and the options discussed in the *Master Plan*, and decided to consult on a new multi-purpose stadium in Awatea Street.

4.20 Dunedin City Council’s discussion of the amendment in the LTCCP documents provided background to the decision. It noted that the Council had decided that the other options presented by the Trust were not practicable, because they did not advance the well-being of Dunedin to the desired level in the long term and were not expected to deliver the same degree of economic benefit. Effectively, the Dunedin City Council decided that the new multi-purpose stadium was the only reasonably practicable option<sup>7</sup> to consult on.

4.21 The consultation materials discussed the Council’s options for funding the proposed stadium, and estimated the effect on rates.

4.22 In April 2007, the Councils carried out a combined mail survey of ratepayers to obtain views on the proposed stadium. The Otago Regional Council had also decided to obtain the region’s views on its involvement with the proposed stadium, which would help councillors decide whether to proceed with a new activity (see paragraph 6.2).

4.23 In addition, the Dunedin City Council surveyed by telephone a random sample of 2,200 Dunedin residents. The mail and telephone surveys both returned a majority in favour of a new stadium in Awatea Street, but differing views about whether the Councils should be involved with funding the new stadium.

4.24 The public could also comment on the proposed amendment to Dunedin City Council’s LTCCP through the public submissions process run concurrently with the draft 2007/08 Annual Plan process. Following the consultation process, the Dunedin City Council voted in June 2007 to adopt the amendment to the LTCCP. We discuss this further in section 5, and include the relevant resolutions in Appendix C.

4.25 The Otago Regional Council decided to place any decision about funding on hold until there was a firm commitment from the Dunedin City Council about its involvement. We discuss this further in section 6.

#### Current status of stadium proposal

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<sup>7</sup> Section 84(3)(c) of the Act requires the statement of proposal for an amendment to an LTCCP to include an analysis of the reasonably practicable options identified under section 77(1).

- 4.26 A progress report prepared by the Trust for Dunedin City Council dated 6 June 2007 commented that work so far had confirmed the assessments made in the *Master Plan*, but noted that a number of significant milestones remained before the Dunedin City Council could make a final commitment about funding.
- 4.27 The Trust is continuing to work with consultants on the proposed stadium. The Trust views the feasibility phase as completed, and has moved into the concept design stage. Appendix B includes a table showing the main stages and timeframes for the project.
- 4.28 The Dunedin City Council is funding the Trust's work to confirm the viability of the project by 31 December 2007. There are no other funders for this phase. The primary focus of the work is to enable the Trust to provide "critical deliverables" to the Council. These are outlined in the June 2007 progress report as:
- by September 2007, to have confirmed the land prices with the owners and completed negotiations; and
  - by December 2007, to have funding from Otago Regional Council confirmed, roof functionality and turf growth confirmed, initial responses to private sector funding elements, concept design completed (developed design ongoing), capital cost estimate updated, development agreement with University of Otago finalised, tenancy agreement with Otago Rugby Football Union finalised, plan change lodged and progress assessed (potential issues identified), site investigations undertaken and assessed, preferred contractor selected with margin and preliminaries agreed, and operational costs and revenues confirmed.

## **5 Dunedin City Council's funding arrangements**

- 5.1 The Dunedin City Council's funding for the stadium proposal to date can be divided into three stages: funding of the Carisbrook Working Party, funding of project work before 1 July 2007, and funding of project work after 1 July 2007.

### **Contributions to the Carisbrook Working Party**

- 5.2 The Council approved \$40,000 as an initial contribution to the Carisbrook Working Party. In March 2005 the Council approved a further \$40,000 for the Working Party to cover the costs of consultants commissioned by the Working Party for a detailed development programme, which came from existing consultancy budgets in the 2005/06 year.
- 5.3 We mention these contributions here for completeness but do not discuss them further in this letter.

### **Funding of project work before 1 July 2007**

- 5.4 In September 2006 the Council expressed "in principle" support for the Trust's vision of a new stadium. The Council asked the Trust to investigate and present a range of options that would assist with meeting the decision-making and consultation requirements of the Act.

- 5.5 Following the Trust's *Pre-Feasibility Report* and briefing in November 2006, the Dunedin City Council approved expenditure of \$200,000 for "further options work" by the Trust. This funding was to be used to cover expenditure incurred after 21 November 2006 (being the date of the Council's decision) for invoices for work approved by the Chief Executive of the Dunedin City Council and Chair of the Trust.
- 5.6 The expenditure contributed to the *Master Plan*. Following the *Master Plan* report, the Council decided at its meeting on 28 February to publicly consult on the roofed stadium in Awatea Street as an amendment to its 2006/07 to 2015/16 LTCCP, in conjunction with the draft 2007/08 Annual Plan process. The Council also included, as a "fallback option", a stadium in Awatea Street with no roof.
- 5.7 At this meeting the Dunedin City Council also approved funding of \$800,000 to be available for the Trust as "working capital". The Council noted that it had enough funds from cost savings and revenue increases in the 2006/07 year to fund this amount. Appendix C includes the resolutions from this meeting.

#### Funding of project work after 1 July 2007

- 5.8 On 11 June 2007, following the consultation process, the Council adopted the 2007/08 Annual Plan and the amendments to the LTCCP. This provided:
- overall, \$91.4 million for stadium over four years (comprising \$85 million as a capital funding contribution, and \$6.4 million for "capital maintenance" and replacement of key building elements and plant and equipment over a 50-year period);
  - \$11.5 million of the \$91.4 million for the 2007/08 year to enable the Trust to continue investigations and design work into a covered stadium, with \$5.6 million of this amount (\$2.6 million by September 2007 and the balance by 31 December 2007) for further investigative work to confirm, or otherwise, by December 2007 the viability of the project.
- 5.9 Appendix C sets out the relevant Council resolutions from the 11 June 2007 meeting.
- 5.10 In authorising the expenditure of \$5.6 million to confirm the viability of the project by December 2007, the Dunedin City Council decided that it was willing to spend that sum to determine whether it should continue contributing to the proposed stadium. The Chief Executive of the Council acknowledged that effectively this is "at risk" capital – that is, there is no guarantee that the outcome of the work will be a viable stadium costing \$188 million, but following this expenditure the Council expects to be in a position to make a final commitment in accordance with its 11 June 2007 resolutions.
- 5.11 The Mayor's view was that the Council was almost under an obligation to investigate the feasibility of the option, before it could make a decision about the best approach for the community.
- 5.12 The Dunedin City Council's resolutions of 11 June 2007 included a statement that the proposed ratepayer funding of \$91.4 million was not acceptable and needed to be reduced before the Council would make a final commitment, and the Stadium Funding Working Party was to continue to identify opportunities to significantly reduce the ratepayer-funded requirement. We understand that this means

the Council is looking at the most cost-effective way to fund the \$91.4 million funding, if it decides to go ahead with it, and to reduce the direct funding from rates, rather than to reduce its contribution.

#### **Accountability mechanisms**

- 5.13 The Council is accountable for the money provided to the Trust to carry out its investigatory work.
- 5.14 The Council's accountability mechanisms primarily involve regular meetings with, and reporting by, the Trust to enable the Council to make an ongoing assessment of performance, which will feed into its ability to determine viability of the project in December 2007. The Council has also taken a staged approach to funding, with satisfaction of various stages required for each tranche of funding (such as a report discussing options or progress).
- 5.15 The Council outlined its rationale and required performance and milestones in its funding resolutions. The Council's resolutions in February and June 2007 require the Trust to demonstrate that certain elements are met before the Council will make a final commitment to funding. The Council requires, as far as practicable:
- a) *A public tender process with a guaranteed maximum price for construction contracts*
  - b) *Security as to other funders*
  - c) *A contract with the University of Otago*
  - d) *Confirmation that the turf will grow successfully under option 1A*
  - e) *That physical constraints with regard to site suitability and roading and parking requirements are satisfied*
  - f) *A peer review of the quantity surveyors' estimates and other technical reports*
  - g) *A peer review of the robustness of the ongoing estimates for revenues and expenses.*
- 5.16 The Council does not transfer its funds to the Trust at the start of each stage of funding. Rather, the Trust provides the Dunedin City Council with an invoice detailing the costs incurred, which is then considered, approved, and reimbursed by the Council. We discuss the controls around this process in paragraphs 5.37–5.40.
- 5.17 The Dunedin City Council does not have an overarching formal contract or agreement with the Trust outlining the terms and conditions of contributions to it. We would have expected to see an agreement (such as a memorandum of understanding) between the parties detailing the purposes of the funding and an agreed framework for the relationship, including a process for dealing with any outstanding issues. This is especially so given the arms' length nature of the relationship. This could have provided more certainty for both the Council and the Trust.

### *Six-weekly reports*

- 5.18 The funding by the Dunedin City Council for project work performed from July 2007 is also provided in stages, with its resolution of 11 June 2007 stating that continued funding depends on regular reports from the Trust. Every six weeks a report is to be provided to the Council's Finance and Strategy Committee on planning, engineering, contractors, timing, pricing estimates, funding, risks, and any other relevant issues, as well as an update on the matters mentioned in paragraph 5.15 and a recommendation about whether to continue investigations.
- 5.19 The resolution provides that the Council will consider the six-weekly report and update, and decide whether to continue funding the Trust's investigations. The Dunedin City Council does not have any explicit guidance or parameters specific to this ongoing decision; rather, it relates back to whether acceptable progress has been made against the conditions contained in the 11 June 2007 resolutions and the 2007/08 cash flow forecast.
- 5.20 The first of the six-weekly reports was provided to the Finance and Strategy Committee on 6 August 2007, and the Chief Executive of the Trust attended the meeting to answer questions. The report provided a general summary of the status of various activities, including land, private and public sector funding, procurement, and turf growth. It concluded that no "insurmountable obstacles" had been encountered to date. The Committee's minutes record that the report "be noted".
- 5.21 The only reference to this six-weekly report in the Council's meeting of 20 August 2007 was to note the minutes from the Finance and Strategy Committee. We were told that the Council members discussed the six-weekly report, but no specific decision to continue funding the Trust was recorded.
- 5.22 We expected the Council to have voted whether to continue funding, as outlined in its earlier resolution of 11 June 2006. Without this, the six-weekly reporting requirement has less effect as an accountability tool. The six-weekly report was relatively brief, but the Council thought that the level of detail was appropriate given the early stage of the process and the commercial sensitivities involved with the negotiations for the land and services.

### *Weekly meetings*

- 5.23 As well as the six-weekly reports, there are weekly meetings of senior Council staff, the chair of the Council's Finance and Strategy Committee, and individuals from the Trust, with records kept by the Trust. In our view, there seems to be enough openness between the parties to keep the Council's members and management informed about the nature of the Trust's work and progress against the agreed milestones.

### *Milestones*

- 5.24 The June 2007 progress report contains a list of milestones driving the Trust's work (see paragraph 4.28). The Trust has also provided an indicative cash flow forecast for the 2007/08 year to the Dunedin City Council, which contains some milestones.

- 5.25 We acknowledge that the proposed stadium is still at an early stage and some flexibility is required with the milestones, but it is important that the Council sufficiently and regularly evaluates progress to enable it to decide whether to continue to fund the project. The Council's resolutions require this. To do so, the Council needs to receive adequate information from the Trust.
- 5.26 As outlined in the resolutions, the Dunedin City Council intends to decide in December 2007 whether to commit to the proposed stadium. This is a critical decision that may, depending on the nature of the decision reached by the Council, provide certainty to the community, the Otago Regional Council, and the Trust about the Dunedin City Council's ongoing involvement with the project.
- 5.27 According to the Dunedin City Council's resolution of 11 June 2007, the Council will need to decide whether the project is viable, based on the information provided by the Trust and on progress with the factors noted in paragraph 5.15 and other relevant milestones. We note that the Council's resolution provides, as the preface to these factors, that "before the Council makes a final commitment it will require as far as practicable the following...". The December 2007 meeting will, therefore, be a decision on the Council's own assessment – based on the information available to it – of the project's viability.

#### **Assessment of value for money and achieving purpose**

- 5.28 For the contributions made to the Trust before 1 July 2007, there were clearly identifiable outputs: the *Master Plan* in February 2007 and a detailed progress report provided to the Council dated 6 June 2007. The Council's view is that these reports adequately achieved the purpose of these stages of the funding.
- 5.29 For the funding that the Council agreed to provide during 2007/08, we considered value for money and whether the funding achieved its purpose by reviewing how the Council considered:
- that the \$5.6 million for investigatory work would provide enough information to enable it to commit to funding the project;
  - whether the \$5.6 million amount to reach this position was reasonable in the context of the project; and
  - how the project might be funded.
- 5.30 Part of this analysis involved the Trust considering, with the information available to it, whether \$188 million was a credible estimate of costs to achieve the proposed stadium, and so a reasonable basis on which to continue funding the Trust's investigations.

#### *Comfort with the estimate of total costs*

- 5.31 The Chief Executive of the Council told us that the Council relied on the advice and information it was receiving from the Trust, which was supported by advice received from a reputable sports architecture firm and two quantity surveyors. The Council also compared the information it received with other

stadium projects, used the relevant expertise of its own staff, and reviewed the proposed “value engineering” approach to be undertaken to determine whether the \$188 million amount was credible.

- 5.32 The Council staff also modelled the effect of the possible contribution from the Council on the Council's rates, before making its decision in June 2007. The Council's resolutions also refer to the effect on rates.
- 5.33 The Council's consideration was limited by the nature of the information available at the time, given the early stage of the project. We note that the Council's resolution of 11 June 2007 requires peer reviews of the quantity surveyors' estimates and other technical reports, as well as of the operational estimates for revenues and expenses, which will provide it with further information about the project as a whole.

#### *Comfort with the extent of work required*

- 5.34 We considered how the Council obtained confidence as to whether the \$5.6 million of proposed expenditure to confirm the “viability” of the project was achievable and realistic. We were told that this involved a two-stage test – an overall consideration of the reasonableness of the figure (the 2007/08 amount of \$11.5 million amounts to about 6% of the total estimated project costs), and an internal review of the reasonableness of the estimates by senior staff with suitable project management experience. The Council also discussed what was needed with the Trust, which resulted in the cash flow and milestone statement for the 2007/08 year. A possible additional step that could have been taken was to obtain an independent peer review of the reasonableness of the \$11.5 million funding proposal, however Council management were confident the other measures were satisfactory.
- 5.35 The Council's intention in funding the 2007/08 work was to continue the investigations and design work for a covered stadium, and to confirm the viability of the project. The Council needs to ensure that enough progress is made with those aspects of the project that are important to its further decisions, to ensure that its resources are effectively used.
- 5.36 Some members of the public have suggested to us that there is a difference between the investigatory work authorised by the Council in its resolutions and the work being carried out by the Trust. The Council reached a decision in June to provide up to \$11.5 million to this next stage (involving both investigatory and design work). It is kept informed of the work being carried out by the Trust, and could halt payments if it was not convinced about the need for the work. Ultimately, this was a decision that the Council was entitled to make.

#### **Controls around using Council's funds**

- 5.37 The Council does not pay the Trust until it receives and authorises for payment an invoice setting out in detail the work for which reimbursement is sought. In our view, the Council's transactional-level controls are appropriate for this stage of the project.
- 5.38 Invoices received from the Trust for work carried out before 1 July 2007 were accompanied by a transaction schedule, the related invoice from the Trust's project manager, and a signed approval note from the Trust. The Council reviewed the documents and asked some questions of the Trust if

needed. The appropriate staff officer and the Chief Executive of the Council signed a Council authorisation form, and the invoice was then paid.

**5.39** The first invoice for work performed after 1 July 2007 was received at the end of August 2007. At the time of our visit to Dunedin at the end of August, the Council had not processed the invoice, and there were no specific systems in place setting out what was required of the Trust or within the Council. We were told that the Council will exercise a similar level of control as it had for invoices before 1 July 2007, including the ability to request additional information from the Trust if need be. The Council should develop and document an appropriate procedure.

**5.40** We would also expect the Council to compare the underlying consultants' invoices with the indicative cash flow forecast provided by the Trust for the year 2007/08, because this would be another way for the Council to monitor progress with its funding. The information would also be relevant to the Council in its six-weekly consideration of whether to continue to fund the project.

## **6 Otago Regional Council's funding arrangements**

**6.1** The Otago Regional Council's funding of the proposed stadium has comprised:

- initial contributions of \$65,000 (excluding GST) to the Carisbrook Working Party – as with Dunedin City Council's contributions to the Working Party, we mention this contribution here for completeness but do not discuss it further; and
- \$200,000 during 2006/07 to the Trust for the purpose of providing an options and feasibility report.

**6.2** The Otago Regional Council's view is that funding the proposed stadium would constitute a "significant new activity" under section 16 of the Act.<sup>8</sup> Section 16 provides that if a regional council proposes to do a significant new activity, it must advise all the territorial authorities within its region and the Minister of Local Government of the proposal and reasons for it, and must include the proposal in its draft LTCCP. Section 16 also provides for a mediation process if the regional council and all of the affected territorial authorities cannot agree on the proposal.

**6.3** The Otago Regional Council agreed in March 2007 to seek unanimous support from the triennial agreement partners<sup>9</sup> that the Otago Regional Council be authorised to consider engaging in a new activity by contributing to the proposed stadium.

**6.4** At a meeting of the triennial agreement partners later in March 2007, the partners agreed to recommend to their respective councils that the Otago Regional Council be authorised to engage in this activity. All but one of the territorial authorities agreed to the proposal. Waitaki District Council

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<sup>8</sup> A "new activity" is defined as an activity that, before the commencement of section 16, a regional council was not authorised to carry out but does not include an activity authorised by or under an enactment.

<sup>9</sup> The triennial agreement partners are the territorial authorities within the Otago region (Dunedin City Council, Central Otago District Council, Clutha District Council, Waitaki District Council, and Queenstown Lakes District Council).

resolved that it could not, at that stage, support the Otago Regional Council entering into the activity, but would re-evaluate its position if other feasibility information and funding avenues were found.

- 6.5 The Otago Regional Council surveyed residents (partly in conjunction with the Dunedin City Council) in April 2007. The Otago Regional Council sought to obtain the community's views on regional involvement in the proposed stadium, to help councillors decide whether to proceed with the new activity.
- 6.6 The Otago Regional Council decided at its meeting on 27 June 2007 to put on hold any further decisions about its involvement with the proposed stadium until Dunedin City Council confirmed that it would be involved. This will not be known until December 2007 at the earliest. If the Dunedin City Council decides to support the proposed stadium, it is required to carry out a public consultation process in the context of amending its draft LTCCP to obtain the views of the region.
- 6.7 The Otago Regional Council also resolved, in the meantime, to carry out preparatory work such as considering funding options and scenarios.
- 6.8 The Otago Regional Council told us that, if it was to fund the stadium's development, it was important that the stadium be a regional asset.

#### **Accountability mechanisms**

- 6.9 The Otago Regional Council's resolution to provide \$200,000 for the Trust stated that the funding was for the purpose of providing an option and feasibility report in February 2007 covering a new stadium and redevelopment of Carisbrook Stadium. It made this funding available through the Dunedin City Council to ensure seamless co-ordination and management with funding provided by the Dunedin City Council for the same purpose.
- 6.10 We do not have any concerns with the accountability mechanisms for this funding, which contributed to the Trust preparing the *Master Plan*.
- 6.11 The Otago Regional Council has effectively relied on the accountability mechanisms of the Dunedin City Council. It seems to us sensible for there to have been effectively one point of contact with the Trust. It is also consistent with the Otago Regional Council's view that its relationship with the proposed stadium is as a funder, rather than as a partner.

#### **Assessment of value for money and achieving purpose**

- 6.12 From Otago Regional Council's perspective, the purpose to be achieved from the funding of the Trust was an options and feasibility report about the proposed stadium. It viewed this as being achieved when the *Master Plan* report was received from the Trust.

#### **Controls around using Council's funds**

- 6.13 The Otago Regional Council's funding was provided to the Dunedin City Council following presentation of invoices by the Dunedin City Council, which was managing contributions to the Trust. The invoice

from the Council was supported by adequate documentation such as the consultants' invoices to the Trust.

- 6.14 The invoices received by the Otago Regional Council followed an authorisation procedure before payments were made.
- 6.15 The Otago Regional Council has relied, in part, on the Dunedin City Council's controls for the use of the money. This seems a reasonable approach to have taken.

## 7 Going forward

- 7.1 If the proposed stadium proceeds following firm decisions by the Councils, we would expect to see an enhanced funding framework put in place, consistent with the phase of the project. This would involve a clearly documented approach to the accountability arrangements between the Councils and the Trust. We would expect to see a comprehensive funding agreement between the parties to protect the Councils (as well as the Trust) should the stadium project not proceed as planned.
- 7.2 The framework would need to be appropriate to the structure of the project. We note that this is being considered by the Dunedin City Council, which is obtaining advice on the ownership and governance structure for the stadium. As recorded in Council resolutions, the Council believes that it should own the new stadium on behalf of the community.
- 7.3 A crucial part of a robust framework is appropriate risk management strategies to protect the Councils, and their ratepayers, against construction and operational risks. In our view, these would need to be in place before construction begins, and we understand this is being progressed by Dunedin City Council. The results of the Dunedin City Council's peer reviews, mentioned at paragraph 5.34, will be important to managing and mitigating these risks for its ratepayers. The Otago Regional Council will also have to consider these issues in respect of its wider set of ratepayers if it decides to support the proposed stadium.

We wish to thank you and your staff members for the willing and helpful assistance we were shown. It enabled us to complete the inquiry within a relatively short period.

Yours sincerely

Kevin Brady

Copies to      Chief Executive Officer, Dunedin City Council  
                    Chief Executive Officer, Otago Regional Council

Chief Executive Officer, Carisbrook Stadium Charitable Trust

Chair, Carisbrook Stadium Charitable Trust

Appointed Auditor of Dunedin City Council

Appointed Auditor of Otago Regional Council

## APPENDIX A

### PROPOSED SOURCES OF FUNDING SOURCES FOR THE PROPOSED STADIUM

Based on information from the *Carisbrook Opportunity, Master Plan and Feasibility Report*

Funding source	Costs
Dunedin City Council (this includes the \$6.359 million 50-year “capital maintenance” budget shown below)	\$91.359 million
Otago Regional Council	\$37.470 million
University of Otago	\$10 million
Community Trust of Otago	\$10 million
Other sources (membership, naming rights, founders’ club)	\$42.53 million
Sale of Carisbrook	\$3 million
<b>Total funding requirement</b>	<b>\$194.359 million</b>
Less 50-year “capital maintenance” requirements (to fund future major plant and building element replacements, such as seats and roof covering)	\$6.359 million
<b>Total development cost</b>	<b>\$188 million</b>

## APPENDIX B

### MAIN STAGES OF THE STADIUM PROJECT

Based on information from the Trust's June 2007 progress report

Main stages of the project	Timeframes
Vision	June to August 2006
Preliminary feasibility	July 2006 to June 2007
Master Plan and Feasibility	September 2006 to March 2007
Public funding and consultation	March 2007 to July 2008
Private funding sources	July 2007 to December 2007
Site acquisition	May 2007 to August 2008
Plan change and resource consents	April 2007 to August 2008
Design and construction (including concept design, developed design, construction procurement, construction)	June 2007 to April 2011

## APPENDIX C

### RESOLUTIONS OF DUNEDIN CITY COUNCIL CONCERNING PROPOSED STADIUM

#### Meeting on 28 February and 1 March 2007:

- 1 That the Council consults its community on option 1A [Awatea Street stadium with roof] (noting 1B [Awatea Street stadium without roof] is the fallback position) of the Carisbrook Stadium Trust (CST) proposals noting:
  - a) The DCC's share of funding for:
    - option 1A is \$91.359 million
    - option 1B is \$69.711 million
  - b) The community benefits for these options as set out on page 154 of the CST document "Carisbrook Opportunity Dunedin Master Plan and Feasibility Report" 19 February 2007.
- 2 That the Council assumes other parties and the private sector will meet their share as outlined by the Carisbrook Stadium Trust for options 1A and 1B.
- 3 That the Council agrees/or amends the Community Benefit Assessment on page 154 of the CST document "Carisbrook Opportunity Dunedin Master Plan and Feasibility Report" 19 February 2007.
- 4
  - a) That the Chief Executive works with the CST to confirm the \$800,000 (plus GST) working capital required in 2006/07 and the Chief Executive be requested to identify how this could be funded in the 2006/07 financial year.
  - b) That the Council includes funding of the preferred option 1A in the 2007/08 draft Annual Plan, noting that if option 1B was preferred after consultation, the Community Plan would be amended.
  - c) That the Council forms a Working Party to explore additional funding options, including government funding, to reduce rating requirements and the funding method, with the results of its work to be available to the Annual Plan Hearings Committee.
- 5 That the Council notes this is a decision that triggers the decision-making requirements in the relevant section of the Local Government Act 2002.
- 6 That the Council's Logan Park Development Plan Working Party and General Manager Community Life meet with the Carisbrook Stadium Trust to identify the implications, synergies and timing issues that arise from option 1A and 1B on the Logan Park development project.
- 7 That the Council notes the majority of funding as proposed is coming from the public sector, with the DCC being the major public contributor, and as such the ultimate ownership of a new stadium should vest in the Council on behalf of the community.
- 8 That before the Council makes a final commitment it will require as far as practicable the following:

- a) A public tender process with a guaranteed maximum price for construction contracts.
- b) Security as to other funders
- c) A contract with the University of Otago
- d) Confirmation that the turf will grow successfully under option 1A
- e) That physical constraints with regard to site suitability and roading and parking requirements are satisfied
- f) A peer review of the quantity surveyors' estimates and other technical reports
- g) A peer review of the robustness of the ongoing estimates for revenues and expenses.

**Meeting on 11 June 2007:**

- 1 a) That the proposed ratepayer funding for the Stadium Project is not acceptable at \$91.4 million and needs to be reduced before the Council makes a final commitment.
- b) That the Stadium Funding Working Party continues to identify firm opportunities to significantly reduce the ratepayer funded requirement and reports back to the Finance and Strategy Committee on progress.
- 2 That Council includes in 2007/08 up to \$11.5 million (and the balance of the Project cost of \$79.9 million in subsequent years) to enable the Carisbrook Stadium Trust to continue investigations and design work into a covered Stadium at Awatea Street (the Project) under the terms and conditions set out in Resolutions 7 and 8 of the Council meeting of 28 February 2007 as follows:
- 7 That the Council notes the majority of funding as proposed is coming from the public sector, with the DCC being the major public contributor, and as such the ultimate ownership of a new stadium should vest in the Council on behalf of the community.
- 8 That before the Council makes a final commitment it will require as far as practicable the following:
- a) A public tender process with a guaranteed maximum price for construction contracts.
  - b) Security as to other funders
  - c) A contract with the University of Otago
  - d) Confirmation that the turf will grow successfully under option 1A
  - e) That physical constraints with regard to site suitability and roading and parking requirements are satisfied
  - f) A peer review of the quantity surveyors' estimates and other technical reports

- g) A peer review of the robustness of the ongoing estimates for revenues and expenses.”
- 3 That of the \$11.5 million, \$5.6 million (being \$2.6 million provided by September 2007 and the balance by 31 December 2007) is dedicated to investigative work to confirm, or otherwise, the viability of the Project by 31 December 2007, subject to:
- a) The provision of six-weekly updates to the Finance and Strategy Committee on planning, engineering, contractors, timing, pricing estimates, funding, risks and any other relevant issues.
- b) Continued updates on the obligations in clause 8 of the Council’s resolution passed at its meeting on 28 February 2007.
- c) Each report making recommendations about whether or not to continue investigations.
- 4 That Council, following consideration of each report and update in resolution no. 2 ( c ), decides whether or not to fund a continuation of the Trust’s investigations.
- 5 That, should the Council decide at any point during the 2007/08 year to terminate its funding of investigations into the Project, any rates collected in excess of expenditure on the Project investigations will be carried forward as a separate, ring-fenced item as a credit to the general rate in the next rating year.
- 6 That, in the event the Project terminates, any debt drawn down will be repaid within five years, using, in order of priority:
- a) A special dividend(s) from Dunedin City Holdings Limited
- b) A special dividend(s) from the Waipori Fund
- c) The application of cash operating surpluses (excluding the effect of rates collected for the purpose of servicing the Project debt)
- 7 a) That the rate requirement to fund the debt servicing costs on the Council’s contribution towards the Project for 2007/08 be funded by general rates.
- b) Should the project proceed the Council will decide on the most appropriate rating method for funding.
- 8 That as soon as practicable, a group is formed comprising appointees of the Carisbrook Stadium Trust and at least two Council appointees (to be appointed by the Mayor and Chief Executive) with experience of large construction projects, to report six weekly to the Finance and Strategy Committee.
- 9 That the Council seek advice on the optimum ownership and governance structure for the Stadium Facility, to be received by 31 December 2007.