

Auckland Regional Council: Management of the LA Galaxy event at Mount Smart Stadium

This is an independent assurance
report about an inquiry carried out
under sections 16 and 18 of the
Public Audit Act 2001.

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Auditor-General's overview

In December 2008, Auckland Regional Council (the Council) hosted an exhibition football match between LA Galaxy (a team that included international football star David Beckham) and an Oceania "All Stars" team at Mount Smart Stadium. The event resulted in a loss to the Council of \$1.88 million, essentially because far fewer people purchased tickets to the match than the Council expected. The chairman of the Council asked the Auditor-General to review the Council's handling of the event.

We have reviewed how the Council handled the event, and so has the Council. We conclude that, despite the efforts of the council officers involved, the loss occurred because the LA Galaxy/Oceania "All Stars" match was in essence the wrong event, at the wrong time, for the wrong price. The Council has come to largely the same conclusion.

Our inquiry has focused more particularly on the governance of the Mount Smart facility and its position in the Council's structure and operations, and on the Council's then lack of systems for monitoring and overseeing such events.

The Mount Smart operation is something of an orphan in the Council structure – it does not fit well with the Council's other functions and operations, and the Council had not, at the time, considered or agreed on suitable governance and business models for it. Although there was a general view within the Council that Mount Smart Stadium needed to operate commercially, the decision to promote the LA Galaxy event was made without a formal business strategy or a clear policy about the level of commercial risk that the Council was willing to assume.

We are satisfied that the Council has correctly identified the problems with its governance and management of Mount Smart Stadium, and that it is taking appropriate steps to address those problems. Therefore, we have not made any specific recommendations for the Council. However, we trust that this report will provide some useful guidance for all public entities – especially those with commercial operations.

I thank the councillors and staff of the Council who assisted with this inquiry.



Phillippa Smith
Deputy Controller and Auditor-General

18 January 2010

Part 1

Introduction

- 1.1 On 6 December 2008, Auckland Regional Council (the Council) hosted at Mount Smart Stadium an exhibition football match between LA Galaxy (a team that included international football star David Beckham)¹ and an Oceania “All Stars” team.
- 1.2 The Council organised and promoted the match and other associated events (collectively, the LA Galaxy event) and carried all of the financial risk. Council officers had initially estimated a break-even point for the event of around 25,000 ticket sales. This was later revised upward when expenses increased. The actual number of tickets sold was 14,409, and the event resulted in a loss to the Council of \$1.88 million.
- 1.3 On 12 December, the chairman of the Council asked the then Auditor-General, Kevin Brady, to consider carrying out an inquiry into the loss. The Auditor-General decided an inquiry was warranted because of the size of the loss, and because there was public interest in how that loss came about. The terms of reference for the inquiry are set out in the Appendix.

The inquiry process and our report

- 1.4 In carrying out our inquiry, we visited the Council headquarters and Mount Smart Stadium, and met with relevant council officers and councillors. We also met with a staff member from each of the Council’s partner organisations for the event – the Auckland City Council and the Oceania Football Confederation² – and with managers of other stadiums and events centres.
- 1.5 We reviewed information and files from the Council, including the Council’s financial records for the event.
- 1.6 We began our inquiry in February 2009, once we set our terms of reference. The Council carried out two reviews of the event. We note in Part 6 the outcomes of the Council’s two reviews. We are satisfied that the Council is already taking appropriate steps to address the issues that we have identified.
- 1.7 Part 2 of this report provides background information about Mount Smart Stadium. The other Parts discuss how the LA Galaxy event came about, the Council’s management of the event, and our audit of revenue and expenditure for the event. We provide our conclusions in Part 7.

1 LA Galaxy is a football team based in Los Angeles. It competes in the United States Major League Soccer competition. From time to time, the team plays friendly or exhibition matches against other teams in the United States and around the world. David Beckham joined the LA Galaxy team in early 2007.

2 The Oceania Football Confederation is made up of a group of 11 countries in the Oceania region. It is one of six such confederations around the world that support the international football association, FIFA, and raise the profile of football in their regions by staging competitions at club and international level. The Oceania Football Confederation is a tenant at Mount Smart Stadium, where it has offices and a football academy.

Part 2

Mount Smart Stadium

- 2.1 Mount Smart domain³ is a recreation reserve under the Reserves Act 1977. It is part of the Auckland regional parks network and includes a stadium (Mount Smart Stadium)⁴ that is used for sports events such as rugby league games, as well as for other entertainment events such as music festivals. In recognition of its predominantly commercial nature, the Council operates Mount Smart Stadium (the stadium) as a business unit. We expected to find a governance structure appropriate for a business operation, and business plans that adequately describe the Council's commercial and other objectives for the stadium, as well as the management plan required by the Reserves Act.

Statutory requirements

- 2.2 The Mount Smart reserve is owned by the Crown and managed by the Council. It is subject not only to the Reserves Act, but also to the Mount Smart Regional Recreation Centre Act 1985, which exempts Mount Smart Stadium from several of the provisions of the Reserves Act, to enable it to operate commercially.
- 2.3 An administering body for a reserve (in this case, the Council) must prepare a management plan for the reserve under the administering body's control. The management plan must provide for the use, enjoyment, maintenance, protection, preservation, and, where appropriate, development of the reserve. The administering body is required to keep the management plan under continuous review, so that the plan is adapted to changing circumstances.

1990 management plan

- 2.4 The current management plan for Mount Smart is dated May 1990, and is the result of a review of the original 1983 plan. The mission stated in the plan is "to provide and operate a sports and entertainment centre of international standard and significance for the benefit of the community of the Auckland Region." One of five main objectives of the plan is to provide for:
- ... efficient and effective management and use of the Centre, including maximising revenue without compromising the Centre's mission, and thereby minimising the cost of the services provided.*
- 2.5 The other four objectives relate to spectator safety and comfort, further development of facilities and services, open space, and cultural heritage.
- 2.6 The plan recognises the need to monitor the operation of the facility, so that the need for any changes to the plan can be assessed. It notes that a formal review would be due after five years. Mount Smart Stadium has undergone a number of

3 Its legal name is "Mount Smart (Rarotonga) Domain Recreation Reserve".

4 Described in the Mount Smart Regional Recreation Centre Act 1985 as "the regional sports, recreation, entertainment, and convention centre".

changes since 1990 – notably the building of the East Stand, the removal of the athletics track, becoming the home of the New Zealand Warriors rugby league team, and the development of the Oceania Football Confederation’s training facility. However, the 1990 plan remains in force, unaltered.

2005 review of the management plan

- 2.7 The Council has started a review of the 1990 management plan. We were given a copy of a draft management plan dated 21 September 2005, prepared for public consultation as part of the second review of the plan. The Council sought public submissions by 21 October 2005. However, we understand that the document remains a draft.
- 2.8 The draft plan prepared in 2005 notes that “the broad purpose of reserve management planning under the Reserves Act 1977 is to manage the effects of development and use within the bounds of the reserve”.
- 2.9 The Council’s overall objective for Mount Smart, as described in the draft plan, is the provision of “a sport and entertainment stadium of international standard for the benefit of the community of the Auckland Region”, an objective largely unchanged since 1990. Included as the tenth of 10 subsidiary objectives is the intention “To generate sufficient revenue from the operation and hire of the facilities to enable the Stadium to be self-funded”.
- 2.10 That objective is restated in the discussion section of the draft plan as “To continue the Council’s policy of generating sufficient revenue from the operation and hire of the facilities to ensure that the Stadium is operated and developed at least risk to the region’s ratepayers”. The question of risk is not further examined – the discussion that follows it is primarily about the need to balance public access with commercial activities.

Governance of Mount Smart Stadium

- 2.11 The Council recognised the commercial nature of Mount Smart Stadium in 1997 when it structured it as a business unit. The Council considered a number of governance and management options and selected the “business unit of Council” model as best enabling the facility to operate as a commercial entity while providing sufficient public good and community benefit services, and minimising risk to the Council.
- 2.12 The business unit model involved the Group Manager, Mount Smart Stadium reporting to a business unit director, who in turn reported to the Chief Executive of the Council. A Mount Smart Stadium Advisory Group (the Stadium Advisory Group), including the council chairman, the chairperson of the then Regional

Parks Committee, the General Manager Parks, and two external advisors with skills in “strategic thinking, business acumen and entrepreneurial thinking” was established to provide advice on the development of the stadium business, and to act as a sounding board for stadium management. It was advisory only, and made its recommendations to the Chief Executive. Formal decisions about Mount Smart Stadium continued to be made by the Council. At that time, the business unit was under the oversight of the Council’s Finance and Administration Committee.

- 2.13 The Finance and Administration Committee was disestablished in 1998. From then, until Mount Smart came under the oversight of the Parks and Heritage Committee in 2005, we were told that there was no committee overseeing the activities of Mount Smart, so it reported directly to the Council.
- 2.14 The advisory group model remained in place in 2008 and at the time of our inquiry, but with some modification. The Parks and Heritage Committee had agreed on 12 April 2006 to dispense with external members of the Stadium Advisory Group, and to add instead a councillor selected on the criterion of “relevant experience in business matters, relevant to the types of activities carried out at [the] Stadium”.
- 2.15 Accordingly, the Stadium Advisory Group comprised the Council chairman, Councillor Coney (the chairperson of the Parks and Heritage Committee), Councillor Barnett, the Council’s Chief Executive, the General Manager Parks, and the Group Manager, Mount Smart Stadium. By 2008, the Group Manager, Mount Smart Stadium reported to the General Manager Parks (who reported to the Chief Executive). The Parks and Heritage Committee, like all the Council’s standing committees, is a committee of the whole.
- 2.16 The charter for the Stadium Advisory Group provided that: “the Advisory Group has a Chairperson to facilitate and lead the Group and the Advisory Group follows usual procedures for conducting meetings”, and “the Advisory Group meet as and when required, at least twice a year may be appropriate”.
- 2.17 The charter did not stipulate who should chair the Stadium Advisory Group. By April 2008 it was chaired by the General Manager Parks, underlining that the Stadium Advisory Group was not a governance body. The Stadium Advisory Group met only rarely. It met in June 2007 and in April 2008, but not again before the LA Galaxy event in December 2008.

Mount Smart Stadium finances

- 2.18 From the time of Mount Smart Stadium's restructuring as a business unit in 1997, its commercial focus has been reflected in the separation of its finances from the rest of the Council's Parks Department. It has its own balance sheet and reserve account, and separate operating and capital expenditure budgets. Depreciation funding for the Mount Smart Stadium assets is allocated for use at the stadium. The reserve account comprises the stadium's operating surpluses (or losses). The Council identifies the public good element of activities carried out at the stadium and separately funds it from rates.
- 2.19 To retain the New Zealand Warriors at Mount Smart Stadium, the Council at the time agreed to construct a new stand (the East Stand) and other facilities. That development, in 2003 and 2004, was funded partly from reserves and partly by an internal loan from the Council, repayable over 18 years. The business case for the development included forecasts of increased revenue which would, if realised, cover the costs of servicing the debt.
- 2.20 In 2007, the Council recognised that the Mount Smart Stadium operation had not met the forecasts in the East Stand business case and had not covered the debt servicing costs. Consequently, the interest component of the debt costs had increased, further increasing the stadium's operating losses. Operating losses in the three years to 30 June 2007 totalled \$2.65 million. At 30 June 2008, the reserve account had a negative balance of \$4.041 million. In addition, stadium management advised the Council of the need for further capital and maintenance expenditure.
- 2.21 At its meeting on 15 August 2007, the Parks and Heritage Committee considered the financial position of Mount Smart Stadium, and various options for increasing revenue and reducing the debt attached to the stadium. It asked council officers:
- to quantify the level of expenditure needed by Mount Smart Stadium;
 - to prepare future revenue forecasts based on a new strategic business plan; and
 - to explore options for reducing the debt associated with the stadium.

Strategic business plan

- 2.22 The Council provided us with a copy of a draft strategic business plan for Mount Smart Stadium for 2007–2010, dated April 2008. The draft minutes for the meeting of the Stadium Advisory Group on 11 April 2008 say that the draft plan was tabled, and that the members of the Stadium Advisory Group were asked to take the plan away and to provide feedback on it. We understand that, at the time of our inquiry, none of the members had provided comments on the draft plan. Nor did we see evidence that council officers had pursued the matter with the councillors, seeking their comment.

- 2.23 The draft business plan focuses on business growth in sporting, concert, and community events, and enhanced sales and marketing activity. The first objective is for the stadium to be recognised internationally as New Zealand’s premier rugby league and football venue within five to 10 years. The associated short-term (within two years) goal is to host at least two New Zealand rugby league and two international football matches each year.

Comment

- 2.24 It is clear that the Council expected a commercial return from Mount Smart Stadium, while recognising its mixed commercial and public good objectives. However, the Council had not, at the time, put in place a governance structure appropriate for a business. The draft management and strategic business plans had never been put to the Council, so the Council had had no opportunity to discuss Mount Smart Stadium as a business, or to agree on the business model it wanted for the stadium, or on the Council’s willingness to take on commercial risks.
- 2.25 When the Council considered the proposal that Mount Smart Stadium be the “principal promoter, organiser and underwriter” of the LA Galaxy event, it did so without an agreed understanding of the stadium’s business model or the degree and type of risk it might assume. However, the Council did know that the stadium was running at a loss, which was an incentive for it to accept the proposal.
- 2.26 The continuing lack of a current management plan for Mount Smart means that the Council is in breach of the Reserves Act, and has been since 1995.
- 2.27 We note that significant commercial operations in local government are usually council-controlled trading organisations (CCTOs), and are often in a company form. The advantage of the company form is that a board has clear responsibility for the governance of the organisation, and has a direct focus on its business. Management accountability to the board is also clear, and an effective board can assist and support the managers of the business.
- 2.28 The Stadium Advisory Group was not the equivalent of a board. It was only an advisory body, and was convened and chaired by management. The Stadium Advisory Group met infrequently and intermittently.
- 2.29 The Parks and Heritage Committee does meet regularly, and received reports about Mount Smart, but it was not an effective governance body for the stadium business, and nor did it purport to be. The committee did not regularly focus on Mount Smart as a business. That function was more the preserve of the Stadium Advisory Group, but the Stadium Advisory Group did not meet regularly and advised the Council’s Chief Executive rather than the committee. Monthly

financial management reports went to the Finance Committee, rather than to the Parks and Heritage Committee. Further, the Parks and Heritage Committee was responsible for 26 regional parks, of which Mount Smart was but one. Senior management responsibility lay with the General Manager Parks, but again, the stadium operation was only a small part of his portfolio.

Part 3

Auckland Regional Council's involvement in the LA Galaxy event

- 3.1 This Part describes how the Council came to be involved in the LA Galaxy event, the Council's decision to act as promoter and underwriter for the event, how the decision was implemented despite lengthy negotiations and the weakening New Zealand dollar, and how council officers organised the event.

How Auckland Regional Council became involved in the LA Galaxy event

Auckland City Council passed the opportunity to Auckland Regional Council

- 3.2 Council officers first learned of the opportunity to organise and promote a football match for LA Galaxy in Auckland when contacted by officers from the Auckland City Council's City Events Group in March 2008.
- 3.3 The City Events Group had been told late in 2007 that LA Galaxy was interested in playing a match in Auckland in late 2008 as part of an end-of-season tour. The City Events Group was keen to investigate the opportunity and worked with the Eden Park Trust Board (the Board) on the viability of using Eden Park for the match. The Board was initially also keen on the opportunity. However, it decided not to proceed after identifying the following risks:
- resource consent for a night match (Eden Park could host only a limited number of night matches and would need consent to host an additional one);
 - lack of information about who the opposition team would be;
 - the condition of Eden Park at the time of the proposed event, because of the proposed demolition and reconstruction of the South Stand for the Rugby World Cup 2011;
 - public support – the event was not a "first" because it had already been done in Wellington in 2007; and
 - financial viability – the Board's financial analysis forecast a loss of around \$500,000 on estimated ticket sales of 24,000. The Board noted that Auckland City Council would need to underwrite the event for it to be viable for Eden Park.
- 3.4 The City Events Group told us that it considered jointly underwriting with the Board and that this would have been a first for the City Events Group. Neither party would have taken all the financial risk.

Council officers considered the opportunity

- 3.5 The City Events Group approached council officers in late March 2008 about using Mount Smart Stadium when it had become clear that Eden Park was not viable as a venue. The City Events Group was positive about the potential benefits for the city. It gave the council officers information about the likely match fee for LA Galaxy and the terms on which agreement could be reached on a match in Auckland. The City Events Group suggested that the Council talk to Eden Park management about their financial estimates and reasons for deciding not to proceed.
- 3.6 The City Events Group told council officers that the Council could expect some financial support from the Auckland City Council for the event by way of a capped sponsorship arrangement. Auckland City Council later contributed \$80,000 cash and additional in-kind support, and worked on promoting the event in partnership with the Council, with particular focus on providing access for schools to an LA Galaxy training session.
- 3.7 Council officers who were approached were keen on the idea. The two main council officers involved in all aspects of the LA Galaxy event were the Group Manager, Mount Smart Stadium and the General Manager Parks.
- 3.8 From the time that it was informed of the opportunity, the Council was under some pressure to express its interest within a short time. Council officers were dealing with an agent for LA Galaxy, who advised that he needed to make a recommendation to LA Galaxy by 21 April 2008.
- 3.9 Council officers discussed Eden Park's budget projections for the event with Eden Park management. They got some information about ticket prices and attendance figures for the Wellington LA Galaxy match held in December 2007 and discussed – with Eden Park management, three ticket sales agents, and another contact with experience in large events – likely attendance figures and ticket prices for an Auckland match. The people they talked to were optimistic about the likely attendance at an exhibition football match involving LA Galaxy and estimated an attendance of 30,000 to 40,000.
- 3.10 Council officers also discussed ticket pricing with the same people, and received advice that the Auckland market could sustain higher ticket prices than had been charged for the Wellington match.
- 3.11 Council officers also discussed the possibility of the Oceania Football Confederation (the Confederation) providing the opposition team for the event. The Confederation agreed to take part.

The budget, estimated attendances, and ticket pricing

- 3.12 Council officers prepared a budget for the event. The most significant expenditure item was the match fee required by LA Galaxy, followed by the team's travel and accommodation costs.
- 3.13 The match fee was payable in United States dollars, so the viability of the proposal was highly sensitive to the value of the New Zealand dollar relative to the US dollar (USD). The budget projections were based on two exchange rates – the then current value of the New Zealand dollar (0.79 USD) and a projected weaker value (0.73 USD).
- 3.14 The success of the event depended on ticket sales revenue, which needed to meet around 70% of the Council's expenditure. The rest of the revenue was to be raised from sponsors, sales of corporate and hospitality suites at Mount Smart Stadium, a black-tie welcoming function, commission on food and beverage sales, and the sale of television rights.
- 3.15 The budget estimated profit or loss results based on five scenarios ranging from sales of 20,000 seats to sales of 40,000 seats. It showed a break-even point of 25,000 ticket sales, assuming the 0.79 USD exchange rate.
- 3.16 The budget was based on four ticket prices, depending on the location of the seats, ranging from \$80 to \$150 for adults. There was no discount for children's tickets in the prime seating areas, but \$40⁵ tickets were to be available for children for uncovered seats behind the goal posts. More expensive tickets could be purchased for corporate hospitality suites. The estimates of revenue assumed that more people would buy the expensive tickets in the East and West stands rather than the cheapest seats behind the goal posts, and that a high proportion of the more expensive seats would be sold.

Mount Smart Stadium Advisory Group considered the proposal

- 3.17 The proposal was discussed at the meeting of the Stadium Advisory Group on 11 April 2008. Councillors Lee, Barnett, and Coney, the Council's Chief Executive, the General Manager Parks, and the Group Manager, Mount Smart Stadium, attended the meeting. Council officers had discussed the proposal with some councillors before the Stadium Advisory Group meeting.
- 3.18 Council officers gave the Stadium Advisory Group salient information about the opportunity and its financial viability, including that it would involve the Council being the main promoter, organiser, and underwriter of the event.
- 3.19 Draft minutes for that meeting suggest that the discussion focused on the risks involved, financial delegations, the need to secure overseas exchange

5 The ticket price for children was later set at \$45.

before the New Zealand dollar weakened, the quality and attractiveness of the Confederation's opposition team, and the need to include the revenue and expenditure in the annual plan for 2008/09. This needed to occur because the significant expenditure and revenue envisaged were not covered by the then current approved budgets for Mount Smart Stadium.

- 3.20 The councillors asked council officers to develop the proposal further for consideration by the Council at its next meeting.
- 3.21 A proposal of this kind would usually have been first considered by the Parks and Heritage Committee, because it is the committee responsible for Mount Smart Stadium. However, because of the urgent need to provide an answer to LA Galaxy about Auckland's interest in the event, the proposal was put on the agenda for the next available Council meeting on 28 April 2008, which was before the next scheduled meeting of the Parks and Heritage Committee.

Auckland Regional Council approved the proposed event

- 3.22 The Council met on 28 April 2008 and considered a report from council officers on the proposal. The report said that the concept for the event was a three-day football festival centred on a match between LA Galaxy and an Oceania "All Stars" team. Associated events would be a black-tie dinner and an event for school children. The report:
- made clear that the proposal involved the Council being the main promoter, organiser, and underwriter of the event, and that this was a departure from Mount Smart Stadium's usual role; and
 - noted that the primary risk associated with the proposal was not selling enough tickets to achieve the projected break-even point. The risk had two aspects:
 - the event not having enough public appeal; and
 - ticket prices being set too high.
- 3.23 The report had a budget attached. On financial aspects, the report said:
- analysis had shown that support for the event was likely to be strong, even if ticket prices were higher than for the LA Galaxy match in Wellington. This was based on Auckland having a larger population, interest in soccer from its diverse ethnic mix, support for other high-quality sports events at similar prices, and the crowd-pulling power of David Beckham;
 - financial modelling showed a break-even point of 25,000 tickets at the then current New Zealand dollar value of 0.79 USD; and
 - although the Council would take the financial risk, there was also the possibility of a healthy financial return.

- 3.24 The budget showed the number and type of tickets available for the event and noted an average ticket price of \$92.
- 3.25 The report to the Council said that the Stadium Advisory Group had endorsed the further development of the proposal for the Council's consideration, and that the Stadium Advisory Group:
- saw the proposal as a good opportunity for Mount Smart Stadium to move into a more promotional way of operating, with likely benefits to Mount Smart Stadium through raising its profile as a venue for major events, and increasing public awareness that the stadium is run by the Council;
 - had assessed the risk of not selling enough tickets as relatively low and a risk that was worth taking;
 - saw the event as an opportunity to generate a healthy amount of revenue and that it was better if the Council rather than a promoter took the profit; and
 - noted the importance of buying the US currency needed for the match fee as soon as possible and before the New Zealand dollar weakened.
- 3.26 In discussing risks, the report suggested that it should be reasonably easy to sell 25,000 tickets, given that more people had attended the Wellington match. The report noted that ticket prices had been set at a level higher than for the Wellington match, but were comparable to prices charged for other large sports events in Auckland.
- 3.27 The minutes of Council meetings do not record the discussion on agenda items, but include the text of reports considered and the Council's resolutions. We asked councillors and council officers about the extent of discussion and questioning of the proposal, including whether councillors discussed their comfort with taking on the role of promoter and underwriter. We were told that there was some discussion of the risks highlighted in the report, but that councillors were positive about the work done by council officers and the opportunity.
- 3.28 At the 28 April 2008 meeting, the Council resolved that council officers should proceed with the event and authorised the Chief Executive to purchase the US currency needed, after:
- receiving confirmation of the terms and conditions of the payments to LA Galaxy; and
 - consultation with members of the Stadium Advisory Group and the chairperson of the Council's Finance Committee.

Implementing Auckland Regional Council's decision

- 3.29 The next phase of the project was for council officers to implement the Council's decision. They put together a team from different areas of the organisation to assist with the LA Galaxy event, including staff from the Mount Smart Stadium business unit, the Parks Department, and the Communications and Marketing Group (part of the Corporate Services Department).
- 3.30 The date of 6 December 2008 was agreed for the match in Auckland. It was envisaged that LA Galaxy would play a match in Brisbane around the time of the Auckland match and that this would mean the travel costs for LA Galaxy could be shared with the organisers of the Brisbane match. Unfortunately for the Council, the Brisbane match did not happen and this increased the Council's costs.

Negotiations with LA Galaxy took much longer than expected

- 3.31 The viability of the event was affected by the value of the New Zealand dollar against the US dollar, because the match fee was payable to LA Galaxy in US dollars. The match fee was the most significant expenditure item for the event.
- 3.32 Council officers could not arrange the purchase of the foreign currency required to pay LA Galaxy the match fee until the terms of the contract with LA Galaxy were agreed – to accord with the terms of the Council's authorisation, and with the Council's treasury policy. Therefore, council officers needed to agree the terms of the contract with LA Galaxy. They wanted to do this quickly to take advantage of the then high value of the New Zealand dollar (which was around 0.79 USD).
- 3.33 However, council officers became aware during negotiations that non-resident withholding tax of 20% of the match fee would be payable to Inland Revenue. The parties had not been aware of the tax element when the match fee had been discussed.
- 3.34 LA Galaxy wanted to receive the match fee net of the tax and for the Council to bear the cost of paying the tax, but the Council had not budgeted for this.
- 3.35 It took some time to reach agreement on this issue and it delayed finalising the contract. Negotiations on other matters in the contract, including the promotional activities the team would take part in when in Auckland, also took longer than expected.
- 3.36 By email dated 12 May 2008, the General Manager Parks told the members of the Stadium Advisory Group, the chairperson of the Finance Committee, and the General Manager Finance about the tax issue and other matters arising in negotiations. At that point, council officers considered that the Council would

need to pay the tax to secure the event and were negotiating with LA Galaxy for the team to do more promotional activities in Auckland in return.

- 3.37 At the same time, council officers recalculated the budget for the event based on the increased expense to the Council of bearing the cost of the tax. In a memorandum dated 15 May 2008, sent to the members of the Stadium Advisory Group and the chairperson of the Finance Committee, council officers said that the increased expenditure could be offset by increased revenue from:
- sponsors (at that stage, potential sponsors had shown high interest in the event and council officers considered that estimates of revenue in the original budget were likely to be exceeded);
 - the Confederation, which council officers wrongly thought had agreed to meet the costs associated with the opposition team, thereby saving the Council this expense; and
 - ticket sales (ticket prices had been increased by \$5, \$10, and \$20, with the biggest increase for the most expensive seats).
- 3.38 Councillors were advised that ticketing companies had said they saw no problems selling tickets for the event at the increased prices.
- 3.39 Council officers said that these factors in combination meant that the event remained viable and the break-even point remained at around 25,000 tickets at a New Zealand dollar value of 0.76 USD. They advised that the level of risk was similar to the proposal approved by the Council in April 2008, and recommended that the proposal proceed and that the Council enter into a contract with LA Galaxy.
- 3.40 It appears that the councillors consulted were comfortable with proceeding with the event based on the information provided, including the updated financial information. On 20 May 2008, the Chief Executive was told that three of the four councillors consulted were comfortable with going ahead, and council officers were waiting to talk to the fourth councillor. Council officers continued negotiating with LA Galaxy.

The New Zealand dollar fell as negotiations continued

- 3.41 The effective increase of the match fee by 20%, payable as tax, made the event even more susceptible to the value of the New Zealand dollar. Council officers had watched the New Zealand dollar value closely because the event's financial viability depended on the dollar maintaining its value against the US dollar. The value of the NZ dollar relative to the US dollar had weakened significantly during April and May 2008.

3.42 Despite the efforts of council officers, LA Galaxy still delayed finalising the agreement. Council officers estimated that for every cent the New Zealand dollar fell, they would have to raise an additional \$25,000.

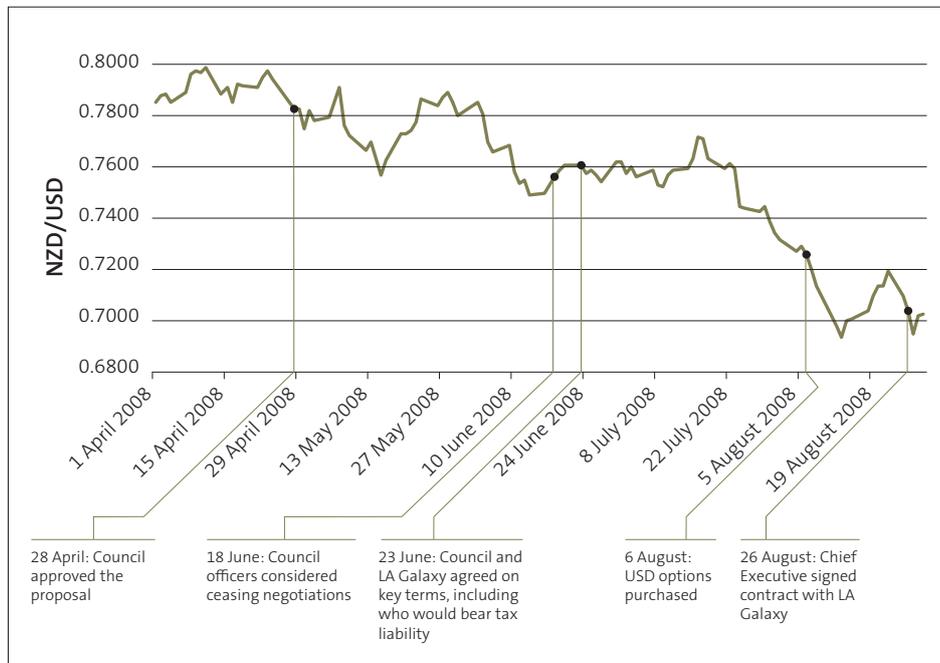
New Zealand dollar movement

3.43 Figure 1 shows the movement in the value of the New Zealand dollar compared with the US dollar in the period from April to August 2008. This was the period from when the Council approved the event on 28 April 2008 to 6 August 2008 when the Council purchased the option for currency required to pay the match fee to LA Galaxy and then signed the contract with LA Galaxy on 26 August 2008. The time elapsed was much longer than anticipated, because of delays in reaching agreement with LA Galaxy.

3.44 Figure 1 also shows critical events in this period, which we discuss in paragraphs 3.45-3.62.

Figure 1

Timeline, from April to August 2008, showing the NZ dollar relative to the US dollar and significant decisions and Council actions



Council officers considered pulling out of the event

- 3.45 In early June 2008, with agreement yet to be reached on the tax issue and a further fall in the value of the New Zealand dollar to around 0.75 cents, council officers decided the event had become unviable. They calculated that these factors had added \$686,000 to the Council's costs. To break even, they would need to sell at least 34,000 tickets at the ticket prices approved by the Council, or 28,000 tickets at revised higher prices.
- 3.46 Council officers did not think that the higher attendance figures or higher ticket prices were attainable. The higher ticket price would have increased the average cost of a ticket for the match to \$112, rather than the average of \$92 noted when the Council approved the proposal. Council officers estimated a possible loss of \$400,000 to \$500,000. They considered that the event was not viable unless the New Zealand dollar strengthened to at least 0.78 USD.
- 3.47 Council officers were also beginning to doubt the Confederation's ability to put together a high-quality opposition team for the available funding of \$100,000, and were frustrated that they had not reached agreement with LA Galaxy. On 11 June 2008, they recommended to the Chief Executive and the General Manager Finance that the Council cease negotiations and pull out of the event. Their recommendation was accepted. They were asked to brief the councillors concerned and to prepare a media strategy to deal with the cancellation.
- 3.48 Council officers prepared a draft memorandum dated 16 June 2008 to the councillors on the Stadium Advisory Group and the chairperson of the Finance Committee, advising that the risks in the event had become unacceptable and the Council would be risking ratepayer money in proceeding. The three major concerns affecting viability that they identified were:
- failure to reach agreement on which party would bear the cost of the tax due on the match fee;
 - the falling value of the New Zealand dollar; and
 - that the Confederation had not agreed to meet the costs of the opposition team.
- 3.49 Doubt had also emerged about whether an Australian match would take place. If no Brisbane match occurred, this would increase the costs to the Council of the LA Galaxy's airfares.
- 3.50 The councillors to whom the memorandum was addressed told us that they did not receive it. Such advice would usually be given to councillors by email and in hard copy, but there is no evidence that either occurred. The record indicates that the chairman of the Council was broadly aware of the possibility of cancellation, but not of any detail.

3.51 Although council officers had concerns about the viability of the event, they kept negotiating with LA Galaxy to keep the option of a match open, rather than ceasing negotiations.

Agreement reached on the tax issue

3.52 There was then a critical development: the Council and LA Galaxy agreed on most outstanding matters of significance in the contract – including who would pay the tax on the match fee. At this time, the New Zealand dollar gained about a cent over a week to reach 0.76 USD. This meant that of the three key concerns about viability noted in paragraph 3.48, the most significant concern – liability to pay the tax – had been resolved, and the New Zealand dollar had stabilised for the time being.

3.53 Based on the resolution of the tax issue and the New Zealand dollar improving in value, council officers advised the Chief Executive and the General Manager Finance that the event was viable again.

3.54 Council officers appear to have then regarded the risk associated with the event as being the same as when the Council had approved it on 28 April 2008, so the event was back on. However, this was not an accurate assessment – the value of the New Zealand dollar had fallen since April, and there was uncertainty about LA Galaxy's travel costs because the Brisbane match might not proceed. Council officers considered that the risk of the Confederation not assembling a high-quality opposition team remained, but that David Beckham would, in any case, be the main reason for spectators to attend the event.

US currency secured

3.55 Negotiations continued with LA Galaxy on other terms of the contract from late June through to 23 July 2008, when the parties signed a non-binding terms sheet and agreed to enter into a formal contract by 31 July 2008. In fact, the contract was not completed until the end of August 2008.

3.56 The New Zealand dollar fell further in July 2008, from around 0.76 USD to 0.73 USD from the start to the end of that month. It then declined sharply in value in early August 2008.

3.57 A revised budget prepared by council officers on 1 August 2008 using a “worst case” scenario – with the Council being liable for all of the cost of LA Galaxy's airfares and a weakened New Zealand dollar of around 0.72 USD – showed that the break-even point had again moved upwards. The Council would now need to sell 28,500 tickets (or 24,600 tickets at revised higher ticket prices). This budget was given to the Chief Executive and senior council management.

- 3.58 On 6 August 2008, the Council entered into a contract with a bank (an “option”) that gave the Council the right to buy US currency at agreed rates in order to pay the match fee in two instalments – later in August and in December. It did so because the Council considered that the New Zealand dollar was likely to fall further and the contract with LA Galaxy was due to be signed shortly. The analysis at the time shows that the average exchange rate for the currency purchase was around 0.71 USD, including the cost of the options.
- 3.59 The Council’s April 2008 resolution authorised the Chief Executive to purchase the foreign currency required for the event after the contract terms had been agreed with LA Galaxy, and after consultation with members of the Stadium Advisory Group and the chairperson of the Finance Committee. There is no evidence that the Chief Executive or the other council officers formally consulted the chairperson of the Finance Committee or the members of the Stadium Advisory Group. Both the currency purchase and the signing of the contract with LA Galaxy appear to have been covered at the meeting of the Parks and Heritage Committee on 6 August 2008. Of the four councillors who needed to be consulted, only one was present at that meeting.
- 3.60 The Chief Executive signed the contract with LA Galaxy on 26 August 2008 on the recommendation of the General Manager Parks. The Chief Executive told us that, in signing the contract, he relied on assurances from the General Manager Parks that he had briefed the relevant councillors and they were comfortable with proceeding.
- 3.61 However, in hindsight, the Chief Executive considers that he should have referred the matter back to the Council.
- 3.62 The Council announced the event to the media and public on 2 September 2008.

How Auckland Regional Council organised the event

- 3.63 During the three-month period that it took to finalise the contract, council officers were working on other aspects of the event. They had seven months to organise the event from the date of the Council’s approval in late April 2008 to the match day on 6 December 2008. There were many things to organise as well as the contract with LA Galaxy, including contracts with sponsors and suppliers, strategic matters such as a marketing plan, finding an opposition team, and numerous logistical matters for the LA Galaxy visit to Auckland, the match itself, and the surrounding events.
- 3.64 Council officers devised a project plan for the event in May 2008. The plan involved a 15-person project steering group of officers from the Council, the Confederation,

Auckland City Council, and the Auckland Regional Transport Authority. The project team first met in early May 2008, then in June, July, and September, with fortnightly meetings from early September until the time of the match.

- 3.65 Eleven smaller work stream groups were formed to organise aspects of the event, such as match-day logistics, communications and media, marketing, sponsorship and partnership, and ancillary events such as the training session for LA Galaxy that school children attended. The leaders of the 11 work stream groups were members of the project steering committee.
- 3.66 Work stream leaders were responsible for providing updated work stream templates to the chairperson of the project steering committee from time to time. These templates required work stream leaders to identify risks and steps to mitigate those risks.

Sponsorship

- 3.67 Council officers obtained cash and in-kind sponsorship for the match from several companies and suppliers, including accommodation for both teams, and uniforms for players and Mount Smart Stadium staff. The value of the cash contributions from sponsors was \$210,000 against a budget of \$320,000. The in-kind sponsorship offset other costs and was of considerable value to the Council, particularly in saving accommodation costs.

Marketing and promotion

- 3.68 The contract with LA Galaxy covered the events that David Beckham and his team mates would take part in while in Auckland. The Council had spent time negotiating these aspects because the opportunities to promote the match were closely related to LA Galaxy's willingness to take part in the extra events during their time in Auckland. These surrounding events included a press conference featuring David Beckham, a training session at Mount Smart Stadium that was open to school children, and a VIP "meet and greet" and autograph session. The Council also organised other events and opportunities, such as an airport welcome and a black-tie event for children's charities to which the LA Galaxy team would be invited.
- 3.69 Public relations and communications firms were used to help with the branding material for the event and to buy advertising in print and other media. Council officers prepared a marketing plan that identified segments of the community that the match would appeal to and tactics for promoting the match to those markets. An initial version of the plan suggested some actions if ticket sales were too low as the match day approached.

- 3.70 Responsibility for marketing and promotion initially sat with the Council's in-house Communications and Marketing Group but moved to the sales and marketing manager at Mount Smart Stadium (who began working for the stadium in June 2008) as the event got nearer.
- 3.71 The major marketing and advertising campaign began in earnest in late November 2008 after the FIFA under-17 Women's World Cup matches.
- 3.72 The Council spent \$310,266 on marketing, promotion, and public relations against a budget of \$180,000. It obtained significant in-kind advertising through arrangements with media organisations.

The opposition team

- 3.73 The Confederation was involved as a partner in the event from April 2008, with responsibility for forming an opposition team. Despite its early involvement, the Council did not finalise its agreement with the Confederation about the opposition team until October 2008.
- 3.74 The composition of the opposition team was important for the marketing and appeal of the event. The initial concept was that the Confederation would use its influence to obtain one international star (past or present) from each of the other five football confederations (Africa, Asia, Europe, North America, and South America) to appeal to those communities in Auckland. However, the Confederation did not achieve this goal. The Chief Executive of the Confederation told us that it was difficult to get a commitment from agents of the players on his "wish list", and that it might have been easier if the date for the match had been set with regard to FIFA's co-ordinated match calendar for all football activities. The Confederation did secure one Confederation ambassador, Christian Karembeu, who captained the opposition team. The rest of the team was from Pacific Island countries, Australia, and New Zealand.
- 3.75 Council officers were concerned about the lack of appeal of the opposition team because of a lack of star players. In the week before the event, council officers directly engaged Dutch soccer star Edgar Davids to take part in the Oceania "All Stars" team. It was hoped this would help to boost sales.
- 3.76 The Council had wanted the Confederation to meet the costs of the opposition team, but this was not agreed because the Confederation saw these costs as the responsibility of the promoter. The Council spent \$67,283 on the opposition team, not including Edgar Davids' appearance fee. We note that the budget considered by the Council on 28 April said that the Confederation would meet the opposition team costs, estimated as \$100,000. The Confederation told us that it did in fact contribute about \$40,000 to the opposition team costs.

Ticket sales

- 3.77 Tickets went on sale on 19 September 2008 through sponsors, and public sales were available from 24 September 2008. This was about 12 weeks before the event. Council officers received updates on sales from the ticketing agency. There was an initial burst of interest with 7200 tickets sold, then sales flattened out and did not pick up again until the “two-for-one” ticket offer near the time of the match.
- 3.78 Council officers were assured by the LA Galaxy agent that, as was typical for such events, they could expect a large boost in ticket sales in the week leading up to the event, especially when the LA Galaxy team and David Beckham arrived in New Zealand, and could also expect a “walk-up crowd” on the day of the match.
- 3.79 However, the surge in ticket sales did not happen. As the event approached, it became apparent to council officers that their break-even target for ticket sales would not be achieved. Shortly before the event, the Council announced a two-for-one ticket deal to boost sales.
- 3.80 Mount Smart Stadium had 32,000 seats available because extra seating had been put in for the rugby league final held in September 2008, and the extra seats were retained for the LA Galaxy match. The attendance was 16,590 (around 52% capacity), with 14,409 purchased tickets and 2178 complimentary tickets issued. Many of the 14,409 tickets sold were either the cheapest seats available or half-price tickets. This was contrary to the budget assumptions that a high proportion of the more expensive tickets in the East and West stands would sell. The two-for-one deal generated 3078 sales, and 1106 people who had already purchased full-price tickets took up the offer of one extra ticket.
- 3.81 Ticket revenue was \$770,511, against an expected \$2.577 million. This was \$1.806 million less than forecast and is very close to the amount of the loss that the Council ultimately incurred in staging the event.

Ancillary events

- 3.82 The main ancillary event was the event for school children at Mount Smart Stadium the day before the match. Around 6500 school children visited the stadium to see the LA Galaxy team, including David Beckham, and the Oceania “All Stars” team.
- 3.83 There was positive media coverage of LA Galaxy’s visit to Auckland, including an airport welcome, a press conference before the match featuring David Beckham, and the schools day.

Part 4

Governance and monitoring

- 4.1 In this Part, we outline the Council’s governance and oversight of the LA Galaxy event, including risk management and monitoring and reporting to the Council by council officers. We expected to find a clear allocation of responsibility for implementing the event, and a system for reporting on and monitoring progress towards the event. Such actions and processes would ensure that the appropriate people within the Council were kept informed, and would help with identifying and managing risks.
- 4.2 When the Council agreed to proceed with the event on 28 April 2008, it assumed that the match would be profitable. Despite taking on the role of promoter and underwriter for the first time, there is no evidence that the Council or council officers thought that this project should be treated differently from any other event at Mount Smart Stadium. The Council decided that “officers [should] proceed with the Mt Smart Stadium international football opportunity project as recommended by the Mt Smart Stadium Advisory Group and as outlined in the report”.
- 4.3 We have noted in Part 2 that the Council’s decision was made without any agreed understanding of the appropriate business model for the stadium, or of its willingness to take on commercial risk in connection with the stadium. In those circumstances, it is not surprising that the expectation was that governance and monitoring of the event should simply follow the Council’s normal processes.

Delegations

- 4.4 The Council gave us a copy of its delegation manual for 2007–2010, dated 23 September 2008. Section 1.2 of the manual describes the Council’s philosophy:
- [The Council] believes that it is essential, in the interests of an efficient and effective administration, to encourage the delegation of decision making to the lowest competent level. This in turn will promote the development of responsive managers and achieve the maximum benefit from the abilities of elected representatives and senior officers. Staff who are given the responsibility for a task or function should always be given the delegated authority to carry it out effectively.*
- 4.5 The manual includes (in paragraph 6.1.12) a specific delegation to the Chief Executive of:
- ... all budgetary expenditure and income as approved in the Annual Plan/LTCCP and the power to sub-delegate to any other officers the necessary financial delegations to ensure the proper and efficient management of the Council operations.*

- 4.6 The manual defines general and specific delegations (in section 2.1). A general delegation “implies the granting of authority to determine a range of matters of a similar kind, as and when they arise, over a period of time, without further reference to the delegator”. A specific delegation describes authority that the Council may delegate “from time to time ... to determine a specific issue and this authority will subsist only as long as the matter is unresolved and will then lapse”.
- 4.7 The Council gave us copies of the financial delegations to the General Manager Parks and the Group Manager, Mount Smart Stadium. The delegations permitted the incurring of expenditure up to \$250,000 plus GST for a transaction for the General Manager Parks, and up to \$50,000 plus GST for the Group Manager, Mount Smart Stadium. Each also held an explicit “revenue delegation” authorising him to receive revenue on behalf of the Council up to the limit stipulated (\$250,000 plus GST and \$150,000 plus GST respectively). We have not seen copies of any general delegation to those officers or their offices. Nor was there any specific delegation to officers for the LA Galaxy event.
- 4.8 We found the delegation manual unclear. However, there is no evidence that the council officers involved sought any clarification of their authority to carry out the necessary tasks. They seemed to have had a general understanding that they were required to operate within their specific financial delegation, and otherwise within council decisions and policies. That approach is consistent with the most sensible interpretation of the manual. However, we note that the Council appears not to have any policy for carrying out major events such as the LA Galaxy event.

Monitoring and reporting

- 4.9 The Council’s practice is that council officers implement the decisions of Council, working as necessary with the chairperson of the relevant committee. A council resolution may require particular reporting on the implementation of a matter. Otherwise, reporting on how decisions are implemented is through reports to relevant council committees and the chairpersons of those committees, through monthly financial management reports, and to the Chief Executive by those who report directly to him.
- 4.10 The Council’s decision on 28 April 2008 to pursue the LA Galaxy opportunity did not seek any particular reporting from the council officers concerned. (Its only stipulation was that the Chief Executive consult the councillors on the Stadium Advisory Group and the chairperson of the Finance Committee before purchasing the US currency required – and that consultation did not occur.) Instead, monitoring and reporting, such as it was, occurred largely in the ordinary course of business.

- 4.11 In practice, this included:
- monthly reporting to the Parks and Heritage Committee, because it was the committee responsible for Mount Smart Stadium;
 - “catch-up” meetings between the chairperson of the Parks and Heritage Committee and the General Manager Parks – scheduled weekly, but cancelled if either party was unavailable;
 - monthly financial management reports to the Finance Committee, which included a page on the Mount Smart Stadium business unit financial results and significant events at the stadium; and
 - other irregular reporting to the councillors most closely involved in the event – the members of the Stadium Advisory Group (although this group did not actually meet during the relevant period) and the chairperson of the Finance Committee.
- 4.12 At the council officer level, it included:
- monthly catch-up meetings between the Chief Executive and the General Manager Parks, as well as frequent informal conversations;
 - brief reports on progress of the event, under the item “Hot issues, Parks”, by the General Manager Parks to meetings of the Council’s executive management team; and
 - reports by leaders of various work streams to the fortnightly meetings of the project steering committee.
- 4.13 The most comprehensive reporting was to the Parks and Heritage Committee. Council officers covered significant issues about the event in written updates to that Committee’s monthly meetings and gave oral updates at meetings to provide current information, as the written reports were usually out of date by the time of the meetings.
- 4.14 Council officers reported to the three councillors on the Stadium Advisory Group in the early stages of the project. There was less formal reporting later on, and there is no evidence that the relevant councillors received written advice of the concerns about viability in June 2008. We found little evidence of reporting to Councillors about the low number of ticket sales as the date of the event approached.
- 4.15 The council officers involved told us that they gave councillors informal updates from time to time as part of their ordinary contact during council business. However, the councillors we interviewed emphasised the inadequacy of the reporting to them. They noted that:

- they did not know of matters such as the responsibility for costs of the Oceania “All Stars” team and the falling exchange rate, which changed the project from that which the Council agreed to in April;
- they were therefore unable to have input to the decisions about such matters; and
- they were not advised about the low number of ticket sales until a few days before the match.

Risk identification and management

- 4.16 The proposal that the Council considered on 28 April 2008 advised that the Council would be “the principal promoter, organiser and underwriter of the event”. The proposal also said that while the Council “would essentially take the financial risk involved with such an event it would also take the profit from this”. The paper identified as primary risks that:
- the event would not be attractive enough to a wide range of potential ticket buyers; and
 - ticket prices would be set too high, deterring potential ticket buyers.
- 4.17 Also implicit in that paper was the acknowledgement that the composition and quality of the opposition team constituted a risk to the success of the event.
- 4.18 However, the council officers assessed as low the possibility that these risks would materialise, largely based on the success of the LA Galaxy match in Wellington, and the assumption that Auckland’s larger and more ethnically diverse population would have a keen interest in football and in David Beckham.
- 4.19 Neither the Council nor council officers appear to have considered whether the Council had the in-house capacity to organise the event. It does not have an in-house “major events team”, as Auckland City Council does, because major events are not core business for a regional council. The Council’s Communications and Marketing Group and the Parks Department were more accustomed to managing smaller community events than large commercial events.
- 4.20 We found no evidence that a risk-sharing arrangement was considered, either by seeking a greater contribution from Auckland City Council and the Confederation or by proposing a profit/loss sharing arrangement to LA Galaxy. Other managers of stadiums that we talked to emphasised the importance of minimising risk through such arrangements.
- 4.21 Further, we saw no evidence that the council officers tried to make the LA Galaxy and Confederation contracts “back to back” – that is, deferring entering into

a binding contract with LA Galaxy until it knew that the Confederation could provide a high-quality opposition team.

- 4.22 Council officers reconsidered the viability of the event in June 2008, when the cost of the required US currency increased with the fall in the value of the New Zealand dollar, and LA Galaxy wanted an increase in the match fee to cover the withholding tax it would be required to pay. As discussed in paragraph 3.50, there is no evidence that councillors were informed of these matters. However, when the withholding tax issue was resolved, the event proceeded.
- 4.23 Although the value of the New Zealand dollar recovered to 0.76 USD when officers were reconsidering the event's viability in June 2008, it never increased to 0.79 USD (its level at 28 April 2008 when the Council agreed to the LA Galaxy proposal). In the earlier stages of planning and organising the event, council officers had a clear view that the event would not be financially viable if the New Zealand dollar value fell below 0.76 USD, a figure later revised to 0.78 USD. However, council officers appear to have lost sight of this risk. The falling exchange rate triggered reconsideration of the viability of the event in June, but once the New Zealand dollar recovered to 0.76 USD, the exchange rate seems not to have figured greatly thereafter. The Council eventually purchased US currency at about 0.71 USD.
- 4.24 When tickets went on sale in October and November, it became apparent that sales were slow, and sales of the more expensive tickets were particularly slow. Also, as described in paragraphs 3.73-3.76, the Oceania "All Stars" team lacked the star players originally intended. In short, the major risks were eventuating.
- 4.25 The response of the council officers involved was to work even harder to make the event a success. They purchased additional radio, television, and print advertising during the final weeks. They arranged for sponsors and the ticketing agency to send mass emails to their customer databases to encourage them to buy tickets. Three days before the event and after LA Galaxy had arrived in Auckland, the Council announced a two-for-one ticket deal, but even this did not boost ticket sales enough to reach the break-even point. There were also fewer sales on the day of the match than expected.
- 4.26 As noted above, we found little evidence of formal reporting to councillors that things were going awry. Although it is unlikely that better internal reporting at that late stage would have had much effect on the outcome, the lack of reporting meant that the Council had no opportunity to alter its strategy. Nor did the Council have adequate time to consider how it would respond to the likely failure of the event.

Comment

- 4.27 In our view, there were inadequacies in the Council's monitoring and reporting for the LA Galaxy event, and in its risk assessment and risk management, stemming largely from its treatment of the event as "business as usual". The event never became a focus in its own right, other than for the small group of council officers with direct responsibility for it. From a governance and management point of view, it was simply one of a number of activities happening in the Parks Department of the Council.
- 4.28 Good governance requires good quality reporting. Combined with the lack of focus on Mount Smart Stadium as a commercial operation with commercial risk, as discussed in Part 2, the absence of a specific monitoring and reporting regime for the LA Galaxy event meant that opportunities to identify and manage risk were lost.
- 4.29 We recognise that we are carrying out this inquiry because the Council incurred a loss when the event failed. Had more people chosen to attend the match, so that ticket sales met or exceeded the break-even point, the reporting and monitoring that occurs in the Council's ordinary course of business might have proved adequate.
- 4.30 However, treating the LA Galaxy event as business as usual meant that:
- Neither councillors nor council officers considered what governance and monitoring might be appropriate for an event such as the LA Galaxy match.
 - There was no consideration of whether additional resources or expertise were necessary to carry out a major event. The responsibility for managing the event fell on the General Manager Parks and the Group Manager, Mount Smart Stadium, who reported to him. Although there was support from other parts of the Council, most of the workload fell on those two council officers and other staff in the Mount Smart Stadium business unit, which had only five staff.
 - The Council did not require any special monitoring or reporting for the event. The one specific consultation requirement – that the Chief Executive consult the councillors on the Stadium Advisory Group and the chairperson of the Finance Committee before purchasing the US currency – was not met.
 - There was no recognition that the Council had no specific policies or processes to guide running a major event, or a risk management framework for Mount Smart Stadium.
- 4.31 That said, we acknowledge that even had there been an appropriate governance and management structure for the event, it may not have made much difference to the financial outcome. A wider range of people, with responsibility to make decisions about the event, might have decided in June that the Council should not

proceed with the event. However, the prevailing view was that the event would be a success, and even profitable for the Council. In October, it was too late to withdraw, and unlikely that anyone could have made much difference to ticket sales. However, better knowledge of impending financial loss would have given councillors the opportunity to consider how to deal with the consequences of that failure.

Part 5

The loss

- 5.1 On 19 February 2009, the Council announced that its loss associated with the LA Galaxy event was \$1.79 million. Some costs have been finalised since then, and the amount of the loss has been adjusted to \$1.88 million. Our audit work, which we outline below, confirms that figure.

Our audit work

- 5.2 We have reviewed the financial records for the event to provide assurance that the records are accurate, comprehensive, and complete. This work involved:
- reviewing a transaction report of revenue and expenditure for the cost code for the event for accuracy and completeness;
 - reviewing revenue and expenditure against the budget for the event to identify significant variances, then analysing the reasons for those variations;
 - getting independent confirmation of selected revenue and expenditure items from the ticketing agency and suppliers;
 - reviewing the Council's work to identify any potential under- or over-expenditure through miscoding to other cost codes;
 - detailed testing of a sample of expenditure items to verify the amounts recorded; and
 - verifying with the ticketing agent actual ticket sales and the amount received by the Council.
- 5.3 Our appointed auditor reviewed the major variances in revenue and expenditure. We note these in paragraphs 5.4-5.13.

Reasons for the loss

Revenue was significantly less than expected

- 5.4 The success of the event depended on selling a significant number of tickets,⁶ with a large number of those being the higher-priced tickets, and keeping expenditure within budgeted amounts. The budget anticipated that a high proportion of seats in the East and West stands (the more expensive tickets with the highest yield) would be sold.
- 5.5 However, as noted in paragraph 3.80, the Council sold significantly fewer tickets than the number required to break even, and people tended to buy the cheaper tickets.
- 5.6 The result was that ticket revenue was \$1,806,589 less than budgeted.

⁶ As noted in earlier in this report, council officers initially estimated a break-even point of 25,000 tickets, but at the time the USD currency options were purchased this had increased to 28,500 tickets. We have not calculated the break-even point based on actual expenditure.

- 5.7 In line with the overall trend of fewer ticket sales than expected, income from sales of corporate suites and associated food and beverage packages was \$180,954 less than the forecast revenue for those sales.
- 5.8 Cash revenue from sponsorship income was \$210,000, which was \$110,000 less than forecast. However, actual sponsorship was higher, because the \$210,000 does not include “in-kind” sponsorships received, which offset expenses that the Council would otherwise have incurred.
- 5.9 Revenue for the event was \$1,285,558 against an expected amount of \$3,390,900. The overall result was that revenue was \$2.105 million less than expected.

Expenditure was more than expected

- 5.10 Expenditure was much closer to the budgeted amount than revenue, but over by \$257,059.
- 5.11 Expenditure associated with the match and the event for schools the day before the match was less than forecast. However, expenditure for other items was more than had been budgeted.
- 5.12 Expenditure on LA Galaxy’s travel and accommodation was \$186,344 more than budgeted, even with in-kind sponsorship for most of the accommodation costs. A contributing factor was the cancellation of the proposed match in Brisbane for LA Galaxy. Had that match proceeded, the Council would have shared LA Galaxy’s airfares with the Brisbane hosts.
- 5.13 Expenditure on marketing, promotion, and public relations was \$130,266 more than budgeted, because of the additional marketing effort to boost sales near the match day and to promote the offer of two tickets for the price of one.

Our audit conclusion

- 5.14 As a result of our audit work to quantify the loss, we concluded that the revenue and expenditure recorded in the Council’s accounting records for the LA Galaxy event was materially complete, accurate, and valid.

Other contributing factors

- 5.15 The Council attributes the low ticket sales and consequent loss to these critical factors:
- ticket prices were too high;
 - the marketing of the event did not achieve “cut-through” in the market place;
 - and

- the Oceania “All Stars” included players who were not well known and the team was not considered a credible opponent for LA Galaxy.
- 5.16 Everyone we spoke to during the inquiry agreed that the ticket prices were too high and most agreed that the opposition team lacked appeal. There was some difference of opinion on the effectiveness of the marketing of the event, but we did not see it as necessary to consider that aspect.
- 5.17 Other contributing factors mentioned by those we spoke to were:
- the event was not novel – it had been done before in Wellington;
 - the timing of the event was not ideal – it was too close to Christmas, and there were other major events in Auckland around the same time;
 - there was less interest in corporate hospitality packages than expected because corporate entertainment budgets had already been committed for end-of-year events; and
 - the downturn in the economy.
- 5.18 When putting the proposal to the Council in April 2008, council officers identified the main risks for the event as being lack of appeal to the public and tickets being too expensive. This proved an accurate assessment. Despite the efforts of the council officers involved, the Council did not manage to overcome these risks and run a successful event.
- 5.19 We conclude that the loss occurred because the LA Galaxy event lacked appeal to the public and took place at the wrong time for the wrong price. That view largely accords with the Council’s assessment of the reasons for the loss.

Effect of the loss on ratepayers

- 5.20 In announcing the loss, the Council said that, because Mount Smart Stadium is a business unit of the Council, the loss would be “ring fenced” from ratepayers as a trading loss. This comment implies that the loss will not affect the Council’s ratepayers.
- 5.21 We have considered this assertion in the context of the financial arrangements between the Council and Mount Smart Stadium, as described in Part 2.
- 5.22 Mount Smart Stadium’s primary source of revenue is its commercial activities. It also receives an annual payment from the Council for its “public good” activities, which are therefore funded from rates. The Council told us that Mount Smart Stadium usually operates with positive cash flow. Although it made annual operating profits in the past, it has been unable to operate at a profit since the completion of the East Stand early in 2005.

- 5.23 The construction of the East Stand was funded by an internal loan to be repaid over 15 years (a term since extended to better reflect the expected life of the East Stand). Essentially, the Mount Smart Stadium business unit borrowed from the Council. The business case for the East Stand development envisaged that the improved facilities would generate extra revenue that would fund loan repayments. Mount Smart Stadium does not make regular loan repayments to the Council, but when it produces an annual operating surplus the loan balance decreases by that amount. When there is a net operating deficit, or there is capital expenditure, the outstanding balance increases.
- 5.24 Therefore, the loss arising from the LA Galaxy event is able to be “ring fenced” from ratepayers only to the extent that Mount Smart Stadium can recover the loss from its ongoing commercial activities.
- 5.25 However the loss is accounted for, in essence the net worth of the Council has decreased by \$1.88 million. The loss affects ratepayers at least indirectly, even if it does not translate into a rates increase.

Part 6

Auckland Regional Council's actions after the event

- 6.1 It was apparent to councillors and council officers who attended the match on 6 December 2008 that the Council would lose money on the event. Council officers met on Monday 8 December to consider the outcome of the event and estimate the financial result.
- 6.2 The Chief Executive initiated an internal review of the event and sought input from councillors on the terms of reference for the review.
- 6.3 On 12 December 2008, the chairman of the Council asked the Auditor-General to consider inquiring into the Council's undertaking of the event. The Auditor-General decided to do so and issued terms of reference (see the Appendix) on 4 February 2009.
- 6.4 Council officers prepared two reports on the event. One report was sent to the Parks and Heritage Committee, while the second report was prepared by the Chief Executive.
- 6.5 The report to the Parks and Heritage Committee covered the background to the event, the reasons for the loss, and the financial result. The Parks and Heritage Committee considered this report on 18 February 2009. It agreed to inform the public of the amount of the loss. The chairperson of the Council made that announcement the next day.
- 6.6 The Chief Executive's investigation focused on the performance of council officers involved in the event and the quality of material given to the Council. The Chief Executive reported his preliminary conclusions to a meeting of the Chief Executive Review Committee on 18 February 2009.
- 6.7 Both reports identified specific issues relating to the operation of Mount Smart Stadium and the LA Galaxy event, and more generic issues about the management environment throughout the Council as a whole.
- 6.8 In paragraphs 6.9-6.20, we discuss the nature of the reports and the Council's response to them.

Report to the Parks and Heritage Committee

- 6.9 The report to the Parks and Heritage Committee gave the council officers' assessment of the reasons why the event had not met expectations and the overall financial result. The report also noted the positive aspects associated with the event, including:
- the successful schools day;
 - the benefits to the charities involved;

- the broadcast of the match to people across the Pacific and the west coast of the United States; and
- favourable international media coverage of David Beckham's visit to Auckland.

6.10 It provided a detailed breakdown of actual against budgeted expenditure and an explanation for variations in revenue and expenditure. The report said that the LA Galaxy event raised a number of issues for the Council and the Chief Executive to consider. These were:

- the adequacy of advice provided to the Council when the event was initially proposed, particularly about the change in business model – from facility operator to event underwriter and promoter – that was proposed, and the associated risks;
- the decision to proceed, after protracted negotiations with LA Galaxy, without presenting a revised proposal and risk assessment to the Council;
- the adequacy of risk identification and management for the event;
- the adequacy of event planning;
- the capability and capacity of the Council to carry out roles in relation to Mount Smart Stadium other than facilities manager; and
- the effectiveness of governance frameworks for Mount Smart Stadium.

Chief Executive's review

6.11 The Chief Executive's review of the event was critical of the way council officers had addressed and managed the matters outlined in paragraph 6.10. The Chief Executive attributed this to "the Beckham factor" – all those involved had believed the event would succeed because of the star quality of David Beckham and the apparent success of LA Galaxy's visit to Wellington in 2007. He considered that this optimism had led to a failure to identify and manage risks.

6.12 The Chief Executive noted that a number of significant issues associated with the decision to proceed were not adequately addressed, including:

- the capability of the Mount Smart Stadium business unit and council staff to carry out the roles of promoter and underwriter;
- the appropriateness of the Council taking on the risks associated with those roles;
- the magnitude of the risk associated with becoming an underwriter; and
- the capacity of the Mount Smart business unit to absorb those risks.

6.13 The Chief Executive considered that the initial proposal to the Council did not adequately assess the significance of the proposal for the Council to take on the

roles of event underwriter and promoter, or the possible risks. He said that a major shortcoming of the proposal was a lack of assessment of the market for the proposed event at the ticket prices suggested. However, he noted that the Council accepted the proposal and resolved to continue.

6.14 The Chief Executive said that, with hindsight, he should have asked the Council to reconsider the proposal in June when council officers became concerned about its viability and before entering into the contract with LA Galaxy. The Chief Executive also had concerns about:

- whether the council officers involved had acted within their delegations;
- too much faith and confidence being placed in the Confederation to deliver a high-quality opposition team;
- sponsors being secured in the absence of any council policy on sponsorship;
- lack of analysis of the Council's in-house capability to carry out the role of promoter for the event;
- the effectiveness of the marketing campaign and the public relations approach;
- lack of reporting by officers about ticket sales, particularly when they were concerned about low sales; and
- the project team's focus on delivering the match and ancillary events, rather than on "big picture" issues, or on the growing media interest in the potential for a loss-making event, so that councillors and the Chief Executive were unable to plan how to respond.

Outcome of Auckland Regional Council's reviews

6.15 The Chief Executive considered that his review highlighted some systemic issues about council systems and processes. After reporting to the Council in February 2009, he acted to improve the Council's control environment. He reported to the Council's March 2009 meeting that actions taken or under way to address those systemic issues included:

- revoking financial delegations for staff other than senior staff;
- restating all financial delegations more clearly, and setting out expectations for how they would be exercised;
- restating expectations and obligations of managers for timely reporting and reporting on emerging risks;
- changing work practices to tighten controls over compliance with policy;
- restating to all staff the need to be prudent and careful stewards of public funds;

- fast-tracking the review and amending all management policies and procedures so that all staff have greater certainty about their obligations and responsibilities; and
- amending all project management templates and guidelines to place greater emphasis on risk identification and risk management.

6.16 On the issues specific to Mount Smart Stadium, the Chief Executive:

- engaged consultants to work with the Council on a review of the business strategy and operations at the stadium; and
- recommended a new governance arrangement for Mount Smart Stadium.

Business strategy

6.17 The consultants' work on the business strategy had not been completed at the time of our report.

Governance of Mount Smart Stadium

6.18 The Council considered a report on the governance of Mount Smart Stadium at its March 2009 meeting. The report recommended establishing a new committee of councillors and external members to provide stronger oversight and governance of future operations of Mount Smart Stadium and to ensure that the stadium was given direct and focused attention from the Council.

6.19 At its March 2009 meeting, the Council agreed:

- to establish a new Mount Smart Special Committee, with four councillors and two external appointees as members;
- to appoint four councillors as members;
- to disestablish the Stadium Advisory Group; and
- that the Parks and Heritage Committee would no longer be responsible for Mount Smart Stadium.

6.20 The Council delegated responsibility for overseeing Mount Smart to the new committee, including:

- responsibility for financial management, which includes preparing and recommending an annual budget to the Council and monitoring and reporting financial performance against that budget;
- preparing:
 - a business strategy;
 - a risk management framework for events;
 - a management plan under the Reserves Act;

- a contractual and pricing framework for events, tenants, and users of the stadium; and
- identifying opportunities for events, tenancies, and uses of Mount Smart.

Comment

- 6.21 We are satisfied that the Council has correctly identified the problems with its governance and management of Mount Smart Stadium, and that it is taking appropriate steps to address those shortcomings. Therefore, we have not made any specific recommendations about the actions we consider that the Council should take.
- 6.22 The measures the Chief Executive has taken to improve the Council's control environment, including project management templates and guidelines to place greater emphasis on identifying and managing risks, should assist in a more considered and consistent approach to risk management for future events.

Part 7

Our conclusions

- 7.1 Mount Smart Stadium is, in our view, something of an orphan in the Council's structure. Although the Council recognised the need to run the facility on a commercial basis, at the time it had not put in place an appropriate governance structure for a commercial operation.
- 7.2 The Council's lack of attention to Mount Smart Stadium, and the reality of running a commercial operation, is reflected in:
- the unclear governance structure for the stadium – it sat uncomfortably in the Parks Department, and the Stadium Advisory Group was advisory only, rather than a governance body;
 - the inadequate attention to planning in relation to the stadium:
 - the Council failed to review the management plan continuously as required by the Reserves Act (the current management plan dates from 1990, and a review of that plan initiated in 2005 remains incomplete);
 - the draft business plan/strategy remained a draft; and
 - the failure to appreciate that the Council's business-as-usual processes were inadequate to support a major event such as the LA Galaxy event.
- 7.3 Mount Smart Stadium essentially operated with insufficient Council oversight.
- 7.4 As a consequence, the Council was not best placed to consider and approve the LA Galaxy proposal. Although there might have been a general view among councillors that Mount Smart Stadium needed commercial, profit-making events, the Council had no clear framework in which to assess the proposal. There was no formally adopted plan that would have guided the Council in deciding, for example, what sort of events it wanted to attract, its desired business model for events, how much risk it was willing to assume, and how it would balance commercial interests with the public good.
- 7.5 The Council took on the role of promoter of an event for the first time. The Council understood the nature of the business risk – that all profits or losses would accrue to the Council, but underestimated or even discounted the possibility of there being a loss.
- 7.6 We spoke to managers of other stadiums and similar facilities, mostly in public ownership. We noted different business models, but common to all was a clear appreciation of the risk involved in events promotion, and a preference to avoid that risk as far as possible.

Public versus private or commercial risk

- 7.7 We have one final comment. Mount Smart Stadium is distinguished from the rest of the Council's business by its predominantly commercial nature. We acknowledge the difficulties that public entities face in carrying out commercial activities, particularly where, as here, there are mixed commercial and public good objectives.
- 7.8 There is a tension inherent in operating commercially in the public sector. Public officials must ensure that publicly owned assets are used effectively and efficiently for the benefit of the community (which might include earning income from those assets) and without waste or extravagance.
- 7.9 The obligation to use the facility efficiently means that the entity cannot decline to carry out commercial activities. Yet business opportunities rarely come without risk. The public sector commercial manager needs to balance the need to exploit business opportunities and take on business risk with the obligations of being a steward of public assets.
- 7.10 In our view, the problem is exacerbated by there being several competing facilities in Auckland, mostly also in public ownership – a state of affairs described to us by one councillor as a “beggar thy neighbour” approach.
- 7.11 We note that the Government has proposed that a new council-controlled organisation be established to operate major facilities and events in Auckland.

Appendix

Terms of reference for our inquiry

Inquiry into Auckland Regional Council's role in the LA Galaxy football team's visit to Auckland

4 February 2009

The Auditor-General has decided to inquire into the funding and support provided by Auckland Regional Council (the Council) for the LA Galaxy football team's visit to Auckland in December 2008.

This document sets out the terms of reference for the inquiry.

The inquiry will examine the Council's:

- funding and support arrangements for the team's visit;
- policies and rules for supporting such events;
- process for making the funding and support arrangements, including its business plan and its assessment of risk; and
- management, monitoring, and reporting of the funding and support arrangements.

The inquiry will also consider any other matters that the Auditor-General considers it desirable to report on. The inquiry may result in recommendations for the Council to implement.

The inquiry will be conducted under sections 16(1) and 18(1) of the Public Audit Act 2001. The Auditor-General will decide on the appropriate manner in which to report his findings once the inquiry has been completed.