

SB 105/2/04

FROM: JACK PALMER
Head of Sports Branch

DATE: 13 May 2004

TO: Angela Smith

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**BUSINESS PLAN FOR A MAJOR MULTI-SPORTS STADIUM IN
NORTHERN IRELAND**

Summary

Issue: Your request for sight of a copy of the Strategic Investment Board's summary interim report on the business plan for a multi-sport stadium in Northern Ireland.

Timescale: Urgent

Presentational Issues: None at this stage but media speculation on the contents of the report is on-going. There will be a great deal of interest when an announcement is made. [Cleared by the Press Office.]

Recommendation: That you note the content of the summary interim report.

Detail

I understand that, during your meeting with the Permanent Secretary on Monday 10th May last, you asked to be provided with a copy of the Strategic Investment Board's (SIB) Summary Interim Report on the business plan for a multi-sport stadium in Northern Ireland which was presented to the Department on Friday 7th May.

2. Please find enclosed, as you requested, a copy of this report. You will note that the report concludes, based on cautious Business Plan assumptions, that a major, a 30,000 seater multi-sports stadium would cover its annual operating costs from revenues generated from the mix of Soccer, Rugby and GAA games plus concerts and other events. This, though, is on the proviso that the bodies/promoters agree to a share of the total revenue from tickets between the range of 20%-30% for sport and 10%-15% for concerts. You will also note that the interim report currently estimates the base capital cost for the construction and fitting of the stadium at just under £52million.

Recommendation

That you note the content and recommendations of the summary interim report.

J. P. Palmer Mee

JACK PALMER
Ext 58935

cc. **Secretary**
Mrs Moore
Mr Carson
Mr Mee
Mr Kerr

SB105/2/04



Strategic Investment Board

Confidential – Draft
for Discussion

Business Plan for a Major Multi-Sports Stadium in Northern Ireland

Strategic Investment Board
Department of Culture, Arts and Leisure

Summary interim report April 2004

PRICEWATERHOUSECOOPERS 

DAVIS LANGDON & EVEREST



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1 Introduction: scope of work and status

- This report provides a summary of interim conclusions from work to prepare a robust Business Plan for a major multi-sports stadium in Northern Ireland. It should be noted that the findings are in draft at present and have yet to be confirmed with all participants.
- The report is for the sole internal use of the Strategic Investment Board and Department of Culture, Arts and Leisure and should not be quoted, referred to or given in whole or in part to any other party.

Scope of work	Current Output
Projected capital cost for a fit-for-purpose stadium	Draft capital cost estimates have been prepared on the basis of high level concept designs
5 to 10 year income and cost projections based on usage for soccer, rugby, GAA matches and other events	Draft construction cash flows and 5 years post opening cash flows have been prepared
Stadium ownership and management structure	To be completed during final phase of our work
Obtain buy in from proposed tenants	All sports bodies have participated fully in this exercise. Full consultation has been undertaken throughout our study: formal sign up in principle to assumptions used will be obtained during the final phase of our work

1 Introduction - approach

- **SIB's brief is to produce a Business Plan based on robust and prudent assumptions, always erring on the side of caution in areas of doubt.** In order to develop robust and prudent assumptions for each event type, the consultants have:
 - Met with the three sports promoters (the IFA, Ulster Rugby and the GAA), other potential users (eg concert promoters, NI Events Company) and industry representatives (eg the Sports Council, corporate hospitality agents)
 - Analysed the evidence from past performance of soccer, rugby and GAA in terms of number of events, attendance levels, ticket prices paid, secondary spend
 - Considered the significant issues which may affect the number of events, attendance and spend in the future (eg structural competition changes)
 - Considered the lessons from comparator stadia, especially those which have been re-developed, and in particular drawing on lessons from other UK regions and Ireland
 - Developed cautious base case assumptions, plus possible upsides and undertaken sensitivity tests to understand the impact of key assumptions not being achieved.
- The capital cost assumptions reflect:
 - An understanding of the specific technical needs of the three sports promoters and concert promoters in terms of pitch size and the spectators in terms of optimal viewing positions
 - Benchmarks from a range of relevant stadium developments in the UK and further afield
 - The development of the stadium only – no site specific issues, such as access, land purchase, have been included.

2

- | | Base case | Upside |
|---------|-----------|----------|
| as case | Upside | Downside |

Upside Event	Downside Base Case Number of Events
Soccer	7
Rugby	16
GAA	4
Concerts	3
Total	30

2 Base Case Income assumptions: attendance

- Based on the considerable body of evidence from elsewhere on the impact of new stadia, some uplift in soccer and rugby attendance from current levels is assumed due to:
 - Better facilities – seat, roof, support facilities
 - Improved environment – location, access, security
 - Proactive promotion
- There is strong evidence to show that a new stadium leads to sustained additional attendance of between 30% and over 100%, depending on the catchment and the success and popularity of the sport*
- In line with SIB's cautious brief, **a prudent uplift in attendance of around 30% for soccer and rugby has been assumed, indicating around 15,000 attendees at the average international game and 8,500 to an average Celtic League game.** Whilst there may be some scope for a higher set of assumptions, performance of the Northern Ireland team and ability to break through the sectarian barrier remain the main challenges for soccer, while the main risk for Ulster rugby is whether they can maintain the the level of success achieved over recent years.
- **GAA already achieves attendance levels of around 30,000** for their bigger games. Again, cautiously, this capacity is assumed to be reached for the Ulster final with an average of 25,000 for other games
- **Concerts are assumed to attract 28,000**, based on the prudent view of the promoters

Assumed attendance to events: base case

Attendance	Number of events	Type
Over 20,000	7	Concerts and GAA
Between 15 and 20,000	5	Rugby Heineken Cup, Irish soccer Cup, Major soccer internationals
Between 10 and 15,000	3	Minor competitive/friendly soccer internationals
Between 5 and 10,000	15	Rugby Celtic League, smaller soccer cup finals, rugby friendlies and touring
Total	30	

*Source: PwC research

2 Base Case Income assumptions

– ticket price, spend, premium seats & sponsorship

- A realistic uplift in ticket prices and secondary spend is assumed which reflects the better facilities available and some increase in the length of stay at the stadium
- Whilst the experience of the Odyssey is that the NI market will pay at least as good rates as other UK regions for concerts and other events, the consultants have taken into account that the local market is used to relatively lower prices for sport. **An uplift of 25% in prices is assumed for major sporting events, with a smaller uplift (and in some cases, none) for the games with relatively lower attendance**, partly reflecting also Government's Targeting Social Needs objectives.
- The introduction of new outlets for food & beverage and merchandising generally increases event day spend, and we expect this to be the case at the new stadium.
- Income to the stadium from sponsorship is assumed to come from naming rights, perimeter ads, exclusive supplier contracts (and not from shirt or team sponsorship which belongs to the promoters or teams). We have based our assumption of £700,000 per annum from sponsorship on the experience of other stadia, but cautiously reduced to reflect the smaller stadium and market.
- Corporate hospitality at sports grounds is not as developed in Northern Ireland as other markets in the UK and Ireland, mainly due to the lack of quality facilities available. Modern national stadia usually offer around 10 to 20% of their capacity as premium seats, whilst club grounds have around 5 to 7%. **Given the limited size of population in Northern Ireland, relative GDP levels and the low proportion of employment in the financial services sector (a key generator of corporate hospitality), the consultants have assumed that, initially, 25 boxes and 1,000 premium seats should be provided**, with the ability to extend the facility over time, if needed as the market develops and matures. The take-up of premium seats is assumed to be lower for less attractive events.

3 Base Case Operating costs

- In line with common practice elsewhere, the Stadium as host will retain a suitable proportion of the revenues generated at each event, with the remainder going directly to the sports body/promoter of the event. Industry benchmarks for sport range from 15% to 35% remaining with the stadium, depending on the revenue potential and the relationship between the venue and promoter. Industry benchmarks for concerts are much lower due to the very high cost of major bands.
- Overhead costs reflect typical costs for a modern 30,000 seater stadium with a full range of facilities including appropriate allocations for security and marketing. A small full time management team is assumed which will employ event staff on behalf of the promoters to ensure a high quality and safe operation of the events and manage the involvement of the emergency services. Direct event costs will be payable by the event promoters.
- A sinking fund based on 1% per annum of capital costs has been allowed for major repairs in keeping with good practice.
- Pre-opening costs to include staff recruitment and training, brand development and marketing and some agency fees to raise the sponsorship income have been assumed.

4 Design issues

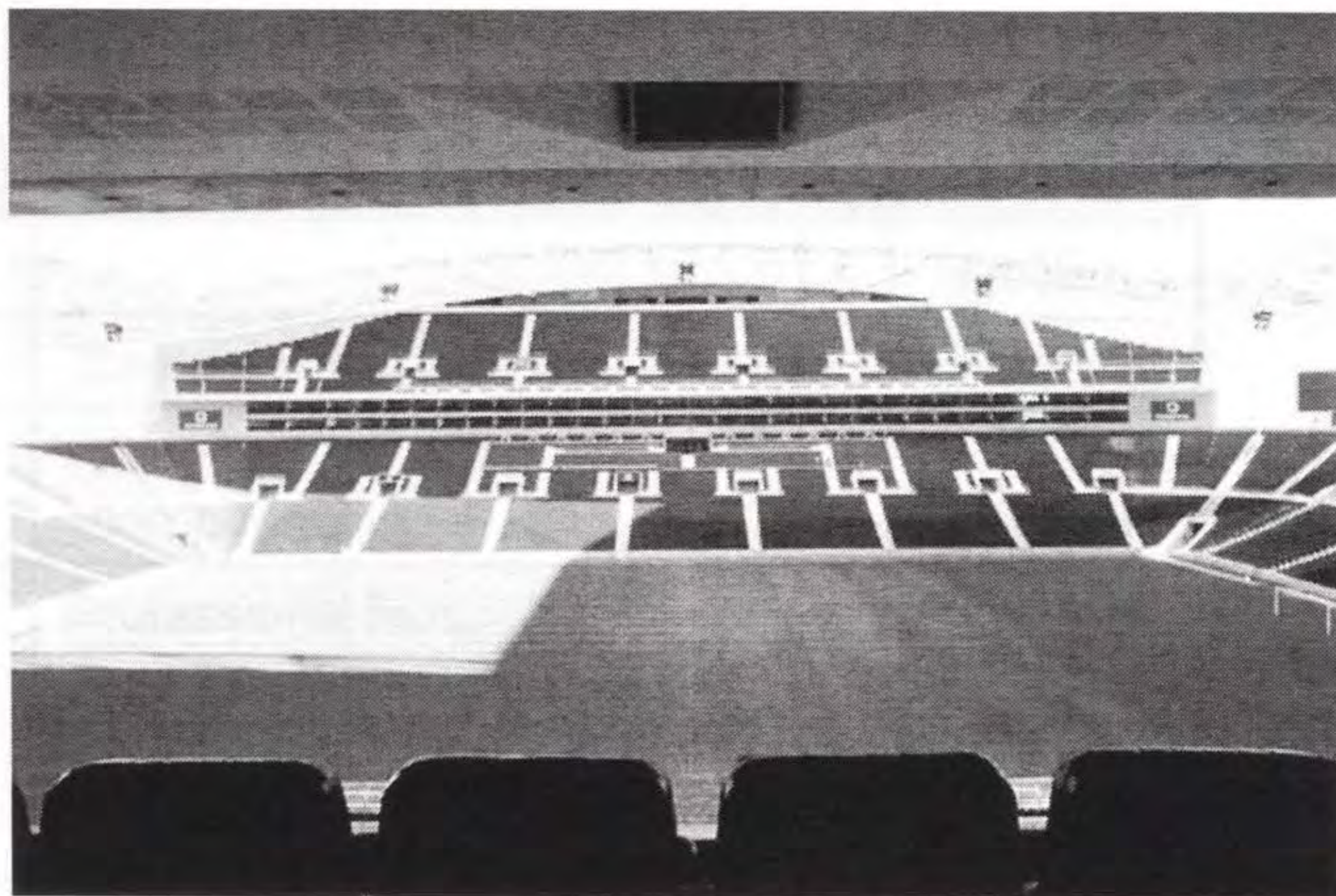


Illustration of an existing stadium with similar design principles for spectators, although designed only for soccer

The consultants capital cost estimate is based on a configuration that can provide the multi-functionality required and ensures:

- GAA's preferred pitch size is accommodated
- The majority of spectator accommodation is provided within optimum viewing distances for the three sports
- Preferences for side on viewing are met
- Goal end viewers of soccer are provided high quality sightlines to compensate for reduced proximity
- A flexible response to varying levels of attendance. The stadium could be operated:
 - with both upper tiers closed providing 15,000 capacity
 - with the west upper tier only open providing 22,500
 - rising to 30,000 with all seating areas open.

5 Base Case Capital cost

Capital Cost Estimate			
			£million
	Stadium construction		36.30
	Fitting Out, catering, scoreboards etc		10.35
	Professional fees		
	Feasibility		0.40
	Planning and Design		4.25
	Project Management		0.80
	Total		£51.84

Source: Davis Langdon & Everest

- The capital cost estimate reflects a cost per seat of £1,210, which is comparable with the costs of the Kingston Communications Stadium in Hull which is used for soccer, rugby league and concerts
- The capital cost estimates excludes:
 - Site infrastructure, off site costs and car parking
 - Site abnormalities, contamination, poor ground conditions
 - Price inflation after April 2004
 - Legal or funding costs
 - VAT

6 Conclusions, risks and way forward

- **Based on the analysis to date and using the stated cautious Business Plan assumptions, the consultants conclude that a major stadium in Northern Ireland would cover its annual operating costs from the revenues generated from the mix of soccer, rugby, GAA games and concerts and other events, providing that the bodies/promoters agree to a share of the total revenue from tickets between the range of 20 to 30% for sport and 10 to 15% for concerts.**
- Depending upon assumptions used, the operating surplus could sensibly be between £100,000-£500,000 pa
- On the basis of the revenue share as above, we believe that the sports bodies will also receive more income from comparable games than currently due to the increased attendance and higher ticket prices, the latter which is justified by the better facilities.
- However, for the stadium to generate enough surplus with which to begin to cover any capital funding costs of the stadium (construction costs), based on the current cautious assumptions, the sports promoters would need to agree to a revenue share of far more than 30% to the stadium, which is likely to mean they suffer financially from the move to the new stadium.
- The stadium capital cost to the public purse will need to be appraised in terms of wider sporting, social and regeneration benefits, and compared with the “do nothing” option (ie the need to redevelop existing stadia)
- The robustness of all operating assumptions used will be tested further over the next month, with further sensitivity analysis conducted and potential upside from other revenue streams (eg offices, hotel) identified. The buy-in to these assumptions will also be sought from the promoters.
- The ownership and management options to deliver and operate the stadium will be defined.

If any one of the promoters decided not to use the stadium in the way we assume, the stadium would not break even operationally, so the support of all sports promoters is vital