

SB105/2/04

Mee, Ciaran

From: Palmer, Jack
Sent: 15 June 2004 09:54
To: Mee, Ciaran
Subject: FW: Multi-Sports Stadium

Sensitivity: Confidential

Ciaran

Please note and can we copy for the file.

jack

-----Original Message-----

From: Flynn, Tom
Sent: 14 June 2004 14:39
To: Moore, Carol; Carson, Nigel; Palmer, Jack
Cc: Armstrong, Kathleen (DCAL); Denvir, Clare
Subject: FW: Multi-Sports Stadium
Sensitivity: Confidential

For information.

-----Original Message-----

From: Flynn, Tom
Sent: 14 June 2004 12:18
To: Philip McDonagh (E-mail)
Subject: Multi-Sports Stadium
Importance: High
Sensitivity: Confidential

Philip

as discussed last week, please see comments on the above docs. Happy to discuss further - our key concern relates to the robustness of the assumptions in arriving at the operational surplus figure. We need some reassurance, if this figure is not to change, that the assumptions used are indeed cautious and therefore that this represents the lower end of spectrum of likely outcomes.

Regards

Tom



MultisptsStad-PMcD
onagh.doc

PwC MULTI-SPORTS STADIUM STAGE ONE REPORT – DCAL Economics Services Unit POINTS FOR CLARIFICATION FROM PwC

1. The following points relate specifically to:

- “A Major Multi-Sports Stadium in Northern Ireland – Final Report May 2004, PwC” – 15 pages; and
- “A major multi-sports stadium for Northern Ireland – Working papers in support of the Final Report – Final Draft 20th May 2004”, PwC – 127 pages.

Envisaged Usage of the Facility (events and spectators – demand)

2. The documents state the IFA and Ulster Rugby agree in principle to the assumptions used regarding number of matches and spectators and ticket prices – although there has been no such confirmation from the GAA, or apparently in writing from any of the organisations. DCAL is seeking this separately from SIB. I have a couple of concerns regarding the **usage** of the stadium:

- The base scenario assumes 29 **events** pa, but it is acknowledged this could be as low as 15 or as high as 38 - a range almost as large as the assumed number of events in the base scenario, which prima facie at least suggests the demand analysis is not very robust. Whilst ‘prudence’ is claimed throughout, the assumed level is toward the higher end of this range suggesting a skewed distribution of possible event outcomes – is this the case?
- The **attendance** figures for soccer appear to be based on the same percentage increase as for Rugby, despite opposite trends in attendance at these two sports in recent years - this needs further explanation. Further, it is not clear whether the Irish Soccer Cup would attract audiences of 15-20,000 (p26) given the figures on page 19 of the Working Papers.

3. **Displacement**, rightly, has not been dealt with in this study, whose remit was to focus on the operational viability of the stadium itself. However, for the purpose of any eventual appraisal, displacement may well be an important issue, so we are flagging up a couple of potential concerns in this area for later:

- The three main sports facilities (in NI) that would appear to be affected are Ravenhill, and Windsor and Casement Parks. There appears to be no significant uplift assumed for GAA attendance, implying little or no additionality and total displacement, albeit not all from within NI. The question might arise as to how the viability of the affected grounds (and their respective organisations/clubs) will be affected by the stadium. Also, there may be displacement issues around sponsorship being attracted from existing venues, with possible consequences for viability.
- The comment relating to Linfield on page 4 of the Working Papers moving to another stadium if Windsor Park is released for development is not clear – does this imply moving to an entirely different stadium? What would happen to Ravenhill – would it be closed?
- This may be an issue in relation to concerts and other events also, unless the stadium fulfils a specific market niche and would not be in competition with other facilities.

Operating Income/Revenue

4. There are a number of concerns in relation to the assumptions for **ticket prices**:

- In some cases these are assumed to increase by 25%, yet it is unclear whether this is consistent with the increased attendance figures, especially given trends, and where

alternatives are available. Regarding the GAA, as mentioned no increase in attendance is assumed with ticket prices expected to increase by 25% - it is not clear how this would be received by fans given the availability of Casement Park and Clones at the lower price (although the provision of an all-seated stadium would presumably add value to the experience).

- The assumed prices for top Soccer internationals would represent an almost 50% increase on achieved prices (p35 of Working Papers), which may be ambitious, especially if the objective is not only to reverse the downward trend in attendances but to grow significantly.
 - The pricing for Rugby seems reasonable. However, whilst Rugby is assumed to be the largest single contributor to operational revenues, it is the sport showing the greatest variation in the number of events.
5. The secondary and sponsorship spending figures seem reasonable in relation to comparators, although we understand the NIEC has experienced some difficulties in relation to sponsorship for specific events recently, e.g. golf. The possible inclusion of offices and/or a hotel to make the stadium more 'viable' is interesting - would this involve additional government investment?

Costs

6. Costs are in April 2004 prices. The detail regarding both operational and capital costs is scant. However, **operational** costs seem high against the comparators, for instance Croke Park which has almost three times the envisaged capacity. Some further explanation as to why this should be the case would be helpful.
7. The **capital** cost at almost £57m in 2004 prices is based on high-level concept designs and benchmarks from other stadia and because they only include the stadium development costs, they *exclude* site-specific costs, which may be significant. Further, depending on the delivery vehicle, VAT may payable, which would add considerably to financing costs (up to £10m on capital cost if full liability is assumed). I would expect the *actual* capital funding requirement to be significantly higher (in nominal and real terms) than £57m - possibly as high as £100m when factors such as construction and other inflation, site specific costs and possible optimism bias are accounted for at the appraisal stage?
8. The EA stage should consider the whole life costs and revenues of the facility and should test the assumption that a sinking fund made up of 0.5m pa out of operational revenues is sufficient to cover all reasonable capital requirements such as major refurbishments, dealing with the effects of vandalism, etc, over the life of the asset.
9. The presumed intention is for Government to provide the capital financing of the facility, with the hope that it will wash its face operationally, thus avoiding further recourse to Government. However, the provision of capital finance from Government makes it very difficult to 'walk away' in future if additional contributions are required to secure viability. In the event of closure, there may also be significant decommissioning costs.

Operational Viability

10. The documents conclude the stadium will just about break even (a very small surplus is envisaged) on an operating basis (assuming of course capital is free). We would normally expect the £129k surplus identified therein to be within the margin of costing error for a facility of this scale and complexity, and the number of assumptions that have had to be made to arrive at the 'bottom line' figure. For instance, the identified surplus

represents only 3.7% of operating costs and 3.6% of total income. As income from ticket sales, boxes and premium seats are the largest source of revenue (64%) the assumptions relating to attendances and prices are critical to this conclusion relating to viability. The documents advise throughout that the usage and events figures are 'prudent' and therefore the upside risk (variation) is greater than any downside risk. However, on the face of the analysis presented, for instance as mentioned above in relation to event numbers, this is not immediately apparent and *would need to be clarified further through demonstrating the robustness of the assumptions*. Input inflation could also affect operational viability if revenues are unable to keep pace with cost pressures.

Risk

11. The reference to the Millennium Stadium struggling to service its debt, despite its favourable revenue situation (which I presume is vs. plan) suggests costs are much higher than originally envisaged. There are many references to the 'prudent' and 'cautious' approach being taken, yet page 112 of the Working Papers states the capital budget identified is not 'overgenerous'. The potential for optimism in the capital figures at least cannot be ruled out therefore, and will need to be carefully assessed if and when an EA/BC stage is reached.
12. Page 113 of the Working Papers demonstrates the rather precarious nature of the venture on the assumptions made and that there is virtually no room to manoeuvre regarding usage. None of the sensitivities considered looked at increases in operating costs, but clearly on the basis of the figures in the report, a very small percentage increase (less than 4%), without corresponding increases in revenue, would render the facility operationally unviable. The report claims the conclusions on viability are robust relating to ticket prices and attendances, but given the range in the number of events (15-38) covered earlier, the percentage changes applied to these factors used in the assessment may be conservative.

Summary

13. The interrelationships between many of the factors means that if the choice of assumptions relating to pricing, events and attendances and the calculation of costs are clarified, many of the above concerns could be alleviated. **Clear evidence that all of the assumptions impacting on operational costs and revenues are indeed cautious would give some comfort that the small surplus identified is toward the lower end of the likely scale of outcomes.**
14. To summarise, then, further clarification is sought on the robustness/nature of the following:
 - Demand - number of events and attendances;
 - Operational Revenues - ticket prices and sales;
 - Operational Costs - the basis for these, and how they compare with the others considered;
 - Capital Costs – the basis for these, and likely optimism
 - Viability – likely range in surplus (deficit); robustness of bottom line figure.

Tom Flynn,
DCAL Economics Services Unit
14/6/04