

11 BUSINESS

11.1 Tauranga Community Stadium - preliminary business case

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PURPOSE OF THE REPORT

1. This report presents, on behalf of Priority One, the recently completed Tauranga Community Stadium – Preliminary Business Case. It highlights key material from the Preliminary Business Case and seeks Council advice to assist in informing next steps in the Tauranga Community Stadium project.

RECOMMENDATIONS

That the Council:

- (a) Receives the report "Tauranga Community Stadium - preliminary business case".
- (b) Notes that further consultation and any decisions regarding future Council participation and funding of the Tauranga Community Stadium could occur via the 2024-2034 Long-term Plan Process, with ongoing community engagement occurring in addition to formal consultation processes as appropriate.
- (c) Provides advice to Priority One and Council staff to inform next steps for the Tauranga Community Stadium project.

EXECUTIVE SUMMARY

2. This report presents, on behalf of Priority One, the Tauranga Community Stadium (the Stadium) - Preliminary Business Case, and highlights key information from the Preliminary Business Case, along with areas which Council may wish to give further consideration to, prior to decision making.
3. The Preliminary Business Case outlines a preferred concept design for the Stadium, which combines the following elements:
 - A boutique community stadium that provides scalable seating with ~7,000 permanent seats and provision for an additional ~8,000 temporary seats.
 - A light exhibition centre, ~2,000m² exhibition space plus support facilities.
 - A function centre, ~1,300m²
 - A community multi-sport facility, with ~400m² of changing rooms and lounge space.
 - A University of Waikato sports science/physiotherapy space, which includes 250m² of exclusive space and access to shared space.
4. Together, these elements would deliver a non-traditional stadium that operates as a community precinct, encouraging and enabling community use throughout the year. It is proposed to locate the Stadium on the Tauranga Domain (the Domain).
5. The estimated total project cost for the Stadium is \$220,272,000, this figure includes escalation costs to 2026 and a contingency allowance of 20%. From an operational

perspective, the Stadium would return a positive EBITDA¹. However, the preferred option is not projected to return sufficient profit to cover debt, interest payments and depreciation - this is typical of most stadiums. As a result, most stadiums receive additional funding over time, frequently in the form of operational grants from councils, to remain cash flow positive.

6. The Preliminary Business Case indicates that, assuming Council decides in the future to support the provision of the preferred Stadium concept design on the Domain, and to provide an annual operational grant to the Stadium to meet the costs of depreciation, interest and debt repayment, the cost of this grant would be approximately \$15 million per year. However, there are other alternatives to an annual operating grant, and these are being explored outside of the Preliminary Business Case.
7. Moving forward, there are several key areas addressed by the Preliminary Business Case that Council may wish to invest more time into prior to decision-making. These include:
 - The need for further engagement and work with Tauranga communities, with a focus on identifying future options for those who may be impacted if the delivery of a Stadium on the Domain went ahead.
 - Funding and affordability considerations, for the delivery of the capital project and on an ongoing basis.
 - Management structures, for both the initial approach and delivery, and the ongoing operations.
8. This report seeks guidance from Council regarding next steps.

BACKGROUND

Previous work

9. Investigations into the feasibility of establishing a sub-regional stadium were initiated in late 2018, with key steps in this process listed as follows.
10. 2018 – a report to Council identified the potential for a stadium in Tauranga, proposed Priority One as the coordinating agency for further feasibility work and Sport New Zealand, Tauranga City Council, Western Bay of Plenty District Council, Bay of Plenty Regional Council and Priority One as co-funding partners, with further funding via ‘community contributions’. Council resolved to partner as outlined in the report and to assess the feasibility of a sub-regional, multi-purpose stadium.
11. 2019 – co-funding partners (partners) received a report referred to as ‘the PwC Needs Assessment Report’.
12. 2020 – Beca Limited provided Priority One and partners with a report titled ‘Pre-feasibility Study’, which reviewed the PwC Needs Assessment Report, identified long-term desired outcomes, developed a multi-criteria framework to guide site selection, and identified the key elements to be addressed by a feasibility study.
13. 2021 – Beca Limited provided Priority One with a ‘Tauranga Stadium Site Selection’ report. A total of 18 sites were identified, and this was shortlisted down to nine sites. The report then further assessed and ranked these nine sites, with this assessment including input from relevant council staff members. The Tauranga Domain (the Domain) was the top-ranked site.
14. 2022 – the partners (led by Priority One and now consisting of Sport New Zealand, Tauranga City Council and the Bay of Plenty Regional Council) received a Feasibility Study completed by Visitor Solutions and Tuhura Consulting. This work highlighted that a stadium for Tauranga would need to offer a different value-proposition from standard stadiums around the country, instead proposing a boutique, open air, ‘people’s stadium’ located on the Domain, with two potential sub-concepts identified, one incorporating a fitness centre/gym (estimated build cost of \$155m) and one incorporating an exhibition space (estimated build

¹ EBITA refers to net income (earnings) before interest, taxes, depreciation and amortization

cost of \$166m). While both these options were estimated to return positive earnings before interest, tax, depreciation and amortisation, neither were cashflow positive over a 50-year timeframe, and neither delivered sufficient profit to cover costs such as debt, interest payments, depreciation and renewals. This report was presented to Council in May 2022 for consideration of next steps.

15. Upon receiving the Feasibility Report, Council agreed in principle that the Domain was a potentially suitable site and approved Council participation in next steps, including development of a business case and further design work. Alongside this work, Council approved the continuation of engagement with mana whenua, affected parties and wider stakeholders.

The Preliminary Business Case – purpose

16. Priority One led the development of the Preliminary Business Case (see Attachment 2) for the Stadium, supported by the partners, including Council. Visitor Solutions and Tuhura Consulting, who completed the feasibility study, were also appointed to complete the Preliminary Business Case. This report presents the Preliminary Business Case to Council on Priority One's behalf (see Attachment 1).
17. The Preliminary Business Case provides additional information regarding the proposed stadium, its design, purpose, estimated cost and community use, building on the concepts contained in the Feasibility Study. Key elements of the Preliminary Business Case are outlined in the Executive Summary on pages 3-9 and detailed further in the full document and appendices.
18. The purpose of this report to Council is to present the Preliminary Business Case, highlighting key findings, with the aim of informing next steps. However, this report does not:
 - Make recommendations seeking decisions from Council regarding delivery and funding, as further work and consultation is required before these decisions can be made. Whilst the Preliminary Business Case contains recommendations, these do not necessarily reflect the final positions of any of the partners, including Council, but exist to provide guidance and prompt discussion.
 - Follow the format of the business case, by summarising the Strategic, Economic, Commercial, Financial and Management Cases for the Stadium project. Instead, it pulls out key information regarding the proposed Stadium project which is likely to be of high interest, such as the preferred concept design, and costs versus benefits assessment. For a summary of the Preliminary Business Case, refer to the Executive Summary.

The Preliminary Business Case – design

19. The Preliminary Business Case refined the concept options presented in the Feasibility Study, landing on a preferred concept design which, if the project proceeds, would deliver a non-traditional stadium that operates as a community precinct, encouraging and enabling community use throughout the year.
20. The proposed Stadium design takes a different approach to many of the existing stadiums across New Zealand, which have a focus on catering for large numbers (typically between 20,000 to 30,000), resulting in regular underutilisation. This means the visitor experience for the more frequent, smaller scale events is poor, with predominantly empty seats. Stadiums of a larger size also tend to be less accessible for community sport, privatising publicly owned facilities.
21. Instead of the typical large-scale stadium discussed above, the preferred concept design would provide a smaller, multi-functional stadium. The design would accommodate community clubs, local cultural events, festivals, professional sport, business events and commercial concerts, by including the following elements.
 - A boutique community stadium that provides scalable seating with ~7,000 permanent seats and provision for an additional ~8,000 temporary seats. Of the ~8,000 temporary

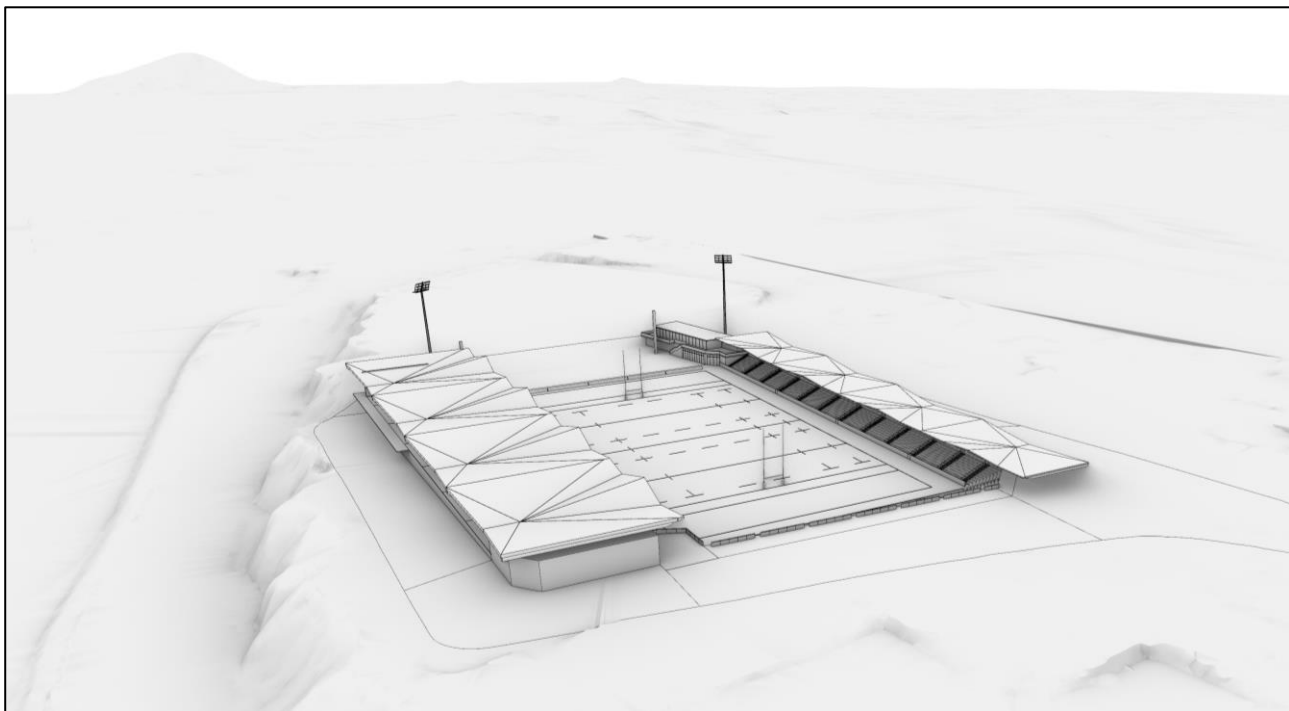
seats, ~5,000 of these would be prefabricated seating modules which could be moved around different facilities across Tauranga and the Western Bay, as needed. Other uses of the Stadium, such as festivals, could cater for up to 40,000 attendees depending on configuration of the site.

- A light exhibition centre of ~2,000m² exhibition space plus support facilities. This would relieve pressure on TrustPower Baypark (Baypark), as the frequency of exhibitions at that space is causing significant and growing disruption to community sports users. The light exhibition centre would not replicate the exhibition and conference facilities being proposed for the city centre, but instead be used for events such as the Women's Expo and Pet Expo which are currently held at Baypark. The income generated by this space would also contribute to revenue.
 - A function centre of ~1,300m²
 - A community multi-sport facility ~400m² of changing rooms and lounge space. The size of this space has been increased from previous design iterations, improving the level of service for community sports users.
 - A University of Waikato sports science/physiotherapy space, which includes 250m² of exclusive space and access to shared space. This is a new addition to previous design concepts and whilst it would add building cost, it would generate income as well as complementing the existing Adams Centre for High Performance in Mount Maunganui.
22. Together, these elements would deliver a boutique 'people's stadium' focused on prioritising the fan/spectator experience and on welcoming the wider community into the facility continuously. Community users are expected to be drawn from across the region, but particularly the western Bay of Plenty sub-region.
23. In addition to improving user experience and providing for extensive community use, the Preliminary Business Case indicates that designing a smaller scale, community focused stadium with the facilities described above, could maximise income and decrease capital and operational costs, lessening the financial burden of a stadium for the region.
24. The proposed design accommodates the retention of community facilities for rugby, football and cricket. Community access to the open playing space would be retained and the improved facilities would allow for greater hours of play (enhanced field surfaces, lighting, and access to the community multi-sport facility).
25. However, further work is needed to identify and assess future options for the existing bowls, croquet and athletic facilities, with the input and involvement of these groups an important part of ensuring their needs are met on an ongoing basis.
26. As part of refining the preferred concept, the proposed design of the Stadium was carefully considered to maximise its connection to the surrounding landscape and to ensure community access would be maintained.
27. The artist's render below (Figure 1) shows how the proposed Stadium would have open sightlines from north to south, capturing and maximising the view of Mauao for a unique Tauranga experience. This would be achieved by lowering the playing fields, which would also have the benefit of maintaining easy community access to the site (see Figure 2 below).
28. The need to provide clear views of Mauao was emphasised during engagement with mana whenua, and the added benefit of having a fully open northern end means the venue is ideal for large kapa haka festivals and other cultural events.
29. Additionally, the grandstand design to the west and east is open and would provide view shafts to surrounding trees and vegetation, whilst still offering some protection from prevailing winds. The carparking onsite would be increased from its current capacity.

Figure 1: Artist's render



Figure 2: 3D visualisation



30. If the Stadium proceeds as a project, extensive input from mana whenua and other key stakeholders/users would occur throughout the detailed design process. This would ensure that the proposed benefits would be retained, and that opportunities to add value and integrate cultural design narratives were captured.

The Preliminary Business Case – costs and benefits

31. The Preliminary Business Case includes estimated delivery and operational costs, as well as completing an overall cost benefit analysis (CBA).
32. The estimated delivery cost for the Stadium is \$220,272,000, this figure includes escalation costs to 2026 and a contingency allowance of 20%. These costs are based on the high level concept design for the Stadium, and as a result do not have detailed engineering input (e.g. geotechnical investigations have not yet been completed for the site). For details of what this estimated cost includes see Table 1 below. Note that these figures assume no land cost.

Table 1: Estimated escalated capital cost (for the preferred Stadium concept design)

\$NZ000's	
Demolition	1,224
Bulk Excavation & Filling	3,626
Piling	11,112
Internal Building Structures	59,878
Seating (Including 4,950 temporary seats)	21,034
Roof	19,011
Infrastructure & Site Works	21,395
Resource Consents	764
Contract Works Insurance	388
Council Development Contribution	1,536
Professional Fees	21,075
Contingency	31,097
Total (Feb 2023 Real Terms)	192,140
Cost Escalation	28,132
Total (Nominal)	220,272

Source: Maltbys (QS), Deloitte Analysis

Excludes Capitalised Interest 8,058

Note forecast escalation is 1.4% (Qtr 4 FY23), 4.7% (FY24), 3.8% (FY25) and 3.0% (FY26).

33. Analysis of projected revenue for the preferred Stadium concept returns a positive EBITDA². However, the preferred option is not projected to return sufficient profit to cover debt, interest payments and depreciation. Additionally, the projected revenue assumes a high level of occupancy and use throughout the year.
34. Typically, stadiums, as well as a range of other community facilities such as swimming pools and libraries, do not generate sufficient income to cover costs. Most stadiums receive additional funding over time, frequently in the form of operational grants from councils, to remain cash flow positive.
35. Assuming Council decides in the future to support the provision of the preferred Stadium concept design on the Domain, and to provide an annual operational grant to the Stadium to meet the costs of depreciation, interest and debt repayment, the Preliminary Business Case indicates that the cost of this grant would be approximately \$15 million per annum. For detail regarding revenue, expenditure and projected rates cost to Council, view table 6.10, p102 of the Preliminary Business Case (Attachment 2). However, there are other alternatives to an annual operating grant, and these are being explored outside of the Preliminary Business Case.
36. The Preliminary Business Case does not recommend a funding approach for the delivery costs, noting that the exact funding mix for the Stadium is still in development. Earlier work completed assumed approximately \$60 million may be able to be raised from non-Council sources. Opportunities to increase this amount are being considered. Overall, the funding for the project is likely to be based on a mix of local government, central government, charitable grant, and sponsorship funding.
37. The Preliminary Business Case also completed an overall cost-benefit analysis for the project, considering the various factors itemised in the table below.

² EBITA refers to net income (earnings) before interest, taxes, depreciation and amortization

Table 2: Costs and benefits assessed

Costs	Benefits
Capital costs	Benefits to participants (consumer surplus)
Ongoing maintenance costs (life cycle costs)	The terminal value of the facility
The costs associated with operating the facility	Benefits to community users (based on time value and facility use)
The costs associated with delivering the services (e.g., food and beverages)	Return on business spending (e.g., for exhibitors, naming rights)
Participants opportunity costs	Additional spending and activity attracted to the facility
Opportunity costs of labour	Labour benefits (associated with new employment)
The value of the resources used to service 'new visitors' and the associated activity (estimated using producers' surplus)	Additional monetary flows from international students

38. The analysis considered a lifecycle of out to 2075, and assessed future benefits and costs in today's terms, using discounting (default rate of 5%). This returned a cost benefit rate (CBR) of 0.94. A CBR of one or above indicates the benefits equal or outnumber the costs, and a CBR of less than one indicates the costs outweigh the benefits.
39. The CBR of 0.94 was higher than earlier CBRs calculated based on previous concept designs, which shows the proposed design refinements have added value. Overall, the benefits to community users scored relatively lowly due to the displacement and substitution effects relating to existing facilities (i.e. some of the potential benefits are already experienced and will not be new).
40. The CBR did not account for other potential benefits such as supporting regeneration across the city centre and improving local sporting talent, the value of health outcomes, identity of pride and place in the city, and potential uplift in surrounding property values.

The Preliminary Business Case – highlighting areas for further work and consideration

41. There are a number of areas addressed by the Preliminary Business Case which require further work and consultation before Council decides on its role in the potential delivery of the Stadium project. These include:
 - The need for further engagement and work with Tauranga communities, with a focus on identifying future options for those who may be impacted if the delivery of a Stadium on the Domain went ahead.
 - Funding and affordability considerations, for the delivery of the project and on an ongoing basis.
 - Management structures, for both the initial approach and delivery, and the ongoing operations.

Engagement

42. Both the consultants who completed the Preliminary Business Case and Council have engaged with key stakeholders and community groups regarding the potential delivery of a stadium on the Domain. Points 42 to 44 below summarise the consultation completed by consultants as part of developing the Preliminary Business Case.
43. Mana whenua were supportive of the concept overall, and saw opportunities to integrate Māori narratives into design, operation and governance. Mana whenua were also influential in certain concept revisions, such as ensuring sightlines from south to north preserved the viewshaft towards Mauao. Other supportive stakeholders included most of the professional sports organisations and event promoters interviewed.

44. Community sports representatives were generally supportive, except for some of the sports clubs currently located at the Domain, who raised concerns about their future options if the Stadium proceeds.
45. Some existing stadiums operators felt that Tauranga had limited need for a large stadium, given the city's population size and the potential for added competition across the national stadiums network.
46. Council has undertaken reviews of Baypark, Blake Park and Tauranga/Wharepai Domain to consider how they are functioning and meeting the needs of user groups. High-level master plans for each of these three key reserves have been developed, based on early conversations with community and sports organisations, however all this work, including the Stadium project, is still at the preliminary stage.
47. Before any decisions are made, further consultation is required. This would include conversations with potentially affected community groups and other key stakeholders about the future of the Domain site, and optimisation of public space in the city centre.
48. Careful planning and thought needs to go into the future development of the city's greenspaces across the citywide network, given finite land availability and our growing population. Continued engagement with potentially affected community groups and the wider community is important to ensure the wellbeing of Tauranga communities, and that planned development meets people's needs now and into the future. This can be integrated into project processes, and some project elements may be able to be progressed alongside consultation (such as geotechnical investigation of the site).

Cost

49. The CBR assessment and the projected capital and operational costs contained in the Preliminary Business Case reflect the known tension that normally exists in economic assessments of large community facing facilities such as stadiums, which generally do not deliver economic benefits that outweigh their costs.
50. In addition, the Preliminary Business Case does not factor the costs associated with providing future options for existing community sporting groups (croquet, bowls and athletics) into the project costs. However, in the event the Stadium project goes ahead, Council is highly likely to pay for relocation costs, increasing the overall costs of this project for Council. These considerations are being addressed outside of the Preliminary Business Case.
51. Council is currently challenged with a constrained balance sheet and a large capital works programme. The focus is on maintaining existing levels of service and meeting the demands of growth, as well as on improving environmental, community, economic and cultural wellbeing. This delivery agenda already contains ambitious projects such as Te Manawataki o Papa (the Civic Precinct), which will support significant revitalisation of the city centre.
52. Recent weather disasters across New Zealand, combined with inflation, cost of living challenges and a potential recession, also mean that central government funding is likely to be more tightly allocated over the next several years, making grant funding more difficult to access for projects such as stadiums. Despite this, there are opportunities to explore funding avenues with regional partners, given the wide ranging benefits the Stadium can deliver for the region as a whole.
53. This places Council in a difficult position when it comes to making decisions regarding project prioritisation and funding. Potential investment into the Stadium is only one element of Council's proposed capital works programme and also has implications for ongoing operational budgets. Additionally, the wider community needs to be involved in this decision-making process, as most of Council's funding is sourced via the general rate.

Management and delivery

54. The Preliminary Business Case considers management and delivery models, and makes some initial recommendations, however this is an area that Council and the Governance Group for the project acknowledge needs further thought before progressing.