

Christchurch City Council SUPPLEMENTARY AGENDA

Notice of Meeting:

An ordinary meeting of the Christchurch City Council will be held on:

Date: Thursday 9 June 2022
Time: 9.30am
Venue: Council Chambers, Civic Offices,
53 Hereford Street, Christchurch

Membership

Chairperson	Mayor Lianne Dalziel
Deputy Chairperson	Deputy Mayor Andrew Turner
Members	Councillor Jimmy Chen
	Councillor Catherine Chu
	Councillor Melanie Coker
	Councillor Pauline Cotter
	Councillor Mike Davidson
	Councillor Celeste Donovan
	Councillor Anne Galloway
	Councillor James Gough
	Councillor Yani Johanson
	Councillor Aaron Keown
	Councillor Sam MacDonald
	Councillor Phil Mauger
	Councillor Jake McLellan
	Councillor Tim Scandrett
	Councillor Sara Templeton

8 June 2022

Principal Advisor

Dawn Baxendale
Chief Executive
Tel: 941 6996

Samantha Kelly
Team Leader Hearings and Committee Support
941 6227
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www.ccc.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. If you require further information relating to any reports, please contact the person named on the report.

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To view copies of Agendas and Minutes, go to:

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22. Resolution to Include Supplementary Reports

1. Background

- 1.1 Approval is sought to submit the following report to the Council meeting on 09 June 2022:
 - 23. Consultation on Te Kaha
- 1.2 The reason, in terms of section 46A(7) of the Local Government Official Information and Meetings Act 1987, why the report was not included on the main agenda is that it was not available at the time the agenda was prepared.
- 1.3 It is appropriate that the Council receive the report at the current meeting.

2. Recommendation

- 2.1 That the report be received and considered at the Council meeting on 09 June 2022.
 - 23. Consultation on Te Kaha

23. Consultation on Te Kaha

Reference / Te Tohutoro: 22/725031

Report of / Te Pou Matua:	Mary Richardson - General Manager Citizens & Community Brent Pizzey – Senior Legal Counsel, Public, Regulatory & Litigation
General Manager / Pouwhakarae:	Leah Scales - General Manager Resources/Chief Financial Officer Mary Richardson - General Manager Citizens & Community

1. Purpose of the Report Te Pūtake Pūrongo

- 1.1 The purpose of this report is to recommend to Council that it seeks community views before making a decision on whether or not to invest additional money into Te Kaha: Canterbury Multi-Use Arena.
- 1.2 This report has been written in response to advice from Te Kaha Project Delivery Ltd (the company tasked with delivering Canterbury's multi-use arena) that the cost of the project could increase by up to \$150 million. The Council has received legal advice that before making a decision it should seek community views.
- 1.3 The decisions in this report are of low significance in relation to the Christchurch City Council's Significance and Engagement Policy. The decision the Council will make in July 2022 will be significant which is why it is important for the Council to consider the views of the community along with expert advice, financial reports and other relevant information.

2. Officer Recommendations Ngā Tūtohu

That the Council:

1. Agrees that staff proceed with the proposed process to seek community views on whether or not Council should invest additional money into Te Kaha: the Canterbury multi-use arena.
2. Resolves to lodge an outline plan for Te Kaha under section 176A of the Resource Management Act 1991.
3. Delegates to the Chief Executive authority to seek an alteration to the conditions for Te Kaha in the District Plan.
4. Delegates authority to officers in the Te Kaha Project Team to withdraw or amend the outline plan consistent with the Council decision on the Te Kaha project in July 2022.

3. Reason for Report Recommendations Ngā Take mō te Whakatau

- 3.1 The Council and Crown have made a number of decisions regarding the scope and cost of Te Kaha. A chronology has been prepared and is attached to this report (Attachment 1).
- 3.2 In August 2021, the Council agreed to increase seating capacity of the arena to 30,000 and increase the cost by \$50 million. As a result, \$50 million was included in the financial modelling for payment in FY24/25.
- 3.3 When making the decision to increase the capacity and cost, the Council was informed that there was a risk of escalation (estimated at that time to be a further \$57.8 million). That risk has materialised and Te Kaha Project Delivery Ltd has advised Christchurch City Council the cost of the project could increase up to \$150 million to a total project cost of \$683 million. The opening date has also moved out to April 2026.

- 3.4 Te Kaha Project Delivery received the final Design and Construct (D&C) submission from the lead contractor, BESIX Watpac, on 27 May 2022. This indicated an increase in the D&C contract sum. BESIX Watpac was also unwilling to provide a fixed price for some materials because of the volatility in the commodity market, so there was a risk of further cost escalations, which was estimated at \$10 million. Te Kaha Project Delivery is working with BESIX Watpac to review their D&C submission to provide two options – a fixed price submission and a risk share price where some materials have not been fixed.
- 3.5 The decision in August 2021 prompted a relatively high level of public interest, with comments from the media, and members of the public over a period of two to three weeks. A petition containing 24,116 signatures was presented to the meeting calling for a further investment in Te Kaha to enable the seating capacity to be increased to 30,000 seats. The meeting was live streamed and the public gallery was full, with most attendees supporting the motion.
- 3.6 Although the Council was aware of community views when it approved a scope change in August 2021, the current position is of sufficient significance to justify further consideration of the views of the community in the decision-making process.
- 3.7 The Council has received legal advice that it should seek community views about the additional funding prior to making a decision. The engagement process must reflect the funding issues facing the Council and its ratepayers and make the issues available for public scrutiny. The feedback will inform the Council's decision, as well as enabling the community to be informed.

4. Consultation on investing further Funding in Te Kaha

- 4.1 On 14 July, the Council will need to decide whether it wants to:
 - a) Accept the cost increase and increase the budget up to \$150 million.
 - b) Stop the project.
 - c) Delay and redesign the arena.
- 4.2 The proposed consultation process will seek community views on these options prior to Council making a decision.

Option 1 - Accept the Cost Increase

- 4.3 If the Council accepts the cost increase, the project would proceed with the scope agreed by Council in August 2021. The key fundamentals and benefits outlined in the business case would be realised. It would be consistent with the key deliverables in the Funding Agreement with the Crown.
- 4.4 However, there would be a financial impact. The tables below show the financial impact on current projections and are based on the revised project cost estimate and timing. These changes largely impact the period in which most of the Council's contribution has been allocated in the Long Term Plan. Any change to this timing would impact the financial projections summarised below.
- 4.5 The change in delivery date to April 2026 means the annual operating contribution from Council would not fully "kick in" until January 2026 on the current operating model. This results in operational cost savings until the second half of 2025/26. This is partly offset by the need to extend support for Orangetheory Stadium operations through the Venues Ōtautahi operating grant for a further year at \$0.5 million in 2025/26.

Rates Impact

- 4.6 Due to the timing changes noted above there is a small reduction in rates in the next two years but overall there would be a net 1.25% increase in rates driven largely from servicing the higher debt requirements. The peak rates impact is felt later than forecast in the Long Term Plan as a result. The additional debt drawn is modelled to be repaid over a 30 year period. Please note the FY23 (2022/23) current projection is subject to adoption of the annual plan on 21 June 2022.

Rates Increase %	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Current Projections	4.89%	5.42%	5.82%	7.49%	4.78%	3.82%
Additional cost plus revised spend profile	-0.04%	-0.65%	0.02%	0.99%	0.90%	0.02%
Proposed Increase - \$150m more	4.86%	4.76%	5.84%	8.48%	5.68%	3.84%

Debt Headroom

- 4.7 Council's Financial Strategy targets Debt Headroom to be held greater than \$400 million. The purpose of our debt headroom is to have the ability to borrow in the event of an emergency and remain within debt covenant limits.
- 4.8 Our LTP had Council maintaining a debt headroom minimum of \$400m. The table below shows the impact of adding \$150m on our debt headroom. It should be noted that our Annual plan for FY22/23 has not yet been adopted, but the projected headroom is based on our current projection. We are in an improved starting position (from LTP) because of the impact of COVID/supply chain having delayed delivery of our full capital programme and operational surpluses giving us the ability to not borrow/early repay the balance of our COVID borrowing. Note future years will also be impacted by Water Reform which will be adjusted for in the FY24/34 LTP.

Debt Headroom(\$m)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Current Projections	1,270	660	566	566	562	610
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Operational Costs

- 4.9 Venues Ōtautahi has refreshed the forecasts in the operating business case based on detail design elements to include updated lifecycle cost estimates, increased insurance on higher capital values, revised operating revenues and costs including facility maintenance. The revised annual operating subsidy noted above is still comparable to the original business case of \$4.2 million per annum updated to 2023 dollars. The business case identified the need for an operational bid fund. This has not been incorporated into the annual operating budget. This will be considered as part of the FY24/34 LTP.

Option 2 - Stop the Project

- 4.10 If the Council discontinues the project it would avoid the financial impact, including potential rate increase and the impact on Council's debt headroom. Council would also be able to decide if the remaining Te Kaha budget should be allocated for other projects and/or be used to reduce forecast borrowing and rates.
- 4.11 However, there would be \$40 million sunk cost (investment already incurred that could not be recovered). This is the money spent on design development, the Pre-Contract Services Agreement and enabling works. The Council may be liable for some further costs because of agreements that it already has in place.

- 4.12 Large sport and entertainment events would have to continue using the temporary stadium in Addington. The temporary stadium is made of a scaffolding structure originally intended to have a life of around five years. Constructed in 2012, the venue is now 10-years-old and, whilst structurally sound and subject to quarterly structural assessments, it will in due course require decommissioning.
- 4.13 On this basis, if Te Kaha is not built, there will be no venue in Canterbury suitable for large sporting or entertainment events in the medium to long-term.
- 4.14 The Crown investment would be withdrawn.

Option 3- Delay and Redesign the Arena

- 4.15 If the Council reduces the scope of the arena to fit within the budget it could result in a stadium/arena which would not require or reduce the requirement of additional investment by Council. This would avoid the increase in borrowing and rates.
- 4.16 However, it would push out the completion date for the arena by 9 to 12 months to 2027, as, given the extent of the required changes, we would need to go back to the start of the three-stage design process.
- 4.17 As it is likely that prices will continue to rise, delaying the project for redesign is likely to result in further escalation during the design period even if the rate of price escalation reduces.
- 4.18 An estimated \$30 million would be spent on redesign.
- 4.19 The project would need to consider changes to scope and capacity, including reducing capacity and functionality. High level estimates suggest:
 - 4.19.1 Removing the centre oculus of the roof, would save about \$35 million. If we did this, we would have the option of building a roof at some future date.
 - 4.19.2 Redesign to only a 'dripline' roof would generate greater savings, but this has not been quantified.
 - 4.19.3 With \$533 million, the capacity of the arena would be approximately 17,000 permanent seats and space for approximately 3,000 temporary seats.
- 4.20 The above options would compromise the key deliverables in the Funding Agreement with the Crown. The Council would need to attempt to renegotiate the Agreement. If the Crown did not agree to this change and withdrew its funding, we would be unable to proceed with the project.
- 4.21 There is a possibility that the new design programme could identify an option which reduced the quantum of the cost overrun but was closer to the key fundamentals. At this stage it is not possible to anticipate what this could be. It would still create a 9 to 12 months delay and require expenditure on the redesign. Reverting to a 25,000 seat capacity would require a 9 to 12 month delay for redesign and the Project Team have advised the cost would be over budget.
- 4.22 Venues Ōtautahi, who will operate the arena, has advised that reducing the scope would impact on the arena's financial viability and likely to necessitate additional funding for annual operating costs.
- 4.23 There is a risk that the contractor would not be in a position to dedicate another 9 to 12 months to further design. This would delay the project further as the project would have to go back to the market for design.

5. Consultation Timing

- 5.1 The consultation timeline will be

10 June 2022	Consultation starts
5 July 2022	Consultation ends
6 – 11 July 2022	Analysis of feedback
14 July 2022	Council decision

Note that there will not be Hearings as part of this consultation process.

- 5.2 In tandem with the consultation, Te Kaha Project Delivery will continue to work with BESIX Watpac to review the D&C submission. Council will continue to investigate funding options.

6. Other Matters for Consideration

Lodging of Outline Plan, altering conditions in the District Plan

- 6.1 The RMA requires the Council, as builder of Te Kaha, to lodge (with the Council as territorial authority) an outline plan of what it is going to build. The outline plan must show:
- (a) the height, shape, and bulk of Te Kaha; and
 - (b) the location on the site of the public work, project, or work; and
 - (c) the likely finished contour of the site; and
 - (d) the vehicular access, circulation, and the provision for parking; and
 - (e) the landscaping proposed; and
 - (f) any other matters to avoid, remedy, or mitigate any adverse effects on the environment.
- 6.2 The RMA enables the Council as territorial authority to then make a recommendation for changes to the outline plan to the Council as builder of Te Kaha. The stadium builder then decides whether to adopt any recommendations. If Council gives its approval, the consultation will start on Friday 10 June.
- 6.3 To avoid further cost escalation and programme delay, Te Kaha Project Team is recommending that the Council lodge the outline plan.
- 6.4 This plan can be withdrawn if the Council makes a decision in July 2022 not to proceed with, or to change, the current project.
- 6.5 Te Kaha's design has developed and has changed since the Council decided last year to ask the Minister to approve conditions in the District Plan for noise from Te Kaha. Those conditions refer to specific noise contour lines. Minor changes to the noise contour lines arising from the developed design mean that an alteration to the conditions is required. There are processes available under the RMA for the Council as provider of Te Kaha to seek a change to the conditions. The Te Kaha Project Team ask Council to delegate authority to seek that change in conditions. Officers don't intend to lodge that notice of alteration of conditions until after the further Council decision in July 2022.

Reducing the expenditure on Early Works

- 6.6 Te Kaha Project Team will also continue a small component of the Early Works, which were approved by Council on 9 December 2021, to avoid risk of further cost escalation and programme delay if the project continues.

- 6.7 The Early Works will improve the land for any future use, remove contamination, reduce Te Kaha programme risk by progressing Critical Path activities (thus mitigating further escalation and delay risks) and complete Early Works subcontracts which have already been committed. This would include enabling civil works/site establishment, ground improvement, and the design of services and the ETFE roofing/cladding.
- 6.8 The remaining Early Works would not be progressed unless the Council makes a decision in July 2022 to progress with the project.

7. Policy Framework Implications Ngā Hiraunga ā- Kaupapa here

Strategic Alignment Te Rautaki Tīaroaro

- 7.1 This report supports the [Council's Long Term Plan \(2018 - 2028\)](#):
- 7.1.1 Activity: Recreation, Sports, Community Arts and Events
- Level of Service: 7.0.2.2 Provide well utilised facility based recreational and sporting programmes and activities. - The number of participants using multipurpose recreation and sport centres, outdoor pools and stadia at least 4.4 million
 - Level of Service: 7.0.2.2 Provide well utilised facility based recreational and sporting programmes and activities. The number of participants using multipurpose recreation and sport centres, outdoor pools and stadia at least 4.4 million

Policy Consistency Te Whai Kaupapa here

- 7.2 The decision is consistent with Council's Plans and Policies. However, the funding is not consistent with the Long Term Plan.
- 7.3 The legal advice is that the proposed increase will not trigger any statutory requirement to amend the 2021-31 Long Term Plan (LTP), or to undertake a formal consultation process, such as a special consultative procedure.
- 7.4 The 2024-34 Long Term Plan will take into account any rates increases that impact from June 2024 which may follow from the decision in July 2022. This is because the additional rate increases are not projected to have a significant impact before the 2024/25 financial years.
- S.97(1) of the Local Government Act 2002 (LGA) requires the Council to undertake a formal consultation process before making a decision that would significantly alter the intended service level provision for a significant activity. Increasing the project budget would not of itself require a change to the intended level of service provision for Te Kaha in the LTP nor, therefore, formal consultation.
 - S.96(3) of the LGA would allow the Council to make a decision that was inconsistent with the contents of the 2021-31 LTP, subject to the provisions of s.80. This provides that if the decision was significantly inconsistent with a plan of the Council (i.e. an LTP) this must be clearly identified, along with the reasons for it, and any intention to amend the plan to accommodate the decision. In this case, the intention would be to accommodate the additional rates increases in the Council's 2024-34 LTP. S.96(3) could not be relied on if the decision would trigger the consultation provisions in s.97(1).

Impact on Mana Whenua Ngā Whai Take Mana Whenua

- 7.5 The decision does involve a significant decision in relation to ancestral land or a body of water or other elements of intrinsic value, therefore this decision does specifically impact Mana

Whenua, their culture and traditions. Mana whenua are involved in the project and has an appointment on the company board.

Climate Change Impact Considerations Ngā Whai Whakaaro mā te Āhuarangi

7.6 The decision to seek community views has no direct impact on climate change.

Accessibility Considerations Ngā Whai Whakaaro mā te Hunga Hauā

7.7 Council will seek to ensure the process is accessible to a range of people.

8. Resource Implications Ngā Hīraunga Rauemi

Capex/Opex / Ngā Utu Whakahaere

8.1 Cost to Implement – The decision in this report does not require additional budget, the consultation will be funded from existing operational budgets. The Early Works programme has been approved. The decision which Council is expected to make on 14 July will have an impact on the capital programme.

8.2 Information regarding the rate impact and impact on the Council's debt headroom if the budget is increased is in Table 1 and Table 2 above.

9. Legal Implications Ngā Hīraunga ā-Ture

Statutory power to undertake proposals in the report / Te Manatū Whakahaere Kaupapa

- 9.1 The Council has the statutory power to make the decision as to whether and how to proceed with Te Kaha but must comply with its decision-making obligations under Part 6 of the Local Government Act 2002.
- 9.2 Council is a Requiring Authority for Te Kaha as a public work under the RMA. The District Plan designates the Te Kaha site for the stadium development, permitting it provided that the development complies with the conditions that the Minister imposed at the Council's request.
- 9.3 The RMA provides processes by which the Council as Requiring Authority can ask the Council as Territorial Authority to alter the conditions in the District Plan.
- 9.4 Section 176A of the RMA obliges the Council as Requiring Authority to lodge an outline plan, as described above.

Other Legal Implications / Ētahi atu Hīraunga-ā-Ture

- 9.5 Section 76 of the Local Government Act 2002 requires that the decision-making provisions in Part 6 are 'appropriately observed' for high significance decisions. Section 77 also provides that if any of the options for a decision involves a significant decision in relation to land or a body of water, the Council must take into account the relationship of Māori and their culture and traditions with their ancestral land, water, sites, waahi tapu, valued flora and fauna, and other taonga.
- 9.6 Furthermore, under Part 6, the more significant the matter, the higher the standard of compliance is expected from the identification and assessment of options, the consideration of the views of those affected, and the extent of the written record kept showing compliance.
- 9.7 In this case, the decision is one of high significance, and affects the whole city. The Council would need to be able to take into account the views and preferences of interested and affected persons across the city.

10. Risk Management Implications Ngā Hīraunga Tūraru

- 10.1 The consultation will seek to ensure the process hears from a range of people and organisations.

Attachments / Ngā Tāpirihanga

No.	Title	Page
A  	Te Kaha Timeline	13
B  	Consultation Document	14
C  	Q&As for Consultation	19

In addition to the attached documents, the following background information is available:

Document Name	Location / File Link
Not applicable	

Confirmation of Statutory Compliance / Te Whakatūtutanga ā-Ture

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).

(a) This report contains:

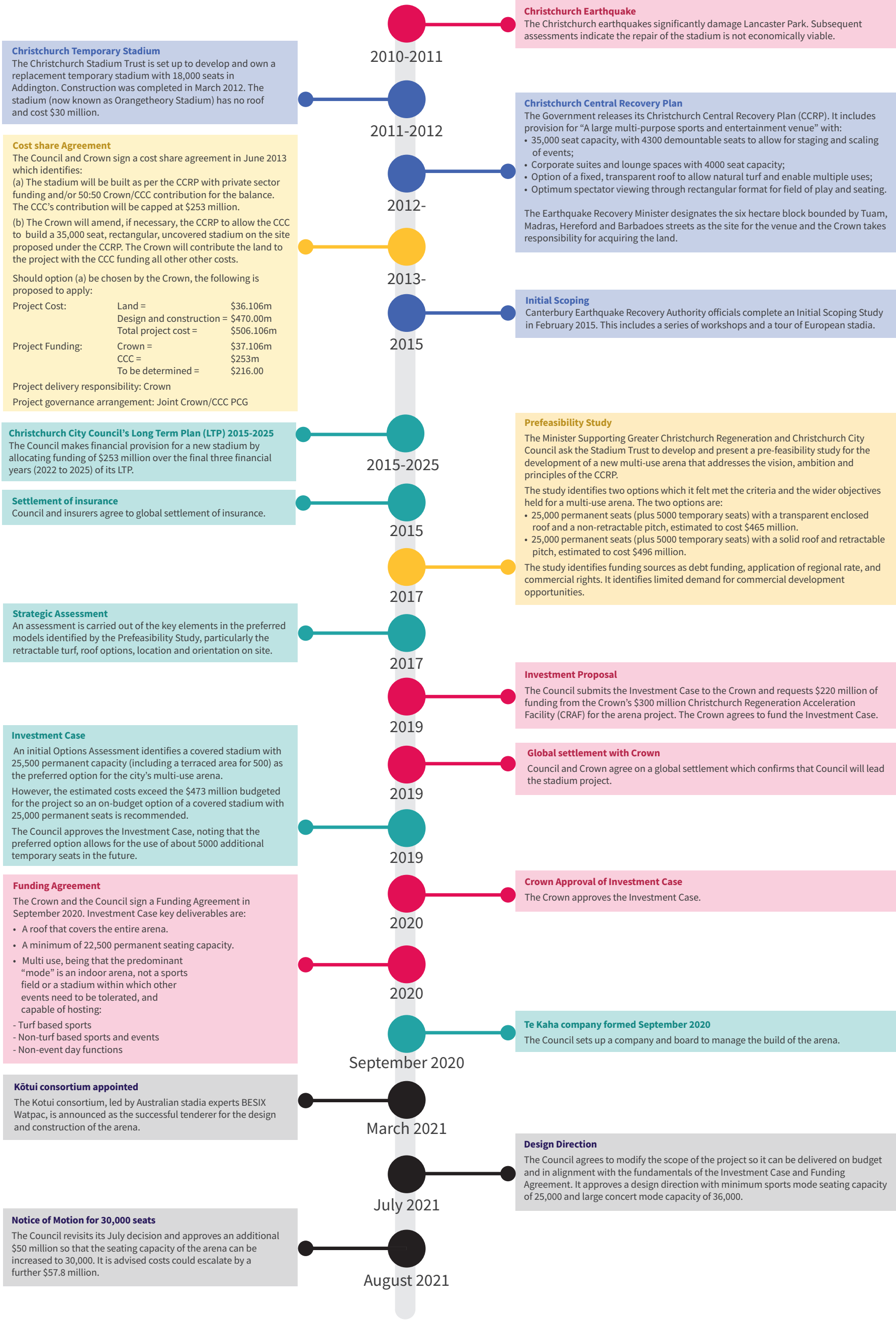
- (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
- (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories / Ngā Kaiwaitohu

Authors	Mary Richardson - General Manager Citizens & Community Brent Pizzey - Senior Legal Counsel Peter Langbein - Finance Business Partner
Approved By	Leah Scales - General Manager Resources/Chief Financial Officer Mary Richardson - General Manager Citizens & Community

CMUA/Te Kaha development timeline



TE KAHA (MULTI-USE ARENA) BUDGET CONSULTATION

We want to know what you think about investing extra money into Te Kaha – Canterbury’s multi-use arena.

Have your say

Before the Council makes a decision on whether or not to invest extra money into Canterbury’s multi-use arena, we want to know what you think.

Yes

- **Invest an additional up to \$150 million** to enable the project to continue as planned, noting the extra money will come at a cost to ratepayers.

No

- **Stop the project altogether**, noting that \$40 million has already been spent. The unspent budget could be used for other community projects or to reduce borrowing and rates.

or

- **Delay and redesign the arena**, noting this would delay the project 9 -12 months, is likely to decrease the functionality of the arena and impact on its financial viability, and could jeopardise the Crown funding. This option could avoid an increase in rates and the impact on Council’s debt ratio.

[LINK TO HAVE YOUR SAY](#)

Why are we consulting

The company tasked with delivering Christchurch’s multi-use arena, Te Kaha, has advised Christchurch City Council the cost of the project could increase by up to \$150 million.

Christchurch City Council needs to decide whether it wants to:

- Increase the budget in order to ensure Christchurch gets a multi-use arena.
- Stop the project.
- Delay and redesign the arena.

The Council has already made a number of key decisions in relation to the arena. The most recent of these was in August 2021 when it agreed to increase the arena’s capacity to 30,000 seats and add \$50 million to the budget, which brought the total budget to \$533 million.

When it made those decisions, the Council was advised there was the potential for further cost increases due to ground conditions, supply chain issues, design factors, and other risks. The Council was informed it would only have cost certainty once the preliminary design work was complete and it had received the D&C submission from BESIX Watpac.

Te Kaha Project Delivery Limited has now received that submission. It has advised that the price of building an arena with 30,000 seats and a roof is now **\$683 million**.

That means if the project is to proceed, additional funding of up to **\$150 million** will be required.

Before the Council makes its decision, we need to consider community views.

Why costs have gone up

Escalating construction costs for the arena are being driven by a number of inter-related factors, including international shipping constraints, increasing global commodity prices (for materials such as oil, copper and steel), and international supply chain disruptions.

The global response to the COVID-19 pandemic have led to these issues. International supply chains have experienced further disruption and material prices have increased further during the first quarter of 2022 because of the war in the Ukraine. The construction boom in New Zealand is also pushing up prices and creating an overheated market. Demand is outstripping supply and there is high wage and salary inflation within the construction sector.

Some small additions to the scope of the project have also added about \$10 million in costs. The additions include adding a second goods lift, broadcast cabling, blue or dimmable concourse lighting and a mothergrid to suspend lighting and sound equipment for concerts. BESIX Watpac's structural engineering team have also identified through their testing that the ground conditions at the site are worse than anticipated. This means the structure has had to be engineered differently to compensate, which has added to the cost of both the ground works and the arena itself.

Options we are considering

The Council is considering:

- **Accepting the cost increase and investing an additional up to \$150 million** to enable the project to continue.
- **Stopping the project completely.**
- **Delaying and redesigning the arena** so that the cost is within or closer to the approved budget.

If we accept the cost increase

If the Council accepts the cost increase, the project would proceed with the scope agreed by Council in August 2021. The key fundamentals and benefits outlined in the business case would be realised. It would be consistent with the key deliverables in the Funding Agreement with the Crown.

However, there would be a financial impact. The tables below show the financial impact on current projections and are based on the revised project cost estimate and timing. These changes largely impact the period in which most of the Council's contribution has been allocated in the Long Term Plan. Any change to this timing would impact the financial projections summarised below.

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additional debt drawn is modelled to be repaid over a 30 year period. Please note the FY23 (2022/23) current projection is subject to adoption of the annual plan on 21 June 2022.

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life of around five years. Constructed in 2012, the venue is now 10-years-old and, whilst structurally sound and subject to quarterly structural assessments, it will in due course require decommissioning.

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However, it would push out the completion date for the arena by 9 to 12 months to 2027, as, given the extent of the required changes, we would need to go back to the start of the three-stage design process.

As it is likely that prices will continue to rise, delaying the project for redesign is likely to result in further escalation during the design period even if the rate of price escalation reduces.

An estimated \$30 million would be spent on redesign.

The project would need to consider changes to scope and capacity, including reducing capacity and functionality. High level estimates suggest:

- Removing the centre oculus of the roof, would save about \$35 million. If we did this, we would have the option of building a roof at some future date.
- Redesign to only a 'dripline' roof would generate greater savings, but this has not been quantified.
- With \$533 million, the capacity of the arena would be approximately 17,000 permanent seats and space for approximately 3,000 temporary seats.

The above options would compromise the key deliverables in the Funding Agreement with the Crown. The Council would need to attempt to renegotiate the Agreement. If the Crown did not agree to this change and withdrew its funding, we would be unable to proceed with the project.

There is a possibility that the new design programme could identify an option which reduced the quantum of the cost overrun but was closer to the key fundamentals. At this stage it is not possible to anticipate what this could be. It would still create a 9 to 12 months delay and require expenditure on the redesign. Reverting to a 25,000 seat capacity would require a 9 to 12 month delay for redesign and the Project Team have advised the cost would be over budget.

Venues Ōtautahi, who will operate the arena, has advised that reducing the scope would impact on the arena's financial viability and likely to necessitate additional funding for annual operating costs. There is a risk that the contractor would not be in a position to dedicate another 9 to 12 months to further design. This would delay the project further as the project would have to go back to the market for design.

Timeline for decision-making

10 June 2022	Consultation start
5 July 2022	Consultation Ends
6 – 11 July 2022	Analysis of feedback
14 July 2022	Council decision

Note that there will not be Hearings as part of this consultation process.

8 June 2022

TE KAHA CONSULTATION – QUESTIONS AND ANSWERS

Cost Increase

What is the current budget for the multi-use arena?

\$533 million.

What is the expected cost of the arena now?

The current project cost is \$683 million. The Project Team is working with BESIX Watpac to reduce this cost through value management and contract negotiations.

What are you doing to get cost certainty?

We have asked our lead contractor for a fixed price and to bring the price down.

Does the revised price include any contingency for further cost escalations?

Yes, but we cannot disclose the amount for commercial reasons.

What is the reason for the cost escalation?

Escalating construction costs are being driven by a number of interrelated factors, including international shipping constraints, increasing global commodity prices (for materials such as oil, copper and steel), and international supply chain disruptions.

The global response to the COVID-19 pandemic has led to these issues. International supply chains have experienced further disruption and material prices have increased further in the first quarter of 2022 due to the war in the Ukraine and China's zero tolerance COVID-19 strategy, which has led to ongoing lockdowns. The construction boom in New Zealand is also pushing up prices. Demand is outstripping supply and there is high wage and salary inflation within the construction sector.

Overall, these factors are contributing to combined construction cost escalations of just over 10 per cent for the 12 months up until 31 March 2022.

Some small additions have also been made to the scope of the project to improve guest experience, operational functionality and commercial viability, resulting in about \$10 million of extra costs.

What has been added to the scope?

The developed design includes provision for a Distributed Antenna System, a second goods lift, broadcast cabling, blue or dimmable concourse lighting, and a mother grid to suspend lighting and sound equipment for concerts.

These items were excluded from the project scope initially to minimise costs. However, they have been put back in because users would expect them to be in the facility. The total estimated cost of these items is about \$10 million.

Are there any other factors pushing up the costs?

BESIX Watpac's structural engineering team have identified through their testing that the ground conditions at the site for the arena are worse than anticipated. As a result, the structure has had to

be engineered differently to compensate for the ground conditions. This has added to the cost of both the ground works and the arena itself.

Are other large infrastructure projects experiencing similar cost escalations?

Our cost consultant has advised the cost escalations that we are experiencing with this project are consistent with what they are seeing in other projects across the market. However, because of commercial confidentiality, they cannot provide specific examples.

If we pause the project for five years, is it likely the costs would come back into line?

As it is likely that prices will continue to rise, pausing the project for five years is unlikely to resolve the budget issues. Even if the rate at which prices are escalating reduces, the cost for the arena would not come back into line with the budget.

Weren't the early works on site meant to help contain cost increases?

The early works have given us a clear understanding of where potential issues with the project could arise and have allowed us to factor these into our planning and budgeting. This means that once construction gets under way, we are less likely to encounter issues that could lead to costly delays and further price escalations as the project progresses.

Would the increase in the total project cost also increase the annual operating levy required for Te Kaha?

The forecasts in the operating business case have been refreshed based on detail design elements to include updated lifecycle cost estimates, increased insurance on higher capital values, revised operating revenues and costs including facility maintenance. The revised annual operating subsidy is still comparable to the original business case of \$4.2 million per annum updated to 2023 dollars.

How much has the Council spent on the project to date?

About \$40 million has been spent, mainly on design development, professional fees, the Pre-Contract Services Agreement with BESIX Watpac, and enabling works such as relocating existing services on the site. The Council may be liable for some further costs because of agreements that it already has in place.

Increasing the Budget and Continuing with the Project

If we decide to go ahead with the arena, when will it open?

April 2026.

What is the risk of costs escalating once the contract is signed?

There is always a risk of further escalations with projects of this nature. Te Kaha Project Delivery Ltd is seeking to limit this risk by getting a fixed price for the construction.

Will the delivery company for Te Kaha or Council hold any contingency to manage the risk of further cost escalations?

Some contingency is being held to manage any risks or variations from the contract. To protect our financial position, we cannot disclose the size of the contingency.

What happens if no alternative funding is secured?

If the Council decides to proceed with the arena and enter into a contract, it will need to underwrite the additional costs.

How will that impact on rates and the Council's debt ratio?

The tables below show the financial impact on current projections and are based on the revised project cost estimate and timing. These changes largely impact the period in which most of Council's contribution has been allocated in the Long Term Plan. Any change to this timing would impact the measures summarised below.

The change in delivery date to April 2026 means the annual operating contribution from Council does not fully kick in until January 2026 on the current operating model. This results in operational cost savings until the second half of 2025/26. This is partly offset by the need to extend support for Orangetheory Stadium operations through the Venues Ōtautahi operating grant for a further year at \$0.5 million in 2025/26.

Rates Impact

Due to the timing changes noted above there is a small reduction in rates in the next two years but overall there would be a net 1.25% increase in rates driven largely from servicing the higher debt requirements. The peak rates impact is felt later than forecast in the Long Term Plan as a result. Please note the FY23 current projection is subject to adoption of the annual plan on 21 June 2022.

Rates Increase %	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Current Projections	4.89%	5.42%	5.82%	7.49%	4.78%	3.82%
Additional cost plus revised spend profile	-0.04%	-0.65%	0.02%	0.99%	0.90%	0.02%
Proposed Increase - \$150m more	4.86%	4.76%	5.84%	8.48%	5.68%	3.84%

Debt Headroom

Council's Financial Strategy targets debt headroom to be held greater than \$400 million. The purpose of our debt headroom is to have the ability to borrow in the event of an emergency and remain within debt covenant limits. Carrying a relatively high level of debt means that we must focus on retaining our financial resilience and having access to funds at short notice in order to respond to unexpected events. Our LTP had us maintaining a debt headroom minimum of \$400m.

The table below shows the impact of adding \$150m on our debt headroom. It should be noted that our Annual Plan for FY22/23 has not yet been adopted, but the projected headroom is based on our current projection. We are in an improved starting position (from LTP) because of the impact of COVID/supply chain having delayed delivery of our full capital programme and operational surpluses giving us the ability to not borrow/early repay the balance of our COVID borrowing. Note: future years will also be impacted by Water Reform which will be adjusted for in the FY24/25 LTP.

Debt Headroom(\$m)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Current Projections	1,270	660	566	566	562	610
Additional cost plus revised cost profile	1,289	622	436	446	450	502

Stopping the Project

If a new arena is not built, can Orangetheory Stadium in Addington continue to host large sporting and entertainment events?

The temporary stadium was built for the purposes of providing a transitional venue to hold rugby and other major events in Canterbury while a replacement for Lancaster Park was designed and constructed.

The temporary stadium is made of a scaffolding structure originally intended to have a life of around five years. Constructed in 2012, the venue is now 10 years old and, whilst structurally sound and subject to quarterly structural assessments, it will in due course require decommissioning.

On this basis, if Te Kaha is not built, there will be no venue in Canterbury suitable for large sporting or entertainment events in the medium-to-long-term.

Delay and Redesign

Could we reduce the cost of the arena back to \$533 million through value management?

We have done extensive value management work in both the preliminary and developed design phases of the project to keep costs as low as possible. It is clear at this point that we cannot build the arena for \$533 million without significantly compromising on size, functionality and design.

If we reduce the scale of the arena to keep the project on budget, will it affect the completion date?

Yes, it would push out the completion date for the arena by about nine -12 months as, given the extent of the changes required, we would need to go back to the start of the three-stage design process.

Have we explored the option of building an arena without a roof? Would that bring the project back into budget?

We have investigated the option of removing the centre oculus of the roof, which would save about \$35 million. If we did this, we would have the option of building a roof at some future date.

If we scaled right back and only built a 'dripline' roof there would be greater savings, but this has not been quantified.

These options would compromise the key fundamental in the funding agreement with the Crown so we would need to negotiate change. The Crown may decide to reduce its \$220 million for the project.

What kind of arena would we get for \$533 million?

Because of the investment we have already made in the current design scheme, the actual budget available for a scaled-back arena would be less than \$500 million. We have not planned for this scenario, but our cost consultant has advised that, based on BESIX Watpac's Design and Construct tender, we could only afford to build an arena with around 17,000 permanent seats and 3,000 temporary seats. This option would mean the arena would not be completed until the beginning of 2027. This option would mean the arena would not be completed until the beginning of 2027.

These options would compromise the key fundamental in the funding agreement with the Crown so we would need to negotiate change. The Crown may decide to reduce its \$220 million for the project. This option would mean the arena would not be completed until the beginning of 2027.

Would reducing the size of the stadium to 17,000 permanent seats plus 3,000 temporary seats impact on the operational viability of the stadium?

Venues Ōtautahi has advised that at 17,000 permanent capacity Te Kaha would be the smallest stadium in New Zealand, with the exception of Palmerston North. This would significantly compromise both the ability to attract large scale events, including concerts and All Blacks matches and the attractiveness of Te Kaha to commercial partners.

With asset management and maintenance costs still relative to the larger scale venue and compromised commercial and operational viability, the annual operating levy required by Council would need to increase by an estimated 70%, from \$4.2m to \$7.5m per annum.

Would reducing the size of the stadium to 17,000 permanent seats plus 3,000 temporary seats impact the expected economic benefit to the region?

As per the (CMUA) Investment Case, Te Kaha is expected to deliver \$462.2m of economic benefit to the Canterbury region over 25 years. This includes (but is not limited to) \$10m of economic benefit per annum from three large scale concerts and \$3.6m from large sporting events including the All Blacks.

Venues Ōtautahi has advised that reducing permanent capacity to 17,000 (plus 3,000 temporary seats) and concert capacity to an estimated 27,000 would significantly compromise both the ability to attract large scale events including concerts and All Blacks matches. With revised assumptions reducing the number of large concerts to one per annum and no longer having the ability to attract All Blacks matches without a significant bidding incentive fee, the expected economic return to the region would reduce by around 45%.

What are the Key Deliverables required in the Funding Agreement with the Crown

The key deliverables are:

- A roof that covers the entire arena.
- A minimum of 22,500 permanent seating capacity.
- Multi use, being that the predominant “mode” is an indoor arena, not a sports field or a stadium within which other events need to be tolerated, and capable of hosting:
 - Turf based sports – e.g. rugby;
 - Non-turf based sports and events – e.g. concerts, Nitro Circus; and
 - Non-event day functions – e.g. social events, seminars, meetings.

What could be built if the Crown withdrew its funding?

A high level estimate indicates that the remaining funding would be sufficient for a stadium without a roof and fewer seats than the current Orangetheory stadium. Council would also need to identify an alternative site as the land is part of the Crown contribution.

Alternative Funding Options

Will the Crown provide additional funding?

No further Crown funding will be made available beyond the \$220 million allocated from the Christchurch Regeneration Acceleration Facility to the arena project. This is consistent with the Funding Agreement the Council signed with the Crown in 2020.

The Crown has already contributed significantly to the project through:

- \$10 million for land decontamination.
- \$220 million towards construction costs.
- Funding of the Investment Case and Prefeasibility Study.
- Cost of the land purchase - Between 2013 and 2022, the Crown acquired 58,048sqm of land for the stadium. The total cost was about \$59m, including operating costs such as demolition.

Are you looking at options for getting funding from elsewhere?

Te Kaha will deliver significant social, cultural and economic benefit to the entire Canterbury region. It is on this basis that discussions with other Canterbury councils in respect to contributions of capital, operational or bid incentive funding have begun.

Venues Ōtautahi as the operator of Te Kaha will also be seeking commercial third party partnerships including, but not limited to, naming rights, sponsorship, ticketing and pourage (supplier of refreshments) partnerships and other activations outside of the venue itself to both maximise the opportunity of Te Kaha for these key partners but also to deliver positive revenue outcomes for the venue.

Could you raise funding through the sale of the Orangetheory Stadium in Addington?

The sale of the Orangetheory site could generate revenue to contribute to the Te Kaha project.

Council staff have undertaken a preliminary review of the 4.9 hectare site against Council's retention criteria and have not identified a need to retain the site.

The site is ideally located to provide for a medium-to-high-density residential development with about 250 homes.

Because the site has been used mainly for recreational purposes, if the Council decides to dispose of the land, it will need to go through a public consultation process.

Has Council spoken to neighbouring councils about the project?

Neighbouring councils have been briefed on the multi-use arena (Te Kaha) on a number of occasions, both at a political and staff level, including:

- Attendance at workshops as part of the Investment Case process
- Informal discussions with the Mayoral Forum during the early investigation phase
- Discussions between officials about a potential regional rate for ongoing operational costs
- Correspondence in August 2021
- Briefings from Te Kaha/CMUA project team in 2021 and earlier 2022
- Meetings with the CE of Venues Ōtautahi.

No formal proposal was made to the councils for capital funding as, given the Crown contribution and the Council's financial commitment, there was no gap in the funding for the project.

The discussions had also suggested that operational funding was the priority, either via a regional rate or direct contribution. Until the Council had detailed operational models, it was unable to assess the operating cost model on which to base any formal proposition.

The Council contacted other Canterbury councils again in mid-May 2022, when it was initially advised by Te Kaha Project Delivery company that the \$533 million budget for the arena was under pressure due to cost escalations. They were also advised in the last week of May about the quantum of the escalation. We hope to have further discussions with neighbouring councils before making any formal proposal. We are interested to hear any suggestions about how we could overcome the funding gap so that we can deliver a great arena for our region.

Te Kaha will be a regional facility. The economic benefits from having a modern, covered multi-use arena will be felt beyond the boundaries of Christchurch and will lead to increased visitors and economic activity across our region. From our earlier discussion with other Councils, we are also aware that they have features and facilities in their districts that also contribute to the vibrancy of the region.