

Financing

Chapter 5

5.1 Construction costs / Investment costs

As mentioned in the introduction, the construction of ice sports facilities in countries with an ice sports tradition used to be financed by local authority institutions. These institutions were frequently supported with construction grants from the regional governments or central government. In its entirety, this investment money came solely or mainly from tax revenue, and in some cases also from the surpluses of national or regional sports or other lotteries.

In the meantime, the economic situation of the public sector in most countries has changed dramatically. It started in the 1970's due to the industrial decline and the heavy burden of unemployment on society. Later the role of the government was debated and tasks that were usually appointed to these governments were now put in the hands of private organisations. The process of privatisation had started. The shifting from governmental financing and operation to commercial organisations changed the management philosophy of sports facilities greatly as will be discussed in 5.2.

In many places, the private sector has emerged as a provider of ice sports. Investors have been found as a source of finance whom, rather than having their profits skimmed off by the tax authorities, have enjoyed high tax write-offs (loss allocation). This kind of financial participation takes a weight off the investment budget. Due to low interest and loan repayment instalments, this has yielded a lower burden on the current budget for facility operation.

New ice sports facilities these days make use of entirely different forms of financing, many of which fall within the concept of public-private partnership (PPP). This is where the public sector and commercial industry search jointly for sources of finance. In this context, sports clubs can also act as private partners, by providing either funding or manpower for construction and equipping activities. There are nevertheless limits to the latter, because work performed by the sports club on a building with sophisticated engineering like an ice sports facility is generally only feasible for a small number of construction and technical tasks.

On PPP projects, the private side is put in a more profitable position than was possible in the past through the free provision of building land by

the local authority (or by the payment of a token fee). If the design and construction of the building is controlled by a commercial operator, certain legal obstacles can be evaded, e.g. the guidelines (regulations) for State-awarded contracts. If the construction and engineering services are correctly designed and specified, construction costs can be reduced without any diminution of quality. This reduces overall project expenditure, the interest and repayment instalments are lower, and the operating costs are less heavily burdened year after year.

The preparation of a public-private construction project does not differ qualitatively from earlier forms of project financing and realisation at all. The analyses of demand for such a facility, and of the required space and rooms are the same as before. The design and tendering procedure require the same care (see above) and the companies for construction and interior finish must be selected according to the same criteria as in the past. For the public partner it is important to reach user-friendly agreements early on with the private partner concerning opening hours and socially acceptable pricing. Of course, the private partner will not enter into agreements that put at risk the achievement of a surplus in facility operation.

A special form of PPP is the leasing of a property for a period of, say, 20 years with an option of renewing the agreement or buying back the property. Given favourable terms and reliable partners, a leasing agreement also ensures that the ice sports facility remains in immaculate structural and technical condition throughout the term of the leasing.

5.2 Operational costs

Chapter 4.2 and 4.3 described the main construction and annual costs of the IIHF Prototype Ice Rink with a standard 30 x 60 m ice pad and a program of operational and other ancillary rooms, which is not too lavish but fully meets the needs of a modern facility. The possible but locally divergent initial position there is clearly indicated by the span of the different figures in the expenditure and income positions. The expenditure side depends on the structural and technical quality of the facility, the level of staff costs, and the various energy, water and disposal charges. The income side is affected by such factors as the location,

population density, awareness rating and interest in ice sports, admission pricing, opening hours and numbers of users.

The successful operation of the facility in the long term can only be ensured if the revenue surplus covers the interest and repayment instalments as well as sufficient upkeep of the building and its installations. Although the latter will be negligible in the first few years, initially low reserves should be set aside from the outset.

A continuous theme is that of the quality of the work performed by the various trades. At this point, it is important to highlight the effect that appropriate (not excessive) quality can have on a building's life cycle. Usually it can be assumed that 20 % of costs arise by construction and 80 % by operation and maintenance – from the start of construction through disposal. If, instead, only 4 % more is spent on the initial investment, operating and maintenance costs are reduced to 70 %. This represents an appreciable cut in annually recurring costs.

The possibility of intense year-round use is a necessary condition for considering the construction of such a facility. Only high capacity utilisation rates can warrant the investment and recurring annual overhead and maintenance costs associated with an adequately staffed, state-of-the-art facility of this type.

The construction of an ice rink should be considered wherever the following basic prerequisites are met: In moderate climate zones, such as Central Europe, indoor ice rinks with artificial ice should be sited in communities with between 20,000 and 50,000 inhabitants, depending on the tradition of ice sports in that particular region. The population density per square kilometre should be at least 150 within a 12-kilometer radius.