

[00217-17: RTÉ- proposed sale of lands at Montrose] - Completed

- **To:** Minister
- **Action Required:** Approval Sought for Sale of lands by RTE & Briefing on impact of use of funds on Budgetary Position for 2018
- **Status:** Completed
- **Purpose:** Approval
- **Division/Office:** Expenditure Policy Lottery/EU/Internal Audit
- **Decision By:**
- **Author:** Adrian Finneran
- **Owner:** Adrian Finneran
- **Reviewers:** Mary Austin, Patricia Coleman

Executive Summary

The RTÉ Authority has approved a proposal to sell a portion of its lands at Montrose. The lands comprise 10 acres of relatively unused property at the northern end of the site. RTÉ has requested the consent of the Ministers for CCAE and PER, as required under Section 8.22 of the Code of Practice for the Governance of State Bodies 2016, to the disposal. The Minister for CCAE has indicated that he will provide his consent and has requested that you do also. RTÉ does not require any other consents from the Ministers i.e. the Ministers have no statutory function in the disposal of assets by RTÉ or in RTÉ's budget.

RTÉ advises that they need Ministerial consent prior to St Patrick's Day if they are to advertise the sale by end-March, which they wish to do on the advice of their advisors, Savills.

The Chair of the RTÉ Authority has also sought a meeting with you on the matter. We understand that the Chair also wishes to discuss RTE's poor finances generally.

This note, accordingly, is to brief you on the Montrose matter and RTÉ's finances. **As RTÉ's finances form part of General Government, the sale and associated use of funds may have a negative impact on the Budgetary position for 2018 and subsequent years. The note covers this.**

We do not believe that there is any basis to withhold your consent to the sale. In the event of there being no meeting between you and the RTE Chair before St Patrick's Day, we are seeking approval to convey your consent to the sale to RTÉ.

Submission Detail

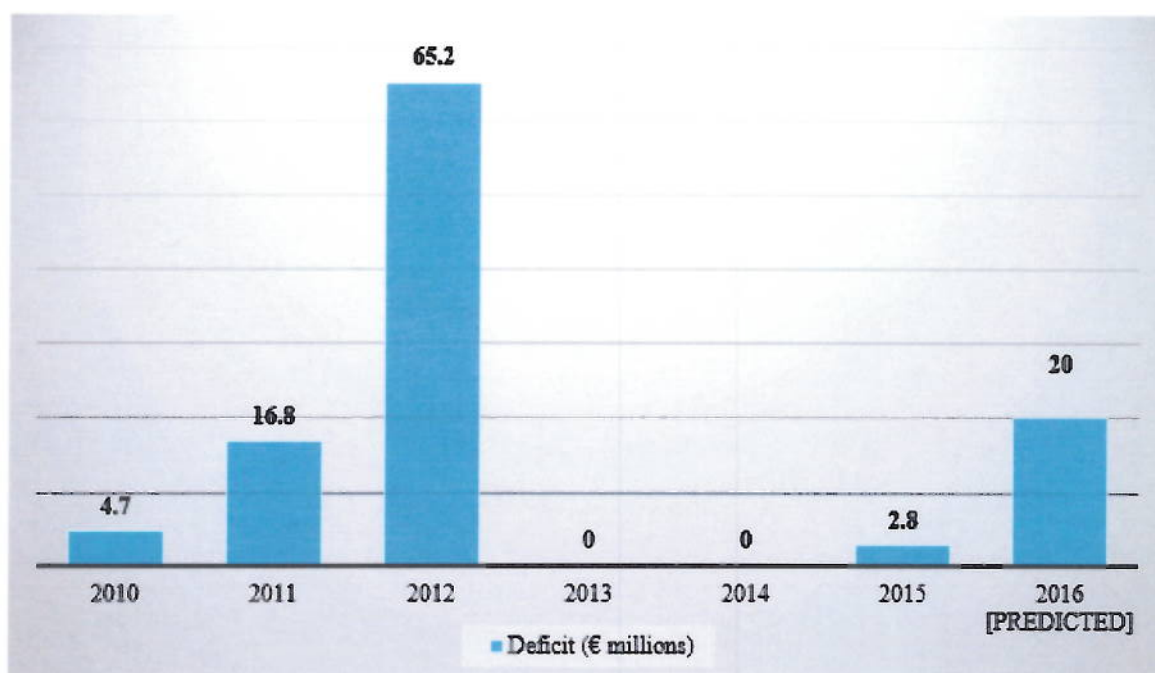
Background

RTÉ's finances deteriorated sharply post-2007. Between 2008 and 2015 there was:

- a fall in licence fee income of 11% or €22m (€201m to €179m)
- a fall of 33% or €85m in commercial revenue (€240m to €155m);

Operating costs reduced by 25% or €118m (€439m to €321m), which brought the organisation to breakeven in 2013 (see below). Since then, there has been a further gradual deterioration.

(Note- the 2012 deficit includes voluntary severance payments of c€50m).



RTÉ's view, shared by D/CCAÉ (and, it is understood, by the Broadcasting Authority), is that RTÉ is underfunded in respect of its public service broadcasting and that the Exchequer funding cuts of recent years have to be reversed and licence fee compliance improved.

Both DCCAE and RTÉ have pointed to RTÉ's Exchequer funding being €20 million less than it was in c.2009. This is a combination of D/SP funding of "free" TV licences being reduced from a peak of €59m in 2010 to €54m in 2011 and capped at that level since then and a reduction of D/CCAÉ funding of broadcasting (i.e. net of licence fees) of c.€15m since 2009.

D/CCAÉ sought €9m additional Exchequer funding in Budget 2017 for broadcasting. In the event, M/CCAÉ allocated €5m of his additional funding to RTÉ. It is anticipated that this matter will be raised again in the context of the 2018 Estimates/Budgets

We do not necessarily accept that further additional Exchequer funding should be provided or that the level of Exchequer funding should be restored to its peak of c.2009.

We accept that NewEra's examination of RTÉ (2013) found little scope for further operating savings but that does not mean that the level of loss-making public service broadcasting could not be reviewed and/or that non-Exchequer solutions to RTÉ's problems be pursued e.g. legislate re. advertising leakage, increase the price of the TV licence, improve the licence fee collection rate (the high evasion rate of c.15% being a perennial rather than a temporary feature and equates to revenue foregone of c.€20m per annum). **In short: all factors driving RTE's costs (including assumptions about what services it should be providing) and revenues should be examined before concluding that additional Exchequer funding should be given.**

Montrose Land Sale

RTÉ has said that it does not intend to use the proceeds from the sale of the land (10 acres) to fund operating losses. It intends to use it to fund investment in equipment and facilities, to reduce its debt and to fund organisational restructuring (inc. redundancy payments). The approach seems reasonable if it leads to reductions in RTÉ's cost base.

However, as RTÉ forms part of General Government (because its licence fee income, which is categorised as a tax for statistical reporting, exceeds its commercial revenues) the sale and associated use of funds will affect General Government Expenditure, possibly over a number of years. The size of the impact might not be considered material, but it would be preferred if it could be minimised as much as possible.

We do not know what RTÉ expects to receive for the disposal. They are reluctant to share a figure citing commercial sensitivity. We have advised them that, given that the figures form part of General Government budgeting, we would expect them to share any figure with you at the proposed meeting.

For the purposes of this submission we have assumed two possible proxy receipt figures: €50m and €70m.

Budgetary Impact

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Comments

Final Comment

I agree to this Paschal

CONFIDENTIAL & COMMERCIALY SENSITIVE

16/02/2017

Mr. Denis Naughten T.D.,
Minister for Communications, Climate Change and Environment,
Department of Communications, Climate Change and Environment,
29 – 31 Adelaide Road,
Dublin,
D02 X285

Sale of RTÉ lands in Donnybrook

Dear Minister,

I am writing further to my letter of December 16th 2016 regarding the sale of RTÉ lands in Donnybrook. As per my letter and subsequent discussions and meetings between officials in your Department and the Department of Public Expenditure and Reform (DPER) and RTÉ, you will be aware that RTÉ is planning to sell up to 10 acres of underutilised land in Donnybrook at the end of March 2017.

On the 14th of February 2017 your Department confirmed that under the *Code of Practice for the Governance of State Bodies 2016* that RTÉ must seek approval in advance of a material disposal of an asset. Therefore as per section 8.22 of the *Code*, RTÉ is formally seeking your approval and that of the Minister for Public Expenditure and Reform to sell a parcel of underutilised lands at Donnybrook.

On the 24th of January 2017 RTÉ presented, in detail, its land sale plans and the strategic and financial rationale for the sale to officials from both your Department and DPER. In that presentation RTÉ outlined the key steps in the sales process itself and that following a comprehensive public procurement process Savills were appointed sales agents and A&L Goodbody have been appointed as legal advisers to the transaction.

At that meeting, we also confirmed that RTÉ plans to launch the sale to the open market in late Q1 2017 which as advised by Savills, is the optimum time to conduct this land sale. The sale is planned to officially launch to market in late March 2017 and will be a competitive, transparent, open market process to ensure the maximum price is secured for the lands and the process will be in accordance with best industry practice.

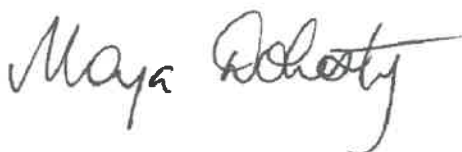
On January 26th 2017, RTÉ formally communicated to its staff that a decision had been taken to sell land in Donnybrook shortly and, as you will likely be aware, this was reported widely in the media. This in itself was an important first step in building market interest in the sale.

In RTÉ's presentation to DCCAE and DPER officials on 24th January 2017, we outlined how RTÉ plans to invest the net sales proceeds and how this is an integral enabler for the overall strategic plan and goals for RTÉ. Since our meeting, DPER have requested that RTÉ provide further details on how it intends to use the proceeds of the sale and over what time frame, as per an established template. RTÉ has supplied the relevant information to both DPER and to DCCAE. In broad outline the proceeds will be used to invest in much needed digital investment and infrastructure, to facilitate organisation restructuring and to reduce debt levels in the organisation.

Given the financial imperative involved as outlined at our meeting in January and the commencement of the sales process in March, your earliest attention to this matter would be appreciated.

I look forward to discussing this and other matters when the Director General and I meet with you next week.

Kind regards,



Moya Doherty
RTÉ Chairperson

Property Acquisition and Disposal of Surplus Property

Code Provisions

- 8.22 **Acquisition or Disposal of Assets:** The Chairperson of the Board should seek the approval of the relevant Minister and the Minister for Public Expenditure and Reform in advance of any material acquisition or disposal of land, buildings or other material assets proposed by a State body. This also includes long term leases or purchase of right to use (rather than own) an asset.

DCENR eSubmissions

Robert McGuinness ▾

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Title: RTÉ - Donnybrook Land Sale Close

Current Status: 14 - Approved by Minister from Minister Office

Details

Submission Documents

Documents

Title	Type	Date	ModifiedBy
2017_0222 Montrose Submission	Submission	24/02/2017 12:41	Barbara Leeson
e-Signature	Minister Signature	24/02/2017 14:42	Seana McGearthy
TAB A - Consent Letter	Attachment	22/02/2017 18:44	Robert McGuinness
TAB B - Financial Advisor Report	Attachment	22/02/2017 18:44	Robert McGuinness

Printing instructions

Comments

Date & Group	Comment
24/02/2017 Corporate Governance Division (Barbara Leeson)	This matter was discussed at a meeting between the Minister and RTÉ Chair and DG on Tuesday last (21 February). It is recommended that the Minister consent to the sale of the land subject to the conditions outlined in the report of the DCCAE financial advisor. MPER consent will be formally sought once Minister has given his consent. Barbara 24/02

Final Approval By: Minister

Action History

Date & Group	Status
22/02/2017 Corporate Governance Division (Robert McGuinness)	With Division
23/02/2017 Corporate Governance Division (Robert McGuinness)	With Head of Function
24/02/2017 Corporate Governance Division (Barbara Leeson)	Approved and sent to Secretary General
24/02/2017 Secretary Generals Office (Mark, Griffin)	Approved and sent to Minister
24/02/2017 Press Office (Suzie Coogan)	Received by Minister
24/02/2017 Minister's Office (Seana McGearthy)	Approved by Minister

Current Status: Approved by Minister

Approval Date: 24/02/2017 00:00

Close

Version: 9.0
Created at 22/02/20
Last modified at 24/

Content Type: Record

Submission Cover Sheet

Title: RTÉ - Donnybrook Land Sale

Summary/Recommendation:

RTÉ seeks the approval of the Minister and MPER to dispose of 10 acres (4 ha) of land in accordance with Section 8.22 of the Code of Practice for the Governance of State Bodies 2016.

After consultation with Broadcasting Division, Corporate Governance Division recommends that consent is granted to RTÉ for the disposal based on the financial and commercial advice provided by DCCA financial advisor subject to:

- (i) an offer not being accepted unless it meets the value expectations of the RTÉ Board; and
- (ii) the consent expiring 12 months after the issuing of consent to RTÉ.

Minister's Signature:

1. Ms. Barbara Leeson
2. Assistant Secretary, Ms Cronin (away)
3. Secretary General
4. Rúnaí Aire

cc. Éanna Ó Conghaile, Broadcasting Division

Re: RTÉ - Donnybrook Land Sale

1. Decision Sought

In accordance with Section 8.22 of the Code of Practice for the Governance of State Bodies 2016, RTÉ seeks by way of letter, Tab A, the approval of the Minister and Minister for Public Expenditure and Reform (MPER) to sell a 10 acre (4 ha) parcel of underutilised land at its Donnybrook campus.

2. Background

RTÉ's financial position has been severely constrained in recent years, with capital investment being particularly restricted at c.43% of depreciation levels over the past 5 years. RTÉ thus requires additional investment to remain competitive and to meet long term objectives.

RTÉ has returned annual deficits or roughly breakeven annual results since 2007. The outturn for 2016 is expected to be a deficit of c.€20m and the provisional budget projections for 2017 indicate that the company will continue to run a deficit but at a lower level. RTÉ expects ongoing financial difficulty due to a range of issues including a pressurised commercial advertising market, uncertainty arising from Brexit, competition from foreign channels, a low licence fee collection rate, cost inflation and audience fragmentation.

RTÉ has been considering options regarding its Donnybrook land holding since 2002. A 2014 NewERA report recognised RTÉ's challenged ability 'to undertake any meaningful capital expenditure' and that 'options regarding the use in part or whole of the site in Donnybrook should be explored as a possible source of funding for investment'.

In June 2015, the RTÉ Board considered seven property options ranging from retaining the full Donnybrook site (32 acres) to moving off site, retaining 2 acres. Based on the considerations of ensuring greatest net yield, minimisation of disruption, urgency to conclude the sale and to avoid foreclosing future disposal or redevelopment options, the Board decided in December 2015 to proceed with the sale of up to 10 acres of underutilised land in Donnybrook.

In order to realise full site value, planning permission for a new entrance was sought from Dublin City Council (DCC) and obtained in November 2016.

RTÉ proposes that 46% of the proceeds of the sale will be used for capital investment in digital technology and services and the upgrade of buildings in Donnybrook to facilitate collaborative work spaces aligned with organisational/structural changes. 35% will be used to facilitate organisational restructuring and 19% will be used to refinance existing debt.

RTÉ now seek the approval of the Minister and MPER to dispose of the land pursuant to Section 8.22 of the Code of Practice for the Governance of State Bodies 2016.

3. The Property

The 10 acre (4 ha) land parcel is considered surplus to RTÉ's operations. The land is zoned by DCC as Z12: Institutional Land (Future Development Potential). As per DCC's Development Plan (2016-2022), such land has a wide range of permissible uses including residential development. Where Z12 lands are to be developed, a minimum of 20% of the site is required to be retained as accessible public open space. Requirements also exist under the Development Plan for the provision of social and affordable housing in the development of Z12 land.

A certain amount of preparatory work is required to make the site vacant, including obtaining planning permission to relocate the RTÉ crèche, the relocation of a number of facilities including the exterior lot of Fair City and the building of a new entrance to the site from the N11. RTÉ have advised that these works, save for the obtaining of planning permission to relocate the crèche, will be completed after the sale. It is understood that RTÉ has adopted a process to ensure timely delivery of these works while minimising disruption to RTÉ operations.

As appointed sales agents, Savills have advised that Q1 2017 is the optimum time to conduct the sale to ensure financial close before year-end, to avoid launching a sales process during a potentially quieter summer period in the market and to avoid potential macro-economic events impacting the process. Given the stage of the marketing process, Savills have further advised that any external value indications could have a detrimental impact on maximising the value from the disposal. The final decision to accept or decline the winning bid will be a matter for the RTÉ Board.

4. Financial Advisor Report

DCCAE Financial Advisor, Mr. Luke Hardcastle, has reviewed the proposed transaction in his report attached at Tab B, making the following conclusions:

- RTÉ appear to have undertaken a formal process in appraising and preparing for the sale
- RTÉ's governance has included the establishment of RTÉ Real Estate Group, the engagement of professional service providers and the involvement of the RTÉ Board
- Given the financial constraints which RTÉ has been operating under, the timing of the sale could be considered favourable to enable the realisation of funds for re-investment into the business and assist in meeting long-term objectives.
- RTÉ has consulted tax specialists to advise on the transaction. There is no complex tax structuring planned and the tax treatment appears reasonable.

- The application of proceeds to re-invest in capital expenditure, strengthening the balance sheet and reducing costs appear to be a reasonable application of funds.

Mr. Hardcastle also identifies the following risks associated with the disposal:

- There is a risk associated with the implementation of the work streams required to make the site vacant. It is recommended that this is managed by the RTÉ Board/Senior Management team.
- While securing Ministerial consent prior to commencing marketing reduces transaction execution risk, a Ministerial risk presents that a material event may occur between consent and completion of the transaction. Thus it is recommended that certain conditions are attached to the consent to reduce this risk, as set out below.

5. Conclusion

After consultation with Broadcasting Division, Corporate Governance Division recommends that consent is granted to RTÉ for the proposed land disposal based on the financial and commercial advice provided by DCCAE financial advisor subject to:

- (i) an offer not being accepted unless it meets the value expectations of the RTÉ Board, and;
- (ii) the consent expiring 12 months after the issuing of consent to RTÉ.

Attachments

RTÉ Consent Request
DCCAE Financial Advisor Report

Tab A
Tab B

Robert McGuinness
Corporate Governance Division
23 February 2017

CONFIDENTIAL & COMMERCIALY SENSITIVE

16/02/2017

Mr. Denis Naughten T.D.,
Minister for Communications, Climate Change and Environment,
Department of Communications, Climate Change and Environment,
29 – 31 Adelaide Road,
Dublin,
D02 X285

Sale of RTÉ lands in Donnybrook

Dear Minister,

I am writing further to my letter of December 16th 2016 regarding the sale of RTÉ lands in Donnybrook. As per my letter and subsequent discussions and meetings between officials in your Department and the Department of Public Expenditure and Reform (DPER) and RTÉ, you will be aware that RTÉ is planning to sell up to 10 acres of underutilised land in Donnybrook at the end of March 2017.

On the 14th of February 2017 your Department confirmed that under the *Code of Practice for the Governance of State Bodies 2016* that RTÉ must seek approval in advance of a material disposal of an asset. Therefore as per section 8.22 of the *Code*, RTÉ is formally seeking your approval and that of the Minister for Public Expenditure and Reform to sell a parcel of underutilised lands at Donnybrook.

On the 24th of January 2017 RTÉ presented, in detail, its land sale plans and the strategic and financial rationale for the sale to officials from both your Department and DPER. In that presentation RTÉ outlined the key steps in the sales process itself and that following a comprehensive public procurement process Savills were appointed sales agents and A&L Goodbody have been appointed as legal advisers to the transaction.

At that meeting, we also confirmed that RTÉ plans to launch the sale to the open market in late Q1 2017 which as advised by Savills, is the optimum time to conduct this land sale. The sale is planned to officially launch to market in late March 2017 and will be a competitive, transparent, open market process to ensure the maximum price is secured for the lands and the process will be in accordance with best industry practice.

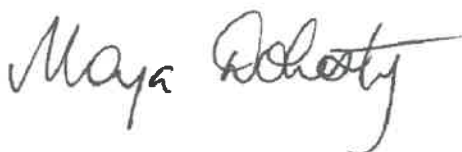
On January 26th 2017, RTÉ formally communicated to its staff that a decision had been taken to sell land in Donnybrook shortly and, as you will likely be aware, this was reported widely in the media. This in itself was an important first step in building market interest in the sale.

In RTÉ's presentation to DCCAIE and DPER officials on 24th January 2017, we outlined how RTÉ plans to invest the net sales proceeds and how this is an integral enabler for the overall strategic plan and goals for RTÉ. Since our meeting, DPER have requested that RTÉ provide further details on how it intends to use the proceeds of the sale and over what time frame, as per an established template. RTÉ has supplied the relevant information to both DPER and to DCCAIE. In broad outline the proceeds will be used to invest in much needed digital investment and infrastructure, to facilitate organisation restructuring and to reduce debt levels in the organisation.

Given the financial imperative involved as outlined at our meeting in January and the commencement of the sales process in March, your earliest attention to this matter would be appreciated.

I look forward to discussing this and other matters when the Director General and I meet with you next week.

Kind regards,



Moya Doherty
RTÉ Chairperson



Memo to Barbara Leeson, Corporate Governance Division

RTÉ – Consent request in relation to Donnybrook Land Sale

Author: Luke Hardcastle (DCCAE Financial Advisor)

Date: 21st February 2017

Consent Sought

RTÉ submitted a consent request letter to the Department of Communications, Climate Action and the Environment (“DCCAE”) dated 16th February 2017 in which RTÉ has requested, Pursuant to Section 8.22 of the Code of Practice for the Governance of State Bodies which came into effect on 1 September 2016 (the “Code”), the approval of the Minister of Communications, Climate Action and Environment (“MCCA”) and the Minister for Public Expenditure and Reform (“MPER”) for RTÉ to proceed with the sale of a parcel of underutilised RTÉ lands at Donnybrook (the “Transaction”).

Contents and Sections

This memo sets out a summary of what may be considered key areas for consideration to facilitate a decision to be made with regards to the requested consent. This memo includes the following sections:

1. Executive Summary & Recommendation
2. Overview of Asset
3. Valuation and Market Considerations
4. Financial Considerations
5. Tax
6. Board Approval
7. Information Sources

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Executive Summary

- RTÉ is seeking to sale a parcel of underutilised, Z12 zoned land on the west side of their existing site in Donnybrook.
- Whilst the proposed Land Parcel is considered to be surplus to RTÉ's operations, there remains work required to make the site vacant, including;
 - Obtaining planning permission for the move of the RTÉ crèche (expected by June 2017) and its re-location
 - Re-location of the RTÉ Sports and Social Club
 - Re-location of the exterior lot for Fair City
 - Build out of new entrance to the site off the N11 (Planning permission has been obtained)
 - Re-routing of essential site services and internal roads
 - Build a new site boundary
- RTÉ has informed DCCAE that (with the exception of item 1) all works will be implemented post completion of the sale (being "Conditions Subsequent"). RTÉ has implementation plans in place which minimise disruption to the delivery of RTÉ's services and any execution risks associated with the Conditions Subsequent.
- RTÉ appear to have undertaken a formal process in appraising and preparing for the sale of the land parcel.
- RTÉ's governance has included the establishment of RTÉ Real Estate Group (REG), the engagement of professional service providers and the involvement of the RTÉ Board.
- RTE's professional advisors have suggested that this is an optimum time to sell a development site in the market.
- Given the financial constraints which RTÉ has been operating under, the timing of the sale could be considered favourable to enable the realisation of funds for re-investment into the business and assist in meeting long term objectives.
- The application of proceeds to re-invest in capital expenditure, strengthening the balance sheet and reducing costs appears to be a reasonable application of funds.
- RTÉ has consulted Tax specialists to advice on the transaction. There is no complex tax structuring planned and, whilst the Author is not a tax expert, tax treatment appears reasonable.
- RTÉ has consulted and received approval from their Board.

Significant Risks identified

- It has been recommended that Ministerial Consent is secured prior to commencing the marketing process in order to minimise transaction execution risk. Whilst there appears to be merit in providing consent in advance of the marketing process, this does represent a risk to the Minister that a material event may occur in-between consent and completion of the Transaction. It is advised that conditions are included within the consent to ensure;
 - The sale does not proceed if the Transaction does not achieve the value expectations of RTÉ's Board.



- There is an expiry date to take consideration for a circumstance where the sales process is not successful within anticipated timeframes
- There is also a risk associated with the implementation of work streams required to make the site vacant (Conditions Subsequent), both on the disposal process and the ongoing operations of RTÉ to the public. It is recommended that this is managed by RTÉ Board / Senior Management team. It is understood that a process is being adopted to ensure timely implementation of Conditions Subsequent whilst minimising risk to RTÉ and its services.

Recommendation

From a financial and commercial perspective, it is recommended that the Ministers provide the consents and approvals sought on the condition that;

- An offer will not be accepted unless it meets the value expectations of the RTÉ Board.
- This consent expires within 12 months from the date of the Minister's approval letter



Overview of Asset

RTÉ has been considering options regarding the redevelopment of the Donnybrook site dating back to 2002 when a report was commissioned from Logical/KPMG to review the land options available to RTÉ.

Ireland's economic collapse in 2008 necessitated a revision to RTÉ's property plans which were temporarily put on hold. As the economic climate improved during 2013/2014, RTÉ again considered its property options as part of overall strategy.

RTÉ is now seeking to sale a parcel of underutilised, Z12 zoned land on the west side of their existing site in Donnybrook (See Figure 1).

Figure 1: Diagram 1: Pictorial overhead of RTÉ Donnybrook site



Source: RTÉ presentation to DCCAE: Donnybrook Land Sale Q1 2017

Whilst the proposed Land Parcel is considered to be surplus to operations, there remains work required to make the site vacant, including;

1. Obtaining planning permission for the move of the RTÉ crèche and its re-location (expected by June 2017)
2. Re-location of the RTÉ Sports and Social Club
3. Re-location of the exterior lot for Fair City
4. Build out of new entrance to the site off the N11 (Planning permission has been obtained)
5. Re-routing of essential site services and internal roads
6. Build a new site boundary

RTÉ has informed DCCAE that (with the exception of item 1) all works will be implemented post completion of the sale (being "Conditions Subsequent"). RTÉ have implementation plans in place which minimise disruption to the delivery of RTÉ's services and any execution risks associated with the Conditions Subsequent.

Summary Comments:

- The Land Parcel proposed for sale is surplus to RTÉ's operations
- RTÉ has plans in place to ensure timely implementation of conditions subsequent whilst minimising risk to RTÉ and its services.



Process and Governance

In October 2014, RTÉ Real Estate Group (REG) was established to look at site options for RTÉ lands including the development and evaluation of various scenarios which included specific consultations with the market.

RTÉ REG engaged professional service firms to assist with their appraisal, including KPMG (financial), CBRE (property advisors), O'Connor Whelan (planning), Scott Tallon Walker (architects), Seamus Moynihan and Partners (quantity surveyors).

In June 2015, a report was considered by RTÉ Board which included seven property options. The RTÉ Board agreed that the best options centred on remaining within the existing site utilising a smaller footprint.

RTÉ then considered options for remaining on the existing site utilising a smaller footprint. The associated report included deal structures, lotting strategies, together with a risk assessment.

In December 2015 RTÉ Board provided approval to proceed with the sale of up to 10 acres of underutilized land in Donnybrook.

During 2016 there was a number of work streams progressed in order to proceed to a sale including the assessment of options, engagement of professional services, planning applications and other property related activity (See Figure 2 for further detail).

Following a public procurement process, Savills are the appointed sales agents, and A&L Goodbody appointed legal advisors.

Figure 2 RTÉ Land Sale Decision Process



Source: RTÉ presentation to DCCAE: Donnybrook Land Sale Q1 2017

RTÉ are undertaking a competitive sales process as recommended by Savills, in summary;

- Go to market in March 2017, with national and international marketing campaign
- Interested parties must register and be approved for access to documentation
- 2 stage bid process with preliminary bids assessed before proceeding to a second and final bidding sealed bid process.
- Both stages of the bid process will be handled by a small core team comprising Savills, A&L Goodbody and RTÉ



Savills have recommended that Minister Consent is secured prior to commencing the sales process in order to minimise transaction execution risk.

Summary Comments:

- RTÉ appears to have undertaken a formal process in appraising and preparing for the sale of the Land Parcel.
- RTÉ's governance has included the establishment of RTÉ Real Estate Group (REG), the engagement of professional service providers and the involvement of the RTÉ Board.
- Whilst there appears to be merit in providing shareholder consent in advance of the marketing process, this does represent a risk to the Minister that a material event may occur in-between consent and completion of the Transaction.

Valuation and Market Considerations

Savills (RTÉ's appointed sales agents) have advised that Q1 2017 is the optimum time to conduct the sale, a summary of timing considerations based on information provided by Savills is provided below:

- To ensure the sale closes by year end
- To avoid launching a sales process during a potentially quieter summer period in the market
- To proceed quickly to avoid further macro-economic events impacting the process

Given the stage of the marketing process, Savills has advised that any external value indications could have a detrimental impact on maximising value from the Transaction. RTÉ has therefore requested that the value is not disclosed within this memo.

Summary Comments:

- RTE's professional advisors have suggested this is an optimum time to sell a development site in the market. I have not been made aware to the contrary.
- It is advised that a condition is included within the consent to ensure that the sale does not proceed if the Transaction does not achieve the value expectations of RTÉ's Board.

Financial Considerations

Management has communicated that given the financial constraints RTÉ has operated under during recent years (See Figure 3), the business has restricted annual capital investment and as a consequence requires additional investment in order to remain competitive and meet long term objectives.

RTÉ's capital spend for the last 5 years has been less than required (c.43%¹ of depreciation levels) which is not considered sustainable by management. These comments are supported by statements New Era made within their strategic review of RTÉ's business in 2014;

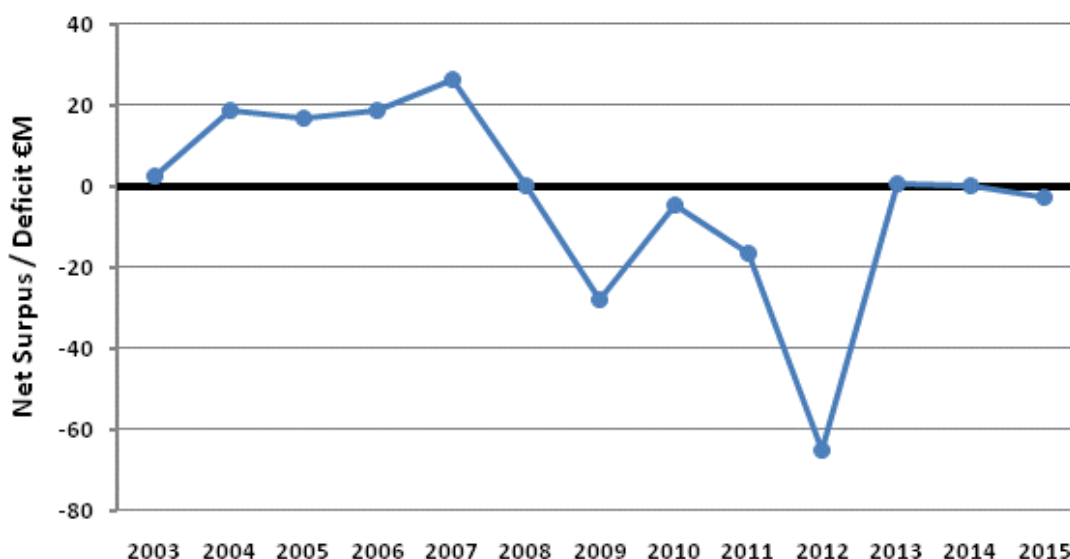
"Assuming the accumulation of further deficits is to be avoided the ability to undertake any meaningful capital expenditure will be challenging. This is a key concern given the importance of maintaining its relevance in a competitive and changing technology marketplace.....Options regarding the use in part or whole of the site in Donnybrook (for instance 20% of the physical site is presently undeveloped) should be explored as a possible source of funding for investment."

¹ RTE Management information

² Review of RTÉ for the Department of Communications, Energy and Natural Resources, New Era 15 May 2014



Figure 3: RTÉ Net Surplus / Deficit €M 2003 - 2015



Source: RTÉ presentation to DCCAE: Donnybrook Land Sale Q1 2017

Despite a modest recovery in financial performance, management has communicated that net deficits were incurred during 2016³, budgeted in 2017⁴ and expect ongoing financial pressure due to;

- Political and economic uncertainty impacting commercial advertising revenue sales
- Foreign channels broadcasting television advertising into domestic market increasing competition for advertising revenue,
- A low license fee collection rate compared to other jurisdictions
- Cost inflations including an inflation to key rights (particularly sports and drama)
- Audience fragmentation

RTÉ has identified surplus land as a key enabler for RTÉ to meet its long term objectives through capital investment and reorganisation. The budgeted use of funds is shown in Figure 4.

Figure 4: Budgeted Use of Funds

Use of proceeds	Description	Allocation
Capital investment	RTÉ needs to invest in digital technology and services to connect with audiences, to ensure a resilient environment and to deliver efficiencies. Buildings on the Donnybrook campus need to be refreshed creating more open, collaborative working spaces aligned with organisational / structural changes.	46%
Organisational restructure	The land sale will enable a 2017 restructuring programme. The timing of any scheme will be aligned with the land sale completion. Any scheme will need to be progressed through the appropriate Industrial Relations and Human Resource channels.	35%
Borrowing	Take the opportunity to reduce net debt position	19%

Source: RTÉ presentation to DCCAE: Donnybrook Land Sale Q1 2017

³ Unaudited accounts suggest a €19.4 deficit in 2016

⁴ Budgeting c.€7 deficit in 2017



Summary Comments:

- Given the financial constraints which RTÉ has been operating under, the timing of the sale could be considered favourable in order to realise funds to re-invest in the business and assist in meeting long term objectives.
- The application of proceeds to re-invest in capital, strengthen the balance sheet and reduce costs appears reasonable application of funds.

Tax

RTÉ has engaged KPMG to provide tax advice on the transaction. The transaction will involve the sale of lands which have been appropriated to trading stock and are held for sale. RTÉ will therefore pay corporation tax on proceeds offset by base costs and various other development and disposal related costs.

Summary Comments:

- RTÉ have consulted Tax specialists to advice on the transaction. There is no complex tax structuring planned and, whilst I am not a tax expert, tax treatment appears reasonable.

Board Approval

As per Section 79 of the Broadcasting Act 2009, the RTÉ Board then approved at its December 2015 Board Meeting to proceed with the sale of up to 10 acres of underutilized land in Donnybrook. Central to the Board's decision to proceed with the sale were the following considerations:

- Ensure the greatest net yield to support critical investments
- Minimise any disruption to the ongoing delivery of RTÉ's services to the public
- Given the financial and strategic urgency, ensure that the sale can be concluded promptly
- Not foreclose future disposal or re-development options
- Ensure that investment of the net proceeds helps drive RTÉ's long term strategic goals

The final decision to accept or decline the winning bid will be for RTÉ Board

Summary Comments:

- RTÉ have consulted and received approval from their Board.



APPENDIX 1: Basis of this Memo

This memo has been prepared on the basis of information listed within the Information Sources below.

This memo provides the Author's analysis and recommendations based on the information made available (the "Memo").

The accuracy of the information on which this memo is based has not been verified for accuracy by the Author.

This memo has been prepared for information purposes only and does not purport to contain all information that may be required to fully and accurately evaluate the consent.

This memo may not be suitable for purposes, other than the specific purpose for which it was designed, and the interests of third parties may not have been anticipated.

Information Sources

- RTÉ presentation to DCCA and DPER: Donnybrook Land Sale Q1 2017
- Letter from Savills to Breda O'Keefe dated February 2017
- Letter from KPMG to Breda O'Keefe dated 20 February 2017
- RTÉ Unaudited Financial Statements January 2017
- RTÉ Annual Report 2015
- Review of RTÉ for the Department of Communications, Energy and Natural Resources, NewERa 15 May 2014
- Indecon Economic Analysis of the Advertising Market in Ireland 2013
- Crow Howarth Review of Funding for Public Service Broadcasters 23rd May 2013
- In addition to reviewing the documents, the Author engaged in discussions with RTE regarding queries raised by the Author and RTE's responses thereto.