
DECISIONS ON MAJOR PROJECTS

PUBLIC EXCLUDED

Grounds: Section s48(1)(a) - That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

Reasons: Section 7(2)(c)(i) - The withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information or information from the same source and it is in the public interest that such information should continue to be supplied.

Section 7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

Purpose

1. The purpose of this report is to obtain from Council:
 - a) agreement to purchase land for the possibility of the future development of a convention centre and film museum (throughout this paper and the appended business case references to a film museum and a movie museum are interchangeable and refer to the same).
 - b) in-principle agreement to develop the new convention centre and film museum proposal outlined in this report
 - c) agreement to undertake community consultation on the proposal as outlined in the body of the report
 - d) agreement for the Chief Executive to negotiate an agreement to lease with The Movie Museum Limited (TMML) for the film museum, and bring back to Council for a final decision, together with feedback from the community and the final business cases.

Summary

2. The proposal is to acquire the necessary land to enable the development of, and to approve consultation on, a purpose built convention centre and film museum within the same development, with the film museum occupying the ground and first floor, and the convention centre occupying the top floor of the development.
3. While the convention centre will be run separately from the film museum, the co-location will allow for partnering opportunities and significantly enhance the convention centre's ability to win new business, and the convention centre will provide a steady stream of visitors to the film museum.
4. The proposed development will:

- deliver two of Councils economic catalyst projects in a way that increases their impact;
 - be a unique offering to the market that will strengthen Wellington's appeal as a conference destination, enhance Wellington's position to attract more international visitors and grow our reputation as the capital of culture and film;
 - provide exposure of the city to domestic and international visitors, help establish business and research connections, support and grow the service sectors such as hotels, restaurants, cafes, and retail;
 - deliver a significant short term economic boost through the two year construction phase, including \$109.5 million in expenditure, \$35.7 million in added GDP and full time employment for the equivalent of 444 people;
 - provide the platform for long-term growth in the local economy that has been estimated at \$60.1 million of new expenditure per year, \$31.1 million of GDP and employment of an additional 483 full time equivalent jobs;
 - ensure protection of our current business events market. Wellington would likely lose 8% of its current market share when new facilities are built in other centres – Auckland, Christchurch and Queenstown – estimated at \$12.3 million of expenditure, \$6.4 million of GDP and 85 full time equivalent jobs;
 - act as a catalyst for further urban regeneration and investment in that precinct.
5. The proposal will provide a good economic return to the city for the level of investment, allow the city to maintain and grow its share of the convention market in the face of tougher competition from other cities, and attract more visitors to the city, have them staying longer and spending more.
6. This proposal has been presented for Council's consideration after exploring multiple sites and options over a number of years for both projects. The option to acquire this site for the convention centre and film museum expires on 18 December 2015.
7. The option to purchase the land will not be extended. If council does not commit to purchase the land at this time, it faces the risk of either an increase in price or one or both of these sites being sold before it is in a position to fully commit to the proposal.
8. The projects are included in the 2015 Long Term Plan (LTP), however this proposal will deliver the film museum earlier than originally envisaged with the potential opening of the convention centre and film museum in late 2018. The funding profiles are also different, however the proposal can be delivered within the Council's Financial Strategy as set out in the LTP.
9. In the event that the convention centre / film museum proposal does not proceed for any reason, Council would have the option to develop the site with a stand-alone convention centre, retain the land for alternative uses or to sell the site. In this regard, the decision to purchase the site has a reasonably high degree of reversibility.

Recommendation/s

That the Council:

1. Receive the information.
2. Note that Council's Economic Development Strategy and Council's 8 Big Ideas Growth Agenda identified a new convention centre and a film museum as two of a number of catalyst projects for stimulating economic growth in the city.

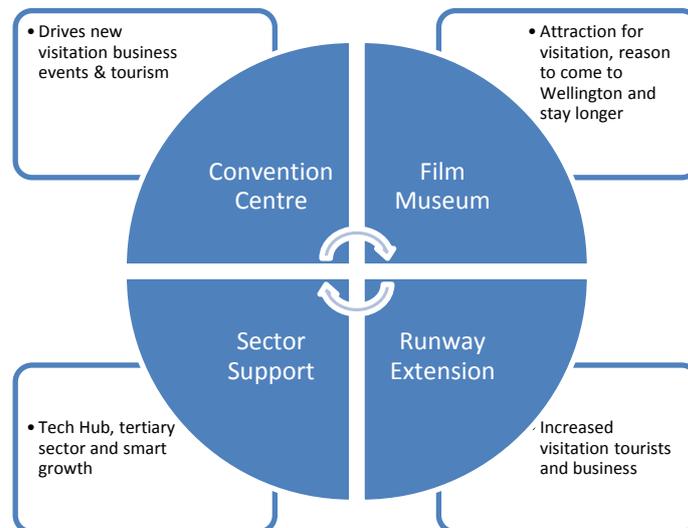
3. Note that proposals for a new convention centre and the film museum were included in Council's 2015-25 Long-Term Plan for community wide consultation.
4. Note that post-consultation the Council agreed to include funding in the final 2015-25 Long Term Plan for both the convention centre and film museum proposals.
5. Note that the proposal outlined in this paper can be delivered within the Council's Financial Strategy as set out in the 2015-25 Long Term Plan.
6. Note the business case for the new convention centre as outlined in appendix 1, and the business case for the film museum as outlined in appendix 2.
7. Agree in principle to support a new purpose built convention centre and film museum as outlined in this report subject to community consultation, the unconditional commitment from The Movie Museum Limited and the final business case.
8. Note that the Council has conditional sale and purchase agreements for the land between Wakefield and Cable Streets where the convention centre and film museum are proposed to be constructed (the Site).
9. Note that Bell Gully has completed due diligence on the Site and no material issues have been identified.
10. Note that the agreements to purchase the Site expire on 18 December 2015.
11. Agree that, in the circumstances (including urgency and the ability to re-sell the Site in the event of a decision not to proceed with any Council use of it), appropriate steps have been taken with respect to the proposal to purchase the site to achieve compliance with sections 77 and 78 of the Local Government Act 2002
12. Agree that Council purchase the Site at a cost of \$21.5 million (including GST, if any) and that the purchase be funded through an increase in borrowings and an overspend in 2015/16 in project CX501.
13. Agree to consult stakeholders and the community on the convention centre and film museum proposal outlined in this report.
14. Agree to the use the WEID fund to offset the impact on rates from this proposal to maintain average rate increases within the limits set out in the Council's Financial Strategy.
15. Delegate authority to the Chief Executive and the Mayor to approve the consultation material.
16. Note that community and stakeholder feedback, any agreement to lease with The Movie Museum Limited and the final business case will be brought back to Council before a final decision is made, and that the Council's support in-principle does not bind Council to agree to the final proposal.

Background

10. Wellington's economic performance is below desired levels and Council's Economic Development Strategy and 8 Big Ideas Growth Agenda identified a number of actions that would transform the city, enhance its liveability and make it more economically competitive and diverse.
11. Transformation is not new to Wellington and the city has seen transformative investment in the past ranging from the Stadium through to Te Papa. Council has also

played a pivotal catalyst role in the development of the Waterfront and areas of the city such as the old BNZ building and Chews Lane.

12. The recommended actions included in Council's Growth Agenda range from providing more investment in key infrastructure such as the transport network, enhancing the liveability of the city, supporting smart industries, enhancing the city's global connections, and investing in new visitor facilities that would grow the city's tourism base.
13. These ideas do not exist in isolation and each support and rely on others in a number of ways. The first of the recommended actions – a tech hub – has already been established, and while the convention centre and film museum stand on their own in terms of their strategic context and economic justification, the additional value in the support that they provide across the growth agenda will be significant.



14. These projects individually and collectively will foster a growing economy, lift business confidence and encourage more investment in new businesses feeding a virtuous cycle of increased growth and living standards.
15. The proposal in this paper brings together two of those catalyst projects – a convention centre and a film museum. The delivery of these two projects within the same complex provides Wellington with a truly unique offering and visitor experience.

Discussion

Strategic Case

The convention market is important to Wellington

16. The convention market is important to the city. Wellington currently has 17 percent of the New Zealand MICE market (Business Meetings, Incentives, Conferences and Events are collectively referred to as the MICE market) as measured by delegate days, which delivers over \$146 million in expenditure to the city, delivering \$76m of GDP and employing over 1,000 FTE's.
17. Conventions provide exposure of the city to domestic and international visitors, help establish business and research connections, support and grow the service sectors such as hotels, restaurants, cafes, retail, and are fundamental to a broad range of jobs and businesses throughout the city and region.

18. The city has a number of advantages as a convention location. It is the geographic centre of New Zealand, the base of a high number of associations, it has a good range of accommodation, and easy access to government ministers and ministries for attendance at conferences.
19. While the city has advantages as a conference destination, the city's existing facilities are aging and are limited by size, functionality and often availability due to their multi-purpose uses. In short, facilities are not always available to the conference market because they are being used by other events (e.g. World of Wearable Art) and are not up to the standard required to host larger – particularly international – conferences.
20. In a highly competitive market this has meant that Wellington has ended up losing some conventions, and the economic benefits and vital business connections that come with them, to other cities in recent years.
21. In the near future, Wellington's convention venues offering will also become less competitive in the domestic market. Auckland, Christchurch and Queenstown are planning investment in medium and large purpose built new facilities, and in the face of this increased capacity of a much higher standard, Wellington can be expected to a significant portion (with the likely outcome an 8 percent loss) of its current market share if there is no investment to improve the city's offering to the market.
22. Internationally, there is a strong growth trend in the conferencing market (7 percent per year) which is projected to continue, however New Zealand is underperforming in comparison. Central government has recognised this and included investment of \$34 million over four years in attracting international business events to New Zealand as a key part of its economic growth agenda. Without international standard facilities, Wellington will be unable to access much benefit from that government investment.

A film museum will have global appeal

23. In the last 20 years the movie industry has become a vital part of the city's identity, its creative culture, and its economy – attracting visitors, providing jobs and bringing income into the city and country.
24. A film museum provides an opportunity to celebrate the contribution Wellington's film sector has made to the city and the international film and visual effects industries, while adding another world class visitor attraction to sit alongside Te Papa in the central city.
25. Cultural tourism is growing faster than nature based tourism at 4.1 percent per year, and the competitive landscape is favourable for a film museum in Wellington as there are no directly comparable tourist attractions in Wellington or New Zealand. The addition of a world class film museum in the city will:
 - attract more tourists to Wellington, get them staying longer and spending more
 - raise Wellington's profile internationally
 - concentrate more cultural activity in the city centre and add to the city's cultural capital status
 - recognise and celebrate a key Wellington industry and its people
 - elevate Wellington to a 'must visit' destination.

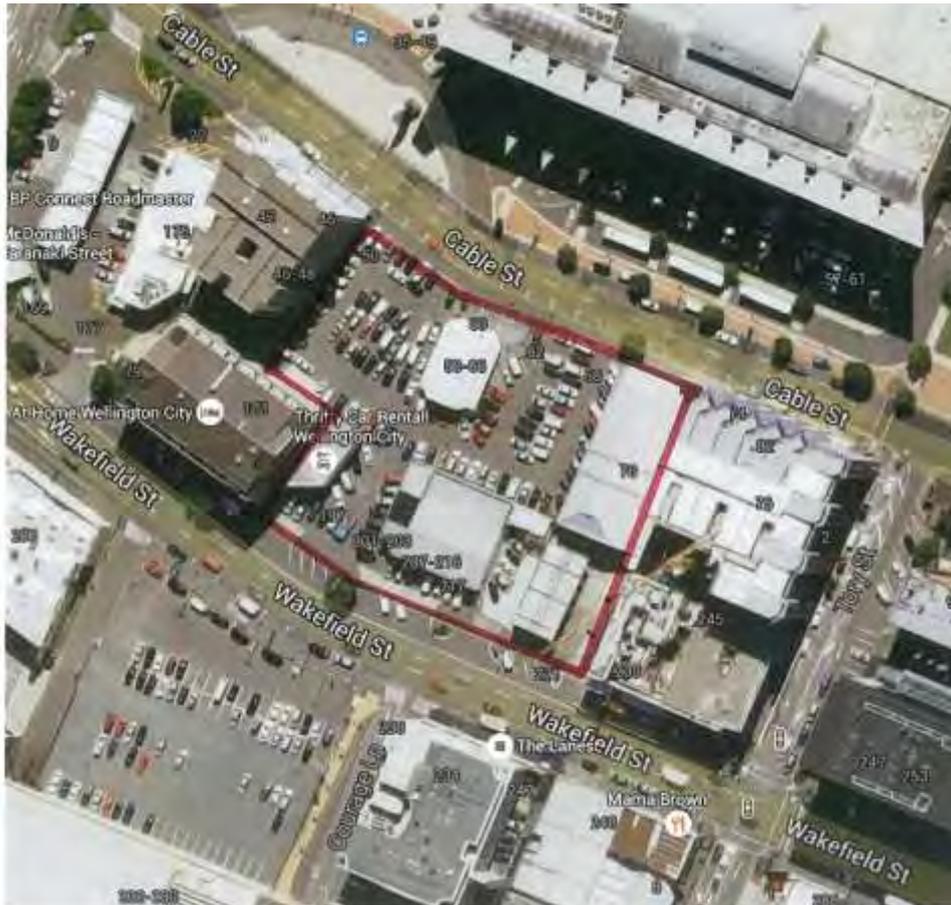
The combined convention centre / film museum is a unique value proposition to the market

26. The convention centre / film museum development is a unique offering to the market, and one that will be attractive to convention organisers who look for a point of difference.
27. The ability to provide a 'unique experience' is at the forefront of conference industry trends, and with a film museum co-located with the convention centre, Wellington would have a distinct competitive edge over other destinations.
28. This point of difference is further enhanced by being located in the cultural precinct of the city – opposite Te Papa and within easy walking distance of numerous art galleries, museums, as well as within easy distance of Wellington's premier shopping and dining precincts, and hotels/accommodation.
29. The concept of a combined convention centre and film museum has been tested with various industry experts (eg. the New Zealand Tourism Industry Association, Qantas Airways Limited, Wellington Hotel Council, Tourism New Zealand, Air New Zealand, WREDA, Wellington International Airport) and the feedback has been that the proposal is a distinctive and iconic offering that will put Wellington on the map and drive greater visitor numbers.
30. While the convention centre will be run separately from the film museum, the co-location will allow for partnering opportunities and significantly enhance the convention centre's ability to secure new business, and similarly the convention centre will provide a steady stream of visitors to the film museum.
31. The benefits of the proposal go beyond being a unique market proposition. Other benefits include the shared costs of development and the cost of the land, opportunities for cross-selling and marketing into both customer bases, operating efficiencies from joint service and maintenance contracts, and the development will contribute strongly to regeneration of this area and attract a diverse range of visitors (conference attendees and tourists) and new businesses.
32. The proposed development will strengthen Wellington's appeal as a conference destination, strengthen Wellington's position to attract more international visitors and enhance our reputation as the capital of culture and the capital of film.

Acquiring the land is the first step

33. The proposal requires an appropriately sized site strategically located in the heart of the city to be able to proceed. Council has explored multiple sites and options over a number of years, and the proposed site is considered ideal – in the heart of the CBD, opposite Te Papa (Wellington's largest attraction) and also within easy walking distance of the waterfront, and the city's premier dining and shopping precincts and many accommodation options.
34. The site is made up of a number of titles owned separately by Casata Limited and Foodstuffs Properties (Wellington) Limited. Council has conditional sale and purchase agreements for these sites:
 - WB46C/757 Lot 1 Deposited Plan 21557 (Wellington Registry);
 - WN52D/916 Lot 4 Deposited Plan 3998 (Wellington Registry);
 - WN52D/917 Lot 5 Deposited Plan 3998 (Wellington Registry);
 - WN52D/918 Lot 6 Deposited Plan 3998 (Wellington Registry);

- WN52D/919 Lot 7 Deposited Plan 3998 (Wellington Registry);
- WN52D/920 Lot 8 Deposited Plan 3998 (Wellington Registry);
- WN33C/280 Lots 8 and 9 Deposited Plan 9880 (Wellington Registry);
- WN33C/281 Lots 10 and 11 Deposited Plan 9880 (Wellington Registry); and
- WN34A/356 Lot 1 Deposited Plan 65848 (Wellington Registry).

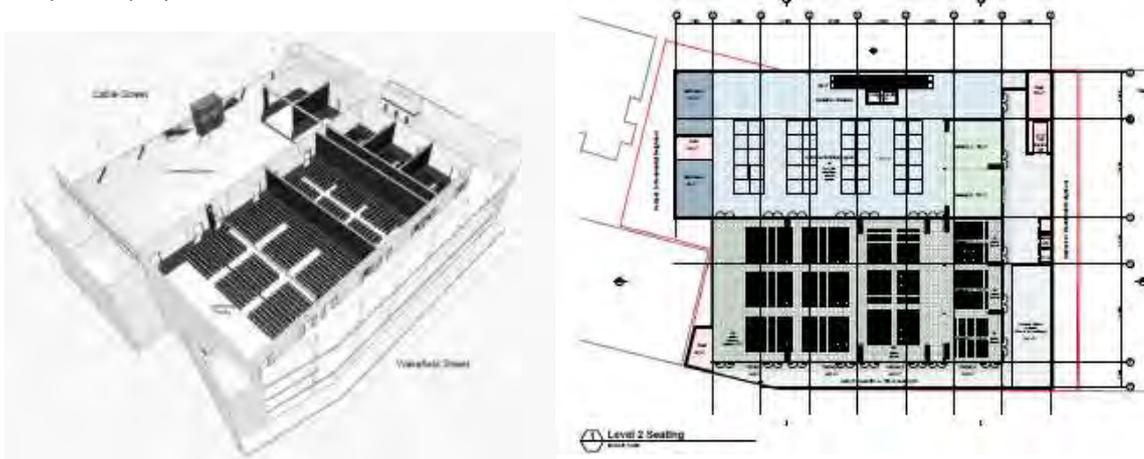


35. The agreements to acquire these sites for the convention centre and film museum expire on 18 December 2015.
36. These agreements to purchase the land will not be extended, and if Council does not commit at this time, it faces the risk of one or both of these sites being sold before Council is in a position to agree the final proposal.
37. The decision to purchase the site has a reasonably high degree of significance (due to the cost), but a decision is required quickly. If the Council opts not to continue with its proposal to construct a convention centre or film museum in the future, there is unlikely to be any significant lasting impact on the Council or the people of Wellington City as the site can be retained and used for alternative purposes or sold. The holding costs on the land are not significant due to the current revenue streams primarily relating to car parking.

The Proposal

38. The proposal is to acquire land to construct a purpose built convention centre and film museum within the same development, with the film museum occupying the first two floors, and the convention centre occupying the top floor of the development.
39. In this scheme the convention centre would cover 5,285 sqm and be able to host full format multi-day conferences up to 1,100 people . The total gross floor area for the film museum is 9,521 sqm. There is an additional 1,905 sqm of shared services and access gross floor area.
40. The building details are still to be finalised but it is proposed to be built to 130 percent of National Building Standards, achieve excellence in accessibility (platinum standard) and follow Greenstar principles with a focus on whole of life costing, utility efficiency and waste management efficiency. The facility will be built to attain ISO 14001 accreditation (international standards that relate to environmental management).
41. The proposed site is opposite Te Papa and includes 50-70 Cable Street and 197-203 Wakefield Street owned by Casata Limited, and the adjacent site of 205-221 Wakefield Street owned by Foodstuffs Properties (Wellington) Limited. The adjacent Foodstuffs site was not included in the previous proposal, but allows for a better shaped facility and more development options as outlined in this proposal.
42. This has allowed access between Wakefield Street and Cable Street to be incorporated into the scheme designs. This is an important consideration.
43. While not finalised, the floor layout for the convention centre is based on a single floor plate that can be divided into multiple configurations creating flexibility to host a range of event types.
44. The convention centre will be dominated by a flat floor space of 1,800 sqm that can be sub-dividable into four approximately equal sized function spaces with one of these spaces able to be further sub-divided for break-out sessions.

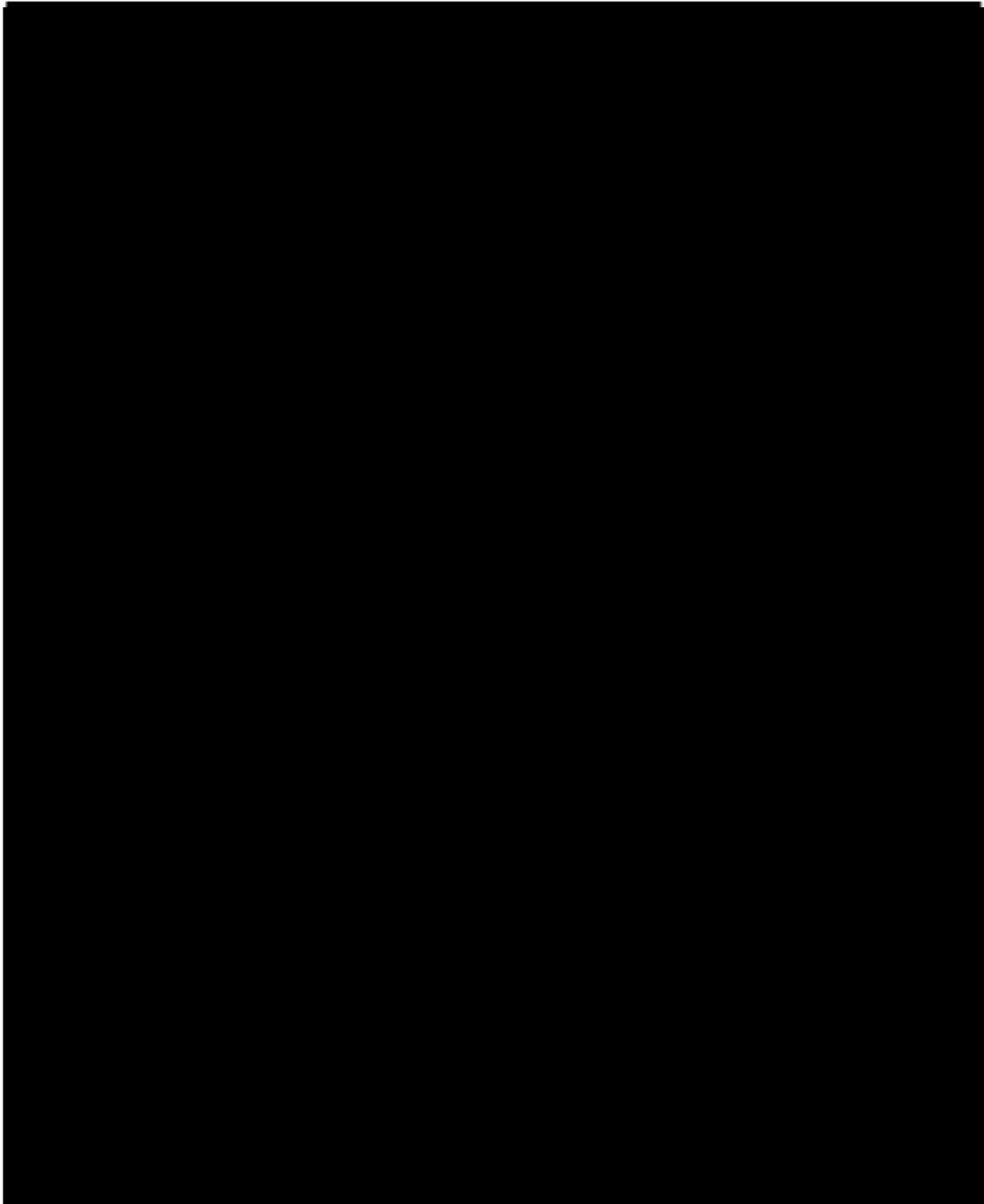
Floor plan of proposed convention centre:



45. The scope of the museum will be focused on films associated with Sir Peter Jackson, Sir Richard Taylor, Fran Walsh and Tania Rodger.
46. Unlike many other museums, the business case has identified that the film museum *“will be designed to appeal to a broad audience by offering a dynamic and immersive experience, bringing to life aspects of the films created by Sir Peter Jackson and Sir Richard Taylor”*.

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47. The film exhibitions will be both permanent and temporary – with planned ongoing capital expenditure by TMML to refresh the exhibitions.
 48. The ground floor include the museum and convention lobby, feature museum exhibition and museum shop. The mezzanine floor has more museum exhibits and the museum exhibitions continue on floor 1 where the film museum café and kitchen are potentially to be located.

Floor plan of proposed film museum (ground floor, ground floor mezzanine, floor 1, and floor 1 mezzanine):



Key commercial terms

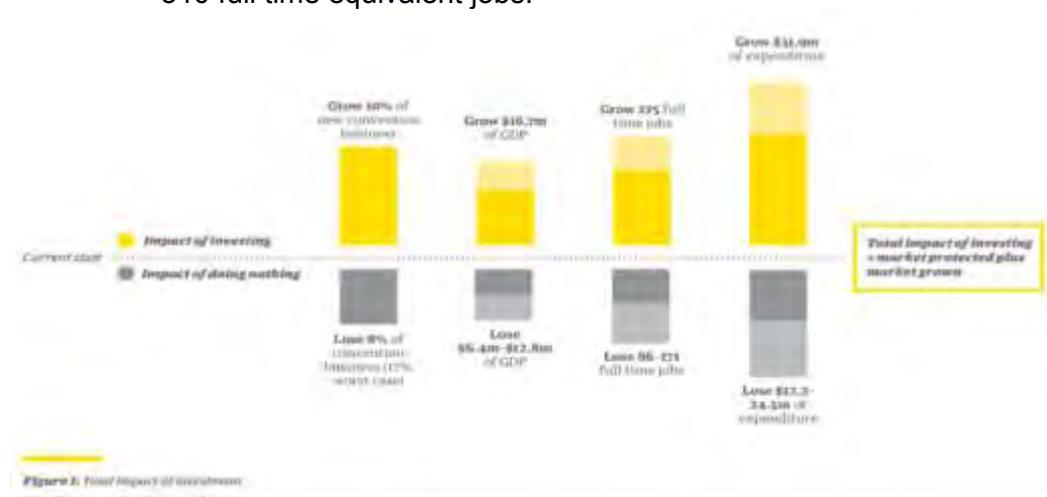
49. The following is a summary of the key commercial terms with (b)-(g) being subject as appropriate to consultation, negotiation, further consideration and final decision:
- a) Council will purchase two adjacent parcels of land on Cable St and Wakefield St at a cost of \$21.5 million.
 - b) Council will lead the development of the site and construct the building to house the convention centre and the film museum.
 - c) The development will be project managed by Willis Bond an experienced and trusted project manager.
 - d) TMML will lease and operate the film museum for a period of 25 years.
 - e) Council will take on all construction and borrowing risk for this development – however by having a development manager such as Willis Bond we believe the construction risks will be expertly managed.
 - f) Council will take on the operational risk of the convention centre, and Positively Wellington Venues will operate the new facility with any operating surpluses/(deficits) flowing to/(funded from) Council.
 - g) TMML will take all operational risk of the film museum and [REDACTED]
50. Under the proposed development arrangement, the Council will take on all the cost, responsibility and risk for structural integrity, design and construction of the building. The estimated total capital investment is \$107.9 million for the construction component of the project which includes a 20% contingency of construction costs. FF&E for the convention centre of \$5 million will also be funded by Council.
51. Council will lease the film museum to TMML on a 25 year term. TMML will be responsible for operating and managing the facility and will fund the initial [REDACTED] and on-going fit-out and operational costs of the museum. TMML will also access the collections of Sir Peter Jackson and Sir Richard Taylor [REDACTED] which are unique and priceless.
52. TMML will pay an annual lease fee to Council [REDACTED]
53. The total cost to Council to deliver the film museum and convention centre including land, building and full fit out of the convention centre (including FF&E) is \$134.4 million.
54. This proposal is subject to:
- a) Final agreement to lease from TMML. The final agreement to lease will be brought back to Council as part of the final decision.
 - b) A thorough public consultation process. Having had the opportunity to give further consideration to community views, Council would have the option to proceed with the delivery of a stand-alone convention centre on the site. The convention centre project has already been through a series of consultations and has significant public support. Notwithstanding that, further public feedback will be sought on a Council owned and operated model for the convention centre (as opposed to the private partnership / lease model consulted on to date).

- c) The final business case.

The Economic Case

The Convention Centre

- 55. The economic case for the convention centre compares the convention centre development to a ‘do nothing’ option because the market is changing and becoming more competitive.
- 56. A new purpose built convention centre in Wellington is projected to deliver 62,450 new delegate days to the city through its ability to attract events Wellington has previously not been able to host. This equates to an increase of around 10 percent in delegate days for Wellington and the economic benefit to Wellington from that increased share of the market is estimated at:
 - \$31.9m of new expenditure per year
 - \$16.7m of new GDP per year
 - 225 new full time equivalent jobs.
- 57. Under a ‘do nothing’ scenario BERL have estimated the city will lose market share of between 4 and 17 percent with a likely loss of 8 percent. This likely loss in delegate days will correspond to:
 - \$12.3m (and up to \$24.5m) per year in lost expenditure in the Wellington economy
 - \$6.4m (and up to \$12.8m) in lost total GDP per year
 - job losses of 85 (and up to 171) FTEs.
- 58. The total economic benefit from investment in a new purpose built convention centre is the market loss that is protected from the investment plus any market growth resulting from the investment. The total annual economic benefit therefore from investment in a new convention centre is expected to be:
 - \$44.2m in expenditure
 - \$23.1m in GDP
 - 310 full time equivalent jobs.



The film museum

59. The tourism market is important to Wellington. The industry delivers over \$1.1 billion in expenditure to Wellington with \$380 million coming from international visitors. It also delivers \$614 million in GDP per year and employs just under 9,000 full time equivalents.
60. Wellington's broad tourism objectives are threefold – to grow the total number of visitors, attract them to stay longer, and thirdly that they spend more. Achieving those objectives requires moving beyond marketing the city to potential visitors and investing in new visitor attractions that will refresh the city's offering in a way that is distinctive, has broad market appeal and is uniquely 'Wellington'.
61. The film museum will be a significant additional attraction to the Wellington market and is expected to generate over 300,000 visits per year to the museum.
62. The total annual economic benefit to Wellington from investment in the film museum is expected to be:
 - \$28.2m of new expenditure per year
 - \$14.4m of new GDP per year
 - 258 of new full time equivalent jobs.

Construction benefits and secondary benefits

63. The above economic benefits are long-term, enduring and increase the overall size of the local economy. The construction aspect of this project will also make a significant contribution to the Wellington economy through the two year construction period. This will be over and above the economic return to the city outlined above. It is anticipated that the construction phase will deliver:
 - \$109.5 m of expenditure benefits
 - \$35.7m in GDP
 - 444 full time equivalent jobs.
64. In addition, it is also expected that the film museum and convention centre will have a 'halo effect' on the area and be the catalyst for further urban regeneration and secondary investment in hotels, restaurants, bars, retail and supporting businesses which will occur in time and have a positive effect on the city, especially on the nearby precinct.
65. Wellington already has relatively high occupancy rates in its existing hotels (75 percent), and any growth in the convention and tourism market will mean that at peak times there may be excess demand for accommodation in the city, and that in turn should result in further development of accommodation and supporting infrastructure in future years.
66. Analysis of developments across the country suggests that there is a strong causal link between convention and visitors attractions and other key destination infrastructure and hotel development.
67. New hotel developments are currently planned or underway for the Sofitel, the Airport Hotel and a 128 room conversion from office space on Lambton Quay, which will provide additional room capacity.

Total projected economic return to Wellington from the investment

The total combined economic impact from investing in both a new purpose built convention and film museum is significant. It will result in an increase of expenditure of \$72.4m per year, additional GDP of \$37.5m and 568 full time equivalent jobs. The table below outlines the temporary construction benefit alongside the ongoing annual economic impact to the city.

	Construction phase (one-off)	Ongoing operations		Total operations (per annum)	Market protection	Total benefit to the city (per annum)
	Combined	Convention Centre	Film Museum	Combined	Convention Centre	Combined
Expenditure	\$109.5m	\$31.9m	\$28.2m	\$60.1m	\$12.3m	\$72.4m
GDP	\$35.7m	\$16.7m	\$14.4m	\$31.1m	\$6.4m	\$37.5m
FTEs	444	225	258	483	85	568

The Financial Case

68. The costs for the convention centre and film museum are detailed in their respective business cases. The business cases include sensitivity analysis on the costs, analysis of benefits and risks. The financial case presented below focuses on the combined convention centre and film museum financial case, although reference to the convention centre only scheme is also shown.
69. Both projects are budgeted in the Council’s 2015-25 Long Term Plan but there are some key differences compared to the current proposal:
- The convention centre was previously budgeted as a leased facility and did not include capital costs as now proposed
 - The film museum construction was budgeted to commence in 2021/22 rather than 2016/17 as now proposed, and with a different funding profile
 - The LTP included \$30m of capital expenditure for the film museum. The proposed cost of the film museum component of the development is \$68.8m. The proposal includes a lease revenue stream from TMML [REDACTED] [REDACTED] will support additional capital expenditure above that provided in the LTP.
 - The Council takes on the construction and funding risk of the building, and the ongoing operating loss risk of the convention centre (discussed in more within the respective business cases attached).

Capital costs

70. The project has two cost components – the upfront capital costs and the ongoing operational costs and revenues of the project. The table below outlines the capital cost of the combined convention centre and film museum scheme totalling \$134.4 million, and the convention centre only scheme totalling \$65.6 million. The cost of the film museum component of the development is \$68.8m.

(\$ millions)	Convention Centre & Movie Museum	Convention Centre Only
Land Cost	\$21.5	\$21.5
Construction Cost & Professional Fees ¹	\$107.9	\$39.1
FF&E	\$5.0	\$5.0
Total Capital Cost	\$134.4	\$65.6

¹ The construction budgets include a 20% contingency

71. The capital costs above are proposed to be funded by Council Borrowings and are able to be accommodated within the Council's Financial Strategy debt limits (175% of operating income).

Operational Costs

72. The ongoing operating costs vary over 25 years, with higher net costs in the early years as interest costs are at their highest, and convention centre operating surpluses at their lowest. The below table summarises the average inflated costs of each scheme from the first year of operations over 10 and 25 years:

Opex Costs from Opening Inflated Averages (\$ millions)	Convention Centre & Movie Museum		Convention Centre Only	
	10 Yr Avg	25 Yr Avg	10 Yr Avg	25 Yr Avg
Interest & Depreciation	8.9	8.1	3.9	3.6
Opex Costs (Rates & Insurance)	1.1	1.3	1.2	1.4
Total Building Ownership Costs	10.0	9.3	5.1	5.0
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Net Rates Requirement	4.9	3.2	3.1	2.2
<i>Compared to the LTP Avg Net Rates Requirement²</i>	4.4	5.9	3.2	4.0
Incremental Rates Income	0.8	0.9	0.7	0.9
Net Financial Cost to City	4.1	2.3	2.4	1.4
Secondary capital investment required to offset net financial cost to the city	410	229	239	138

² Based on the first 10 and 25 years of operations of the convention centre to be comparable. Note the 25 year LTP averages are based on extrapolation of the Long-Term Plan.

73. For the combined Convention Centre and Film Museum the forecast cost over the first 10 years of operations is \$4.9m compared to the cost included in the 2015-25 LTP (adjusted for the years beyond the LTP) of \$4.4m for the first 10 years of operations. However this position reverses significantly over the full 25 year operating term with the combined proposal costing on average \$3.2m compared to \$5.9m based on the previous convention centre business case budgets and extrapolation of the provisions for these projects in the LTP.

74. The Net Financial Cost to the City for the combined scheme over 25 years averages \$2.3m which is an inflation adjusted cost. To contrast this we currently contribute \$2.25m towards Te Papa in today's dollars.

75. The table above illustrates the levels of secondary investment that would be required to offset the Net Financial Cost to the City. Secondary investment is the consequential flow on investment resulting from the demand driven by the new film museum and convention centre.
76. The table above is based on average costs from the opening of the facilities. There are also a range of operational costs that will be incurred prior to opening - interest costs are incurred from the land purchase and construction costs, as well as some pre-opening costs for the convention centre. These total \$5.91 million over three years (\$1.97 million average per annum) for the combined convention centre and film museum scheme and \$3.76 million over three years (\$1.25 million per annum) for the convention centre only scheme. This is shown in the year by year operating projections for the two schemes in the following tables:

Combined Convention Centre and Film Museum Opex Projections:

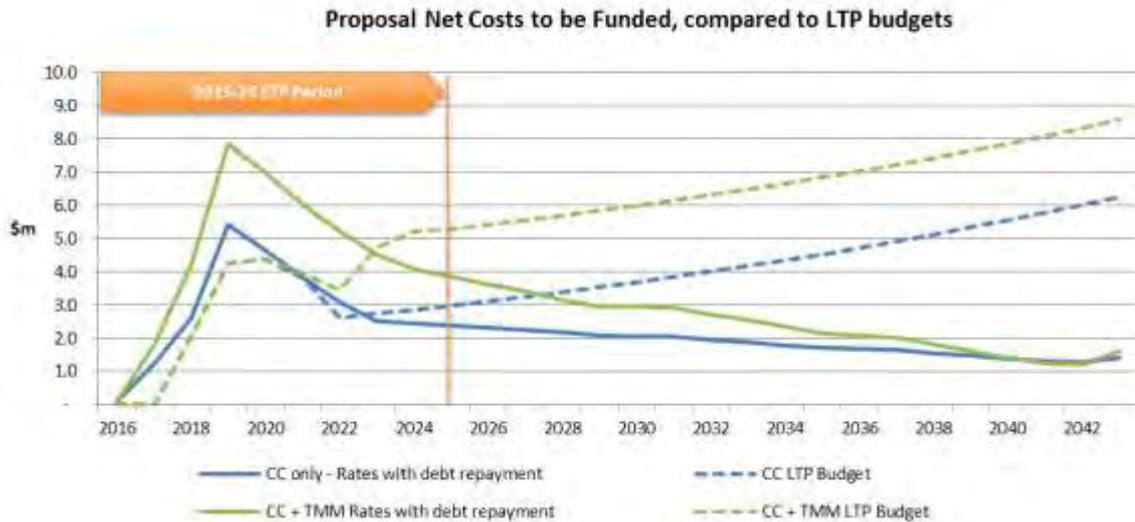
OPEX - Combined Convention Centre and Movie Museum (\$m) – inflated	Construction/Pre- opening Phase			Operating Phase										Avg Yr1-10
	Yr-2 2016	Yr-1 2017	Yr0 2018	Yr 1 2019	Yr 2 2020	Yr 3 2021	Yr 4 2022	Yr 5 2023	Yr 6 2024	Yr 7 2025	Yr 8 2026	Yr 9 2027	Yr 10 2028	
Interest and Depn Costs	0.23	1.58	3.33	9.59	9.44	9.29	9.13	8.98	8.83	8.68	8.53	8.38	8.23	8.9
Rates & Insurance	-0.17	0.22	0.39	0.91	0.94	0.97	1.01	1.04	1.07	1.11	1.15	1.18	1.22	1.1
Total Building Costs	0.06	1.79	3.72	10.50	10.38	10.26	10.14	10.02	9.91	9.79	9.68	9.57	9.45	10.0
Net cost to be funded	0.06	1.79	4.22	7.85	6.98	6.03	5.21	4.53	4.08	3.85	3.63	3.39	3.16	4.9
New Rates Income	-	-	0.16	0.65	0.67	0.70	0.72	0.75	0.77	0.80	0.83	0.86	0.89	0.8
Net financial cost to city	0.06	1.79	4.06	7.20	6.31	5.34	4.49	3.78	3.31	3.06	2.80	2.54	2.27	4.1

Convention Centre Only Opex Projections:

OPEX - Combined Convention Centre and Movie Museum (\$m) – inflated	Construction/Pre- opening Phase			Operating Phase										Avg Yr1-10
	Yr-2 2016	Yr-1 2017	Yr0 2018	Yr 1 2019	Yr 2 2020	Yr 3 2021	Yr 4 2022	Yr 5 2023	Yr 6 2024	Yr 7 2025	Yr 8 2026	Yr 9 2027	Yr 10 2028	
Interest and Depn Costs	0.23	1.02	1.65	4.18	4.12	4.07	4.01	3.96	3.91	3.85	3.80	3.75	3.69	3.9
Rates & Insurance	-0.17	0.22	0.47	1.00	1.03	1.06	1.10	1.14	1.18	1.22	1.26	1.30	1.35	1.2
Total Building Costs	0.06	1.23	2.12	5.17	5.15	5.13	5.12	5.10	5.08	5.07	5.06	5.05	5.04	5.1
Net cost to be funded	0.06	1.23	2.62	5.42	4.65	3.81	3.08	2.50	2.44	2.37	2.31	2.24	2.18	3.1
New Rates Income	-	-	0.15	0.61	0.63	0.65	0.68	0.70	0.72	0.75	0.78	0.80	0.83	0.7
Net financial cost to city	0.06	1.23	2.47	4.81	4.02	3.15	2.41	1.80	1.71	1.62	1.53	1.44	1.35	2.4

A comparison of the above to the LTP budgets is best shown using the 'net costs to be funded' in the tables above. To get a 25 year profile the LTP budgets have been extrapolated to 25 years using the approved business case costs for the convention centre

(including the previous cost of the 20 year lease), and an assumption that the costs for the film museum in 2025 will continue till 2043 (year 25):



- 77. This clearly shows the cost difference to the current LTP in the early years as there was no budgeted cost for the film museum until 2022 where you see the dotted budget lines diverge. From 2023 onwards the current proposal has a lower rates requirement than the previous proposals and budgets for both a combined project, and a stand-alone convention centre.
- 78. In the long term, and over the proposed 25 year lease for the film museum the current proposal delivers significant savings from a rates requirement perspective when compared to the previous lease proposal for the convention centre due to the cumulative CPI on Council’s lease payments to the developer.

Return of Investment

- 79. The investment returns of the project have been calculated using the net present values (NPV) of the total project cost, and the NPV of the project economic benefits over 25 years, using inflated cash-flows and a discount factor of 8 percent .
- 80. Excluding the construction benefits, the Benefit Cost Ratio for the combined film museum and convention centre over 25 years is 5.4 : 1. If you exclude the convention centre market protection benefits the ratio is 4.4:1.
- 81. Including the construction benefits the Benefit Cost Ratio for the combined film museum and convention centre over 25 years is 5.8: 1. If you exclude the convention centre market protection benefits the ratio is 4.9:1.
- 82. Generally projects with Benefit Cost ratios exceeding 1 are value adding propositions. Under all of the economic scenarios the ratios exceed 4.0:1.

Return on Investment - Over 25 Years	CC+TMM	CC Only
PROJECT COSTS:	\$m	\$m
NPV Costs	76.3	46.7
ECONOMIC RETURNS:	GDP \$m	GDP \$m
<i>Including Construction Benefit:</i>		

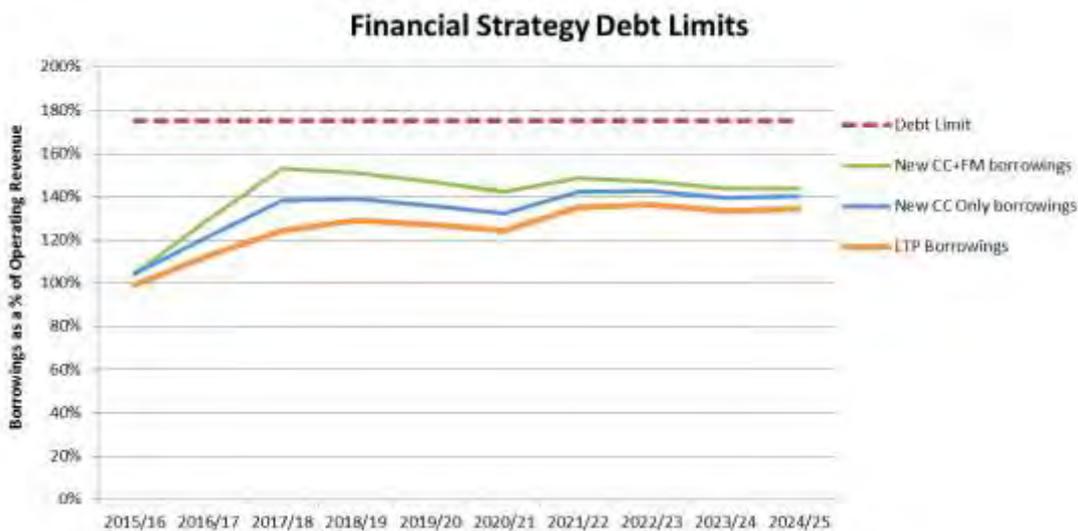
Return on Investment - Over 25 Years	CC+TMM	CC Only
NPV GDP Benefits Growth Only	371.0	199.7
NPV GDP Benefits Growth + CC Market Protection	441.5	270.2
Excluding Construction Benefit:		
NPV GDP Benefits Growth Only	339.1	188.1
NPV GDP Benefits Growth + CC Market Protection	409.7	258.7
BENEFIT COST RATIO (BCR):		
	Ratio : 1	Ratio : 1
Including Construction Benefit:		
BCR Growth GDP Benefits Only	4.9	4.3
BCR Growth + CC Market Protection GDP Benefits	5.8	5.8
Excluding Construction Benefit:		
BCR Growth GDP Benefits Only	4.4	4.0
BCR Growth + CC Market Protection GDP Benefits	5.4	5.5

83. These returns show a favourable GDP return and Benefit Cost ratios across both schemes and differing benefit scenarios supporting this investment.

Financial Strategy Impacts

84. Analysis of the impact of the proposal on the relevant aspects of Council’s Financial Strategy has been prepared. This focuses on looking at our projected debt profile and rate increase levels compared to the financial strategy parameters.

The proposed combined convention centre and film museum, or the stand alone convention centre development proposal will increase Council borrowings. The ratio of borrowings to operating revenue is the key metric under the strategy, with a limit set at 175%. The projected impact on the debt profile and limits is shown on the following graph:



85. The borrowings levels for either scheme remain well under Council’s Financial Strategy debt limit of 175% of operating revenue.

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86. For the combined convention centre and film museum scheme debt levels peak at 153% in 2017/18 before reducing slowly.
 87. The proposed projects will also have an impact on rates levels in the early years where costs exceed the current LTP budgets.
 88. The proposal impacts rates increases in 2016/17, where a rates increase of \$1.8m would be required to deliver the projected rates increase for 2016/17 per the LTP.
 89. The proposal also prima-facia results in the average rates increase across the first three years of the LTP exceeding the limit set in the Financial Strategy of 4.5%.
 90. As discussed in paragraphs 92-98, Officers are proposing that these impacts be offset by utilising funding from the WEID fund in those years.
 91. Over the life of the whole LTP, on average, the combined film museum and convention centre results in a slightly lower average rate increase of 3.76% per annum compared to the 3.80% increase per annum in the LTP.

Use of WEID Fund in early years to minimise impact on ratepayers

92. As noted in sections 88-89 above, this proposal impacts on rates in two key ways. Firstly, the combined proposal would result in an increase in the rates requirement for 2016/17 of \$1.8m. Secondly, the combined proposal would prima-facia push the average rates increase over the first three years of the 2015-25 LTP beyond the limit set in Council's Financial Strategy.
93. To manage these rates impacts Council Officers recommend applying funding from the WEID fund as required.
94. In order to ensure the rates levels and rates % increases over the first three years of the 2015-25 LTP remains at or below 4.5% per annum, offsetting savings of \$1.8m in 2016/17 and \$2.1m in 2017/18 for the combined scheme, or \$1.2m in 2016/17 and \$0.6m in 2017/18 for the stand-alone convention centre, is required from the WEID Fund.
95. To only meet the requirements of the Financial Strategy rates increase limits, offsetting savings only \$2.1m in 2017/18 for the combined scheme, or \$0.6m in 2017/18 for the stand-alone convention centre, is required from the WEID Fund.
96. The use of the WEID fund to offset these early year costs ensures that the proposals are able to be delivered within the rates limits set out in Council's 2015-25 LTP Financial Strategy, and that the 2016/17 rates requirement is not increased as a result of this proposal.
97. The purpose of the WEID Fund to generate new GDP and jobs for Wellington aligns perfectly with this proposal, in the same way it was used to fund the recently opened Tech Hub.
98. This would reduce the capacity of the WEID fund over these years accordingly.

Who benefits and who pays

99. It is important to make sure those that benefit from the new convention centre and film museum pay an appropriate proportion of the cost.
100. Conventions bring visitors to the central city; providing custom for hotels, restaurants, retailers and other city businesses. They also provide employment opportunities for many in the community across a range of service sector businesses and other supporting industries.

101. Previous consultation on the convention centre proposal recommended a funding split of 60 percent general rate and 40 percent from the downtown levy and this was agreed as part of the LTP.
102. The film museum is currently under activity 3.1.5 Major Projects which is funded 100 percent through the general rate. This activity simply provides a funding envelope for major projects and as part of finalising the film museum proposal it will be important to give the project its own activity class, or include it as part of an existing activity class.
103. For the film museum it is recommended that for consultation purposes it is included in activity 4.1.1 City Museums and Galleries which has a funding split of 25 percent downtown levy and 75 percent general rates. While this appears high with respect to the general rate, it needs to be remembered that 45 percent of the general rate is paid for by the business sector which is a broader representation of the businesses in the City as compared to the narrower downtown levy which is purely targeted at CBD businesses.
104. Placing the project in this activity recognises that there are clear and demonstrable benefits for downtown businesses and the hospitality sector from an increase in visitors, these benefits also go into the wider business sector and are not exclusive to the CBD businesses. It also recognises that this activity provides employment for many in the community across a range of service sector businesses and other supporting industries. The film museum will also act as a strong symbol of the city's film credentials, its creative culture, its smart economy, and be a source of civic pride – all of which benefits the wider community.
105. The alternative is to place the project under activity 4.1.2 Visitor Attractions. This activity is funded 30 percent general rate and 70 percent downtown levy. This does not reflect the benefits that are likely to accrue to the wider business sector and is not favoured.
106. It is recommended that for consultation purposes that the film museum be included in activity 4.1.1 and that a final decision on its funding split be made once community feedback has been obtained.

Impact on existing facilities and visitor attractions

107. Wellington currently does not have any other venues capable of hosting conventions of 800 pax, and it is very difficult for Wellington to attract medium to large size conventions. Wellington's Town Hall is currently closed for earthquake strengthening, is not optimally structured as a convention facility and is proposed to be returned as a Music Hub rather than a convention space for hire.
108. Another previously significant component of Wellington's business events offering was the Amora Ballroom. This has been closed since the Cook Straight earthquakes in 2014.
109. So rather than impact other Wellington venues, the last two years have already shown a decline in Wellington's business event numbers and this facility will be a welcome addition to the market.

Other funding arrangements considered

110. As noted earlier, PPP arrangements where partnering with the private sector to fund the capital costs of the project and WCC taking on a lease were explored extensively.
111. In relation to the convention centre only option, Council considers the business case to be strong for Wellington and a good investment and therefore have not sought out funding assistance for this component of the proposal from other parties.

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112. In relation to the film museum which has a universal appeal, is a uniquely NZ offering on the world stage, and will be another commissionable tourism product to offer our increasing tourism market there may be other avenues to consider. The speed this component of project has come to fruition has prohibited anything meaningful occurring in this area up until this point.
113. The only other alternative for funding which is also being considered in Queenstown for their convention centre is a Bed Tax. This is a tax that is applied to hotel room rates, paid by customers and returned to the local authority or central government. This requires government legislation changes that can take significant time, and is not an option we are exploring for this proposal

Risks

114. The risks of each of the components of this combined development project have been considered in each business case attached. They can be summarised as construction risk, funding risk, operational risks, contractual risks and other risks. These are set out in detail within the respective business cases.

Stakeholder and community engagement

115. Council has not consulted on the proposal to purchase the relevant sites. While the costs involved would normally suggest this proposal involves a matter of some significance, it is important to note that there are significant time constraints in relation to the option to purchase. Additionally, any purchase has a reasonably high degree of reversibility. Given these factors (which are valid factors under the LGA2002 and the Council's Significance and Engagement Policy) it is proposed that Council take appropriate account of community views without first consulting on the purchase of the land.
116. Council has previously consulted on the convention centre proposal (under a different ownership structure), and both the film museum and convention centre proposals were included in the LTP for consultation with the wider community.
117. Community feedback was received as part of that consultation process and after written and oral submissions were heard, Council included funding for both projects in the final LTP.
118. While Council has a reasonably detailed understanding of community views in relation to the proposals from previous rounds of consultation, it is recommended that comprehensive engagement as to the convention centre and film museum takes place with the community and key stakeholders to inform any final decision in accordance with council's general decision-making obligations under the LGA2002. The following section provides an outline of the proposed consultation that will be undertaken.

Interested parties and the wider community

119. There are a broad range of stakeholders that may be affected by, or will have an interest in the proposal including the hospitality sector (e.g. accommodation providers, the retail and restaurant sectors), other organisations like Wellington International Airport Limited, tertiary organisations and the general business community. The broader community will also be highly interested and will be encouraged to participate and share their views to inform any final decision.

Communication and engagement tools

120. The following communication and engagement tools will be used to ensure stakeholders and the wider community are aware of the consultation, the detail of what is being proposed, and how they can get involved to have their say.

Communicating the proposal

- *Brochure of information:* the brochure will outline all key elements of the proposal, including cost, the economic benefits, which sectors of the community would contribute funding, and how anyone interested can have their say. It will be made available throughout council facilities, online and through the contact centre.
- *Online / social media:* our website and social media channels will be used at the start of the consultation period to communicate the proposal to the wider community and encourage people to get engaged and provide feedback.
- *Advertising / media releases:* online advertising and media releases will be used as and when required to drive interest and make sure relevant information is in the public and media domain.

Engaging the community and receiving feedback

- *Written submissions:* submissions will be able to be made in writing, by email and online.
- *Oral hearings:* oral hearings will be held with submitters that request them. These will be held towards the end of the consultation period

121. The consultation period is set down for four weeks starting on 15 February and closing on 11 March.

Options

122. The council has previously looked at building a new convention centre as part of a wider consortium involving a local developer and investors. While there are benefits to a public / private partnership, the Council was not able to secure satisfactory commercial terms.
123. A new facility above the MFC car-park was also considered in 2012. That option did not proceed for a variety of reasons including cost and size constraints, and a temporary venue in Shed 6 was established while the Town Hall was earthquake strengthened.
124. The attached business case for the convention centre maps out the current proposal against previous options that have been considered.
125. Several locations have been considered to house the film museum. For reasons outlined in the attached film museum business case, no other suitable location has been found that is preferable to this proposal which combines the film museum with the convention centre.

Next Actions

126. This proposal delivers on two key projects agreed as part of Council's Growth Agenda in a way that amplifies their impacts. The proposal is unique and will significantly improve Wellington's convention facility offering to the market, and add a world class film museum attraction.
127. The proposal will provide a good economic return to the city for the level of investment, allow the city to maintain and grow its share of the convention market in the face of tougher competition from other cities, and attract more visitors to the city, have them

staying longer and spending more, and reap the significant benefits that flow from more tourism and hosting that business activity in our city.

128. It is recommended that Council agree to this proposal.

Attachments

Attachment 1. Convention Centre Indicative Business Case

Attachment 2. Film Museum Indicative Business Case

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Authoriser	Derek Fry, Director City Growth & Partnerships

SUPPORTING INFORMATION

Consultation and Engagement

This proposal supports Council's overall vision of Wellington Towards 2040: Smart Capital. It aligns with the objectives outlined in the Economic Development Strategy, Council's Big 8 Ideas growth agenda, and the 2015 Long-Term Plan

Treaty of Waitangi considerations

There are no Treaty of Waitangi considerations, but we will consult with mana whenua.

Financial implications

Funding for these projects is contained in the 2015 Long-Term Plan. No formal amendment is required to the Long-Term Plan.

Policy and legislative implications

This paper is consistent with existing policy.

Purchasing the land does not trigger section 97 of the Local Government Act 2002. While purchasing the land has a reasonably high degree of significance (due to the cost), a decision is required quickly and the land can be resold in the future if necessary.

The decision to further develop and consult on the Council build / own model of the convention centre / film museum proposal is not significant. A further assessment of significance will be made when the proposal returns to Council for final decision following consultation.

Consultation does not require the of the Special Consultative Procedure to amend the Long-Term Plan as the convention centre / film museum proposal does not trigger section 97 of the Local Government Act 2002.

Risks / legal

Council has received advice regarding purchasing the site and will need to seek advice negotiating the contractual arrangements outlined in this report

Climate Change impact and considerations

There are no climate change impact and considerations

Communications Plan

Consultation will be carried out as outlined in the body of the report