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**ORDINARY MEETING**

**OF**

**WELLINGTON CITY COUNCIL**

**SUPPLEMENTARY AGENDA**

Time: 5.30pm  
Date: Wednesday, 5 November 2014  
Venue: Committee Room 1  
Ground Floor, Council Offices  
101 Wakefield Street  
Wellington

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### 3. General Business

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## WELLINGTON CONVENTION CENTRE PROPOSAL REPORT 1

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### Purpose

1. The purpose of this report is to obtain a final decision on the convention centre proposal on the terms and conditions outlined in this report, and as included in the public excluded Wellington Convention Centre Report 2.

### Summary

2. On 24 June 2014 the Governance Finance and Planning Committee (GFP) agreed in principle to support the development of a new Convention Centre for Wellington as part of a bigger Hilton Hotel development planned for a site on Cable Street opposite Te Papa. This agreement in principle was subject to community consultation, the finalisation of negotiations of the commercial terms of the arrangement and any further due diligence required.
3. The consultation process as agreed by Councillors ran from 8 July to 14 August involving engagement with key stakeholders and the wider community. In total 76 submissions were received – approximately a third from organisations and two thirds from individuals.
4. There was a high level of support for the proposal overall – nearly eight of ten submitters supported the proposal.
5. The level of support from organisations was particularly strong. All but one (a residents association) supported the proposal and many of those in support were ‘umbrella’ type associations representing hundreds – and sometimes thousands of individual members eg. the Chamber of Commerce, Tourism Industry Association NZ, the NZ Retailers Association etc.
6. Submissions have been made publicly available on Council’s website.
7. There is a strong strategic case that sits behind this proposal, and the final financial and economic outcomes of the proposal are consistent with the outcomes in the business case submitted for GFP consideration in June 2014, and consulted with the public.
8. The final commercial terms and their impact on the net financial cost are discussed in detail in Wellington Convention Centre Proposal Report 2 and in summary in the financial section of this paper.
9. The net present value (NPV) of the commercial terms of the 20 year lease is \$44.6 million which compares favourably to the estimated cost of Council building our own facility of at least \$55 million (excluding land costs).
10. The NPV of the net cost to the city over the 20 year lease is estimated to be \$18.5 million (after accounting for rates and insurance costs, operating profit, and additional rates income to Council).

11. Officers recommend that Council support the proposal under the final terms as outlined in report 2. Upon receiving a final Council decision to proceed, the Developer will commence making arrangements and commitments with construction firms and financiers for the delivery of the project by mid-2017.

### Recommendation/s

That the Council:

1. Receive the information.
2. Note that due to the commercially sensitive nature of the terms of the development, lease negotiations and Hilton management agreement, these will be discussed in a separate public excluded report (Wellington Convention Centre Proposal Report 2).
3. Note that the idea of a new convention facility aligns with the objectives of Council's Economic Development Strategy and was included as a key project in the priority growth agenda agreed by Council in December 2013.
4. Note the results of the consultation as outlined in Attachment 1.
5. Note the final proposed net financial cost and economic benefits to the city are close to the 'most likely' case detailed in the business case presented to GFP on 24 June 2014, and consulted on.
6. Note the 20 year financial projections of the proposal in Wellington Convention Centre Proposal Report 2 (Attachments 2 and 3).
7. Agree to support a new purpose built convention centre as part of the Hilton Hotel development on Cable Street, opposite Te Papa, as outlined in this report.
8. Agree to the commercial arrangements for the proposal, including without limitation a 20 year lease by the Council of the convention centre from the developer, a 20 year sub-lease to the convention centre operating company, and a 20 year management agreement with the hotel company for the operations of the convention centre, subject to agreeing the commercial terms outlined in Wellington Convention Centre Proposal Report 2.
9. Agree to include the proposal cost to the city in the final 2015/25 Long Term Plan as follows:

OPEX (Inflated \$m)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rent	-	-	3.50	3.62	3.75	3.88	4.02	4.16	4.30	4.45
Rates & Insurance	-	-	0.59	0.61	0.63	0.64	0.66	0.68	0.70	0.72
<b>Total Lease costs</b>	-	-	<b>4.09</b>	<b>4.23</b>	<b>4.38</b>	<b>4.52</b>	<b>4.68</b>	<b>4.84</b>	<b>5.00</b>	<b>5.17</b>
Less: Operating profits	-	-	-	-	-	1.42	2.06	2.10	2.15	2.19
<b>Proposal cost to the City</b>	-	-	<b>4.09</b>	<b>4.23</b>	<b>4.38</b>	<b>3.11</b>	<b>2.62</b>	<b>2.74</b>	<b>2.86</b>	<b>2.98</b>
Rates Income (growth)	-	0.5	1.28	1.31	1.34	1.38	1.41	1.45	1.48	1.52
<b>Net Cost to the City</b>	-	<b>(0.5)</b>	<b>2.81</b>	<b>2.92</b>	<b>3.03</b>	<b>1.73</b>	<b>1.21</b>	<b>1.29</b>	<b>1.37</b>	<b>1.46</b>

10. Instruct the Chief Executive to ensure all contractual negotiations and

documentation required to progress this development are materially in accordance with the terms outlined in this report and in Wellington Convention Centre Proposal Report 2.

11. Delegate authority to the Chief Executive to approve all contractual documentation required in recommendation 8.
12. Note that Council's Urban Planning team will work with the developer on the public amenity aspects of the design and the complimentary work that Council may need to do to ensure good pedestrian flows to the Waterfront and Courtenay precincts.
13. Note that consideration of the Revenue and Financing Policy for the rates funding for this proposal and funding for any capital works resulting from work in recommendation 12 will be included in the draft 2015/25 Long Term Plan.

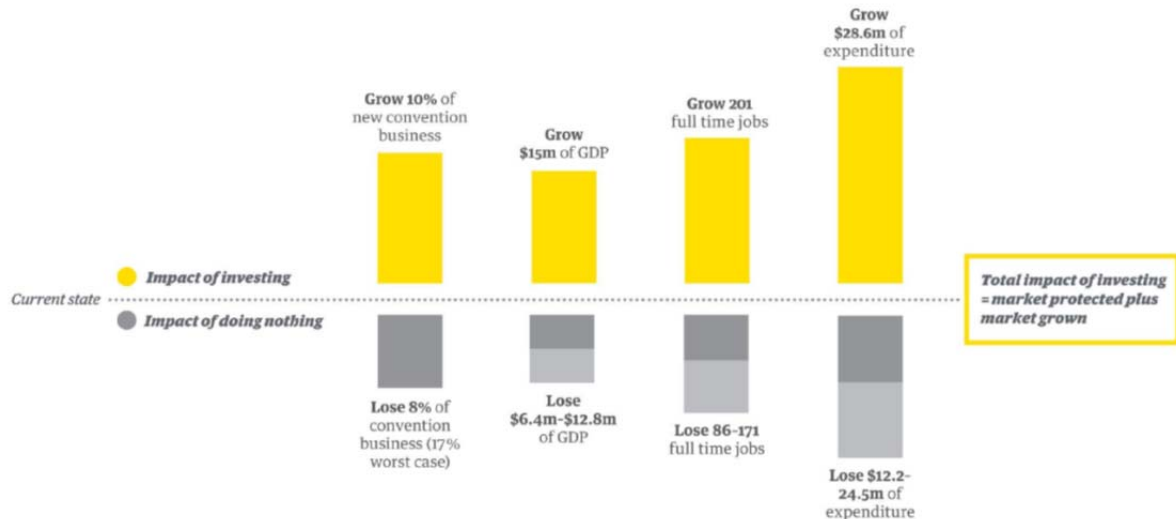
## Background

### ***Strategic Case – why is the Council considering this proposal?***

12. The Council has been reviewing the city's convention space offering for some years and included a new convention facility as one of the '8 Big Ideas' of the city's economic growth agenda adopted at the start of the 2013 triennium in recognition that:
  - a. conventions are important to Wellington – generating \$146 million per year in expenditure and supporting over 1,000 FTEs
  - b. Wellington is projected to lose up to 17% of its market share of business events when Auckland, Christchurch and Queenstown facilities open
  - c. current facilities are not of a standard or configured to meet modern and future customer expectations (will be accentuated when new facilities are built elsewhere)
  - d. central government include business events as a key economic growth agenda item - investing \$34m over the next four years to market NZ internationally as a business events destination.
13. While Wellington has a number of advantages as a convention location (the geographic centre of New Zealand, the base of a high number of associations, a good range of accommodation, easy access to government ministers and ministries for attendance at conferences, a "walkable" city) our venue offering has a number of limitations:
  - limited functionality (facilities not purpose built for conventions with the exception of the temporary facilities at Shed 6)
  - capacity issues (conflicting use over key times eg WOW)
  - aging facilities

- size constraints (unable to comfortably host full format conventions of 800+)

14. The business case considered by the Governance, Finance & Planning Committee on 24 June 2014 details the rationale for investment in a new facility and quantifies the impacts of investing, or doing nothing, as summarised in the following diagram and updated for the uninflated final economic case (note that the does not include benefits from construction or secondary investment that will also occur):



15. The impact of 'doing nothing' is significant in the face of investment in other NZ cities with the loss of \$12 - \$25 million of expenditure in the Wellington economy, \$6 - \$13m of GDP and 86 – 171 FTE's. The impact of investing however presents a strong case for improving Wellington's convention facilities.
16. Other options considered to improve Wellington's facilities include Council building and owning its own facilities, or Council finding an alternative private partner consortium (developer, operator, and appropriate site).
17. To build Council's own facility would require Council to commit significant capital expenditure (> \$55m excluding land costs) which would increase Council borrowings, and limit Council's investment in other new projects. Together with the associated operating costs of around \$5.7million per annum in interest, depreciation, rates and insurance costs this option is more expensive, would place all construction cost risk and operating risk on to Council, and take much longer to deliver than the proposal before Council. It would also not deliver a new 5 star hotel and convention centre operated by the Hilton.
18. For Council to find an alternative private partner as strong as those involved in this proposal is unlikely, would certainly delay and possibly lose the delivery of a new convention facility to Wellington through a private partnership mechanism.

## Discussion

### Overview of Consultation

19. The Council's decision making and consultation obligations were set out in the GFP paper dated 24 June 2014, and the Committee agreed the approach to consultation and engagement.

### *Communication of proposal*

20. Key elements of the proposal – including how people could access information and make a submission – was communicated through a series of 'Our Wellington' page articles and through media releases. An email alert was also sent to over 700 individuals and businesses on council's consultation database informing them of the proposal and how they could make a submission.

### *Media coverage of the proposal*

21. The proposal was also covered extensively in the lead-up to – and during – the consultation period by print media including the Dominion Post and The Wellingtonian, on various websites including Stuff, Scoop, 3 News, the NZ Herald and the National Business Review. It also featured on blogs such as Eyeofthefish and Kiwiblog, and was covered on a variety of radio stations.
22. Council advertising and the high level of media interest and subsequent articles helped raise awareness of the proposal in the community

### *Consultation material and stakeholder engagement*

23. The consultation document and the abridged business case were made available on council's website, in the service centre on Wakefield Street and in Council libraries.
24. A stakeholder meeting was held during the consultation period to provide the opportunity for stakeholders to be briefed on the proposal, ask questions and workshop ideas among themselves in terms of the impact that the new facility could have on their various sectors before making written submissions<sup>1</sup>.
25. A number of stakeholder organisations also requested council officers attend their regular meetings to outline the proposal and provide the opportunity to answer questions. This included the Hospitality Association, the Retail Association, the Wellington Chamber of Commerce and the Inner City Residents Association.

### *Consultation period*

26. Stakeholders and the community were asked to provide written feedback on the proposed convention centre over a five week period (8 July to 14 August 2014).

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<sup>1</sup> The stakeholder briefing included representatives from Victoria University, Massey University, the Restaurant Association of NZ, the Wellington Chamber of Commerce, Te Papa, First Retail Group, NZ Retailers Associations, Hospitality NZ, Tourism Industry Association, Conventions and Incentives NZ, Grow Wellington, Wellington International Airport, and Evenues Event Management.

## **Summary of community feedback**

### ***Submissions***

27. Seventy six submissions were received. Fifty two submissions (68%) were received from individuals and 24 (31%) from organisations, two of which were residents associations (one in support and one opposed).

### ***Support for the proposal***

28. Overall, nearly eight out of ten submissions (78%) support the proposal. This included 23 of the 24 organisations that submitted. Many of those organisations are industry associations representing the views entire industry sectors and have hundreds of individual members eg. the Chamber of Commerce, Tourism Industry Association NZ, the NZ Retailers Association etc.
29. The minority of opposition (21%) came from 15 individual submitters and one residents association.

### ***Key themes***

30. The main themes of those who indicated support for the proposal are:
- The convention centre would give economic benefits to the city as well as create jobs.
  - The convention centre is needed to compete for new, and retain existing market share.
  - The convention centre location is a good one and it is a good use of the site.
  - The convention centre would fill a gap in the city's current venue offering.
31. Of those who stated opposition to the proposal, the main theme was that it should not be the role of Council to fund the centre, which is viewed as primarily accruing benefit for a private enterprise.
32. Several other themes were also covered by submitters, some in great detail. Those themes most prominent in terms of volume and thought are:
- comments regarding the design, urban design and urban planning elements of the proposal. These submissions focus on making any Centre design optimal.
  - comments about the funding split between residential and commercial ratepayers were common. Individuals generally believe commercial ratepayers should pick up more of the funding burden, and commercially aligned submitters believe residential ratepayers should pay more.
33. For more detailed analysis of submission themes, and officer response to those, see attachment 1.



## **The Final Proposal**

34. The final proposal presents an opportunity for Council to partner with the private sector to deliver a new convention facility for Wellington, which would be open before other proposed convention centre developments in NZ.
35. The proposal is for the developer to build a 165 bed, five-star Hilton Hotel and approximately 4,800 sqm convention centre on a Cable Street site opposite Te Papa. Council would lease the convention centre from the Developer, and provide a sub-lease back to an operating company for a 20 year period. In return, Council will receive any financial return from the convention centre operations.
36. The convention centre and hotel will be managed jointly by the Hilton International Management Group.
37. The proposal and development is with local developer Mark Dunajtschik.
38. Council involvement is required because the convention facility is at 'city scale' and will protect and deliver significant economic returns to the city in this sector of the economy, however the development would certainly not proceed without Council taking a lease of the convention facility.
39. The proposal is as follows:
  - The developer constructs a 165 bed Hilton hotel and large purpose built convention centre in the central city, taking on all construction cost risk.
  - The Council would lease the convention centre from the developer for 20 years (with rights of renewal to be triggered at year 15).
  - The Council would then enter a sub-lease of the convention centre back to an operating company (being a wholly-owned subsidiary of the developer) to be managed and operated by Hilton in conjunction with the hotel.
  - The operating company, not Council, would enter the management agreement with the Hilton, although Council will retain oversight and input into all operational matters of the convention centre through participation in the owners' liaison group.
  - Council would receive the net profits of the convention centre in return for making available the convention centre to the operating company and Hilton Hotel.
  - The developer will underwrite all pre-opening costs and operating losses of the operating company thereby taking on all operating risk of the convention centre, with the ability to recoup all underwrite payments made from future operating profits prior to any distributions to Council.

### ***Advantages of the partnership model***

40. The partnership arrangement has a number of advantages, principal among them that it is beneficial for each party. For Council and the City these are:
  - the ability to secure a new purpose built convention centre for the city at a lower cost compared to the council constructing, financing and operating a facility by itself

- good economic return and job growth to city for level of investment per year
- the ability to retain and grow market share in the face of stronger competition
- the ability to attract larger and different format conferences that the city has traditionally not been able to host
- no direct financial risk in construction or operations of the facility
- attraction of Hilton hotel and Hilton as the convention centre operator.

***An overview of the proposed facility***

41. The engineering solution for the large open span facility has resulted in a reconfiguration of the convention centre space with the total facility growing from 4,491m<sup>2</sup> to 4,833m<sup>2</sup> in floor space. The main convention hall on the first floor has been reconfigured from 2,592m<sup>2</sup> to 2,060m<sup>2</sup> in the latest designs, with more space for people flow in the pre-function space being provided, and a small increase to the back of house operational space, also ensuring optimal service is provided to the convention centre. An increase in the area and functionality of the ground floor has also been provided to the convention centre.
42. The design process is still in concept phase and we anticipate further refining of the layout and design to ensure all spaces are well considered for optimal utilisation and capacity.
43. The reconfigured convention spaces have resulted in a small reduction in the projected events able to be held at the facility, but these do not materially impact the underlying business case as presented to GFP on 24 June 2014 as supported by advice from Horwath HTL.
44. The proposed facility will be purpose built and flexible. It will be able to host up to 1,200 persons in a multi-day, full format conference<sup>2</sup>, have a flexible range of spaces for events of a smaller size requirement, but can also be used to hold events for a maximum capacity of 2,000 theatre style. It will have the latest audio visual technologies to meet modern demand managed by a third party provider. The nature of the design means it will be highly flexible and be able to cater for anything from small to large conventions, host a number of small and medium conventions concurrently, or host large exhibitions, galas and show diners that are currently difficult to cater for within existing facilities.
45. The optimal conference size for the facility would be in the range of 800-900 delegates, which meets the needs of the largest proportion of the market.

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<sup>2</sup> With some limitations the number of trade exhibition stands and breakout spaces

46. The latest concept drawings of the centre are detailed below:

Ground floor concept plan



First floor concept plan



47. The proposed facility is targeting an opening date before mid-2017 which will be significantly ahead of the other proposed NZ developments to gain early market share.

***Economic Case***

48. The latest Horwath HTL market demand and financial projections present the final expected case for event numbers and financial outcomes. These have been reviewed by Hilton who have confirmed their broad agreement with the projections.
49. This delivers average delegate days over the first 12 years of approximately 57,000 per annum (69,000 p.a. from year 5) compared to the average 68,000 new delegate days estimated in the June 2014 business case.
50. These new delegate days will inject \$28.6m of new expenditure, \$15m of GDP and 201 new full time jobs. Combined with the protection of Wellington's current market share the impact of the proposal will inject and protect \$40.8m of expenditure, \$21.4m of GDP and 287 full time jobs. This economic case (combining direct and indirect benefits) is outlined in the table below:

<b>FINAL PROPOSAL (UN-INFLATED)</b>	<b>Impact of Development Final Proposal</b>	<b>Impact of Do Nothing Final Proposal (- 8%)</b>	<b>Net Economic Impact Final Proposal (Total)</b>
<b>Total Expenditure (\$m)</b>	\$28.6	-\$12.2	\$40.8
<b>Total GDP (\$m)</b>	\$15.0	-\$6.4	\$21.4
<b>Total Employment (FTEs)</b>	201	-86	287

51. This is consistent with and compares closely to the economic benefit mid-point used in the indicative business case as noted in the following table:

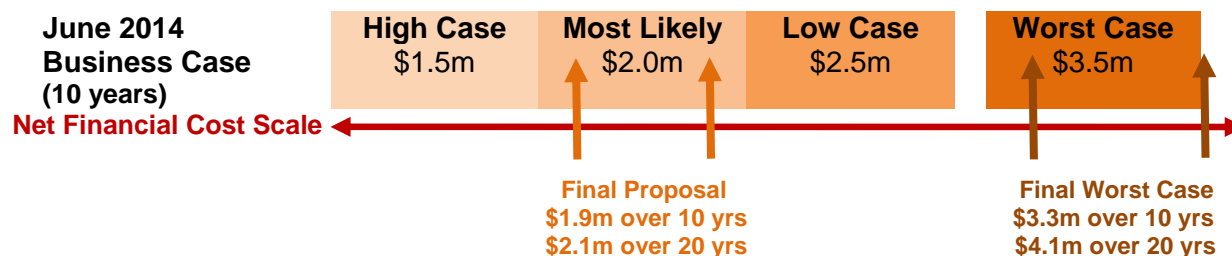
JUNE BUSINESS CASE (UN-INFLATED)	Impact of Development June-14 Business Case (mid)	Impact of Do Nothing June-14 Business Case (- 8%)	Net Economic Impact June-14 Business Case (Total)
Total Expenditure (\$m)	\$29.7	-\$12.2	\$42.0
Total GDP (\$m)	\$15.6	-\$6.4	\$22.0
Total Employment (FTEs)	210	-86	295

52. Council can therefore proceed with confidence that the final event projections are in accordance with the business case outlined to GFP on 24 June 2014 and consulted on with the public.

### Financial analysis, Return on investment and Funding

#### *Projected cost of the convention centre to Council*

53. The detailed cost to Council of the proposal is derived from the commercial terms outlined in Report 2. The average net cost to council of the proposal over 10 years ranged from \$1.5m to \$2.5m, with a worst case of \$3.5m in our June 2014 business case. The final proposal average costs over the life of the lease are summarised in the diagram below, and remain within the range of outcomes in the 24 June business case:



54. The final proposal average costs over the life of the lease are further summarised in the table below:

20 year averages (Inflated)	Final Proposal	Final Proposal Worst Case
	\$m	\$m
Lease cost	4.9	4.9
Opex costs (Rates & Insurance)	0.8	0.8
<b>Total Lease Costs</b>	<b>5.7</b>	<b>5.7</b>
Operating profits of convention centre	2.0	-
<b>Net Lease Cost to be funded</b>	<b>3.7</b>	<b>5.7</b>
Incremental rates income from the development	1.6	1.6
<b>Net Financial Cost to the City</b>	<b>2.1</b>	<b>4.1</b>
Level of secondary investment (CBD) required to offset net cost with growth in our rates income	\$160m	\$315m

55. There are no capital costs or cost risk to Council in this proposal with respect to the construction of the convention centre.
56. However, should Council look at urban design improvements for the proposal including pedestrian connectivity to the waterfront there is likely to be some capital costs incurred. This is likely to be in the range of \$0.5m - \$1.0m, depending on the level of subsidy received from NZTA for this work. This estimate is based on two new pedestrian crossings (\$250k each) – one on Cable Street directly across to Te Papa, and one on Wakefield Street directly to Reading cinemas.
57. These figures do not account for the growth in the ratepayer base that will occur during the construction phase when prior to the commencement of the lease approximately \$0.5m of additional rates income will be generated from the increased value of the development in progress.

**Secondary investment**

58. A new hotel and convention centre will induce secondary investment in accommodation and other facilities growing the Council rating base further.
59. Secondary investment will likely take the form of new hotels and improved retail and hospitality provision in the surrounding areas and should reasonably be expected following the examples of Sky City’s planned investment in Hamilton following the Claudelands Convention Centre development, and also Wellington’s experience of hotel development after Te Papa was built.
60. Analysis in our June 2014 business case indicated that the additional demand on hotel beds from this development will likely trigger further hotel development from around 2021 or 2022. This development is in addition to the new hotel beds provided by the Sofitel development, and Hilton hotel capacity.
61. This downstream secondary investment would further offset the cost of this proposal to the city in the form of new rates income (growth in the ratepayer base) - to achieve a zero net cost position for this proposal, Council would require secondary investment in the downtown area of \$160m, with a worst case of \$315m, to fully offset the cost of this proposal from growth in the ratepayer base.

**Return on investment**

62. The table below outlines the return on investment calculations. The return on investment simply compares the estimated cost to the city of the proposal to the economic returns that have been calculated. Note the economic returns from section 50 have been inflated over 20 years to accurately compare to the inflated costs of the proposal in the table below:

Annual averages over 20 year lease (\$ inflated)	Final Proposal	Worst Case
	\$m	\$m
<b>Average net cost to the city</b>	2.1	4.1

<b>Annual averages over 20 year lease (\$ inflated)</b>	<b>Final Proposal</b>	<b>Worst Case</b>
<b>Economic Returns (market growth only)</b>	<b>\$m</b>	<b>\$m</b>
Total expenditure benefits	38.1	-
Wellington GDP value add	20.0	-
<b>Return on Investment (market growth only)</b>	<b>Ratio : 1</b>	<b>Ratio : 1</b>
Total expenditure benefit ratio	18.2	-
Wellington GDP ratio	9.6	-
<b>Economic Returns (market protected and grown)</b>	<b>\$m</b>	<b>\$m</b>
Total expenditure benefits	53.0	14.9
Wellington GDP value add	27.8	7.8
<b>Return on Investment (market protected and grown)</b>	<b>Ratio : 1</b>	<b>Ratio : 1</b>
Total expenditure benefit ratio	25.3	3.6
Wellington GDP ratio	13.3	1.9

63. The table above shows the positive return this proposal has for the city with growth in the GDP of \$20m per annum, and with the benefit of also protecting with city from lost GDP of a further \$7.8m. The returns on the net city investment of \$2.1m per annum are therefore favourable at 9.6 :1 for new growth, and 13.3 : 1 when considering the additional market protection.

#### ***Projected construction benefits***

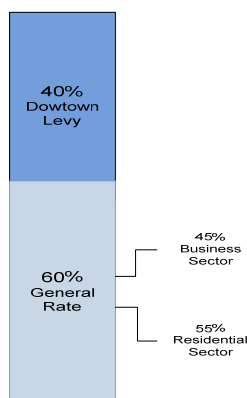
64. The construction aspect of this project will make a significant contribution to the Wellington economy through the two year construction period. This will be in terms of contributing to GDP and supporting a significant number of jobs through the construction period.
65. As outlined in the Jun 2014 business case it is expected that the economic impact from the construction project on the Wellington hotel and conference centre to add around \$50m to the regional economy over the two years and support over 300 jobs through the construction period

#### ***Benefits of associating with the Hilton brand***

66. The key benefits of partnering with Hilton include:
- Hilton's ranking as the number one hotel brand across Asia Pacific for the past five years in terms of customer awareness and preference.
  - The HHonours loyalty programme with more than 40 million members worldwide drives high utilisation and occupancy with 51% of Hilton occupancy attributed to this programme.
  - Hilton's global reach through their 34 sales offices globally to attract new customers to Wellington.
  - The Hilton brand standards provides a level of assurance to use that the centre will be managed and operated to a high standard.
  - The Hilton brand also does not operate casinos in New Zealand which makes them an attractive choice for some customers.

**Funding - who benefits and who pays**

- 67. The current convention venues business is funded from the downtown levy (40 percent), from general rates (55 percent) and from revenue of the MFC car-park (5 percent). This distribution recognises that these facilities bring visitors to the central city providing custom for hotels, restaurants, retailers and other city 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.
- 68. The funding split was traversed by submitters to the consultation process, however it was always intended for further consultation of the final finding splits between various rating categories to be achieved through the 2015/25 LTP process when the Revenue and Financing Policy is being reviewed and approved. This provides this decision to be made in context of funding decisions across all activities rather than in isolation.
- 69. Rates impacts have been modelled using a 60 / 40 general rate / downtown levy funding split. It is important to note that 45 percent of the general rate is funded by the business sector meaning that this split will actually result in funding being allocated two thirds to the business sector, and one third to the residential sector.



- 70. The updated indicative impacts on ratepayers of this funding split are noted in the following table:

	<b>Residential ratepayer \$500k capital value (2014/15 rates \$1,976 p.a.)</b>	<b>Downtown commercial ratepayer \$1m capital value (2014/15 rates \$10,198 p.a.)</b>
<b>Year 1</b>	+\$12 (0.6%)	+\$274 (2.7%)
<b>Year 5</b>	+\$4 (0.2%)	+\$151 (1.3%)

**Long Term Plan**

71. The following table outlines the cost of the proposal under the latest operating scenario and current commercial terms for the period of the 2015/25 Long Term Plan:

OPEX (inflated \$m)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Rent	-	-	3.50	3.62	3.75	3.88	4.02	4.16	4.30	4.45
Rates & Insurance	-	-	0.59	0.61	0.63	0.64	0.66	0.68	0.70	0.72
<b>Total Lease costs</b>	-	-	<b>4.09</b>	<b>4.23</b>	<b>4.38</b>	<b>4.52</b>	<b>4.68</b>	<b>4.84</b>	<b>5.00</b>	<b>5.17</b>
Operating Company Profit	-	-	-	-	-	1.42	2.06	2.10	2.15	2.19
<b>Proposal cost to the city</b>	-	-	<b>4.09</b>	<b>4.23</b>	<b>4.38</b>	<b>3.11</b>	<b>2.62</b>	<b>2.74</b>	<b>2.86</b>	<b>2.98</b>
Rates Income (growth)	-	0.5	1.28	1.31	1.34	1.38	1.41	1.45	1.48	1.52
<b>Net Cost to the City</b>	-	<b>(0.5)</b>	<b>2.81</b>	<b>2.92</b>	<b>3.03</b>	<b>1.73</b>	<b>1.21</b>	<b>1.29</b>	<b>1.37</b>	<b>1.46</b>

72. Should the proposal be agreed, the proposal cost to the city will be included in the final 2015/25 Long Term Plan as outlined in the above table. Funding for the remaining 12 years of the lease will be included in future Long Term Plans.

**Risks**

**Impact on existing facilities**

- 73. There will be some impact on existing venues in the city due to displacement of conferences and other events to the new centre.
- 74. As detailed in the strategic case, displacement of business will occur to other cities when the new facilities in Auckland, Christchurch and Queenstown are built (up to 17% of lost market share is estimated).
- 75. The proposed new facility is intended to protect this displacement out of Wellington. It is also of a size - and will be marketed – to grow Wellington’s overall share of the New Zealand market and be focused on attracting conferences that have traditionally not been hosted here because of the size and configurations of the city’s existing facilities
- 76. Notwithstanding that, it is anticipated that there will be some redistribution and freeing up of existing facilities as a consequence of the new convention centre, allowing those venues to be re-purposed for other activities and potentially increase their availability for community usage.
- 77. For Council this means exploring opportunities for alternative uses for the Town Hall which is already underway as part of the earthquake strengthening considerations. A possible reuse that is emerging from this work is for the Town Hall to be a dedicated venue to support music and the performing arts.

**Business Case Sensitivities**

78. We have run downside sensitivities on the economic impacts under the same changed assumptions for delegate origin and event mix as completed in the June business case. No upside sensitivities have been run for the final proposal as it sits in the mid-range of expected outcomes from the June 2014 business case (as expected). The results of this sensitivity analysis are outlined in the table below:



		Origin of delegate days				
		Historical	Mid-Point	Horwath		
Event Mix	Horwath	Expenditure (\$m)	19.5	24.1	28.6	Final case
		GDP (\$m)	10.2	12.6	15.0	
		Employment (FTEs)	138	170	201	
	Historical	Expenditure (\$m)	12.5	15.8	19.0	Sensitivity Case
		GDP (\$m)	6.5	8.3	10.0	
		Employment (FTEs)	88	110.5	133	

79. For the purposes of the final business case we are using the Horwath final case as this now accounts for a reduction in event numbers, and our assessment of where the new business generated by the new centre is aligned with the Horwath assumptions that there will be new business coming to Wellington from out of town

***Risk mitigation and assurances***

80. The following advisers have played a key role in providing assurances over the proposal and business case:

Advisor	Role
<b>DLA Phillips Fox</b>	<ul style="list-style-type: none"> <li>- Have provided advice on the consultation process and decision making process ;</li> <li>- Assurance has been received that process has been robust and in accordance with the LGA 2002</li> </ul>
<b>Wareham Cameron &amp; Co</b>	<ul style="list-style-type: none"> <li>- Have provided key advice during the negotiation phase of the proposal;</li> <li>- Have provided advice and assurance over the reasonableness of the final commercial terms of the proposal</li> </ul>
<b>Kensington Swan</b>	<ul style="list-style-type: none"> <li>- Have acted for and provided advice to Council during the negotiation phase of the proposal;</li> <li>- Have acted for Council in the drafting and negotiation of the key commercial attributes (KCA's) for inclusion in the contractual agreements for this proposal ensuring Council's rights are protected, and risks mitigated through contract.</li> </ul>
<b>KPMG</b>	<ul style="list-style-type: none"> <li>- Have provided advice and assurance on taxation matters to do with the flow of operating profits, and the overall structure of the deal</li> </ul>
<b>PWC</b>	<ul style="list-style-type: none"> <li>- Assistance in development of the indicative business case</li> <li>- Assurance provided over the strength of business case and subsequent changes to the final proposal</li> <li>- Completed due diligence on the parties involved in this proposal</li> </ul>
<b>Horwath HTL</b>	<ul style="list-style-type: none"> <li>- Provision of market demand and financial projections for the convention centre</li> </ul>

Advisor	Role
	- Provision of advice around capability and capacity of the proposed convention centre in conjunction with PCO's (professional conference organisers)
<b>Covec</b>	- Provision of advice and modelling around the impact of new facilities being built in Akl, Chch & Q'town on the Wellington MICE market.
<b>BERL</b>	- Modelling of all economic benefits included in the business case and final papers. - Provision of assurance on the accuracy of the economic benefit modelling.

### Next Actions

81. See attachment 2.

### Conclusion

82. This is an exciting opportunity to significantly improve Wellington's facility offering to the convention market and reap the significant benefits that flow from hosting that business activity in our city.
83. Consultation has shown strong support for the proposal from the community.
84. The final negotiations have resulted in net average costs and benefits within and consistent with the range of outcomes considered by GFP Committee on 24 June 2014.
85. Officers remain confident that this proposal will deliver the most cost effective convention facility to the city, and all the economic benefits to our city, in the shortest possible timeframe for delivery.
86. All previous analysis of the cost for council to build a similar purpose built convention centre facility resulted in significantly higher costs per year and council taking on the risk of operations through its current venues business, and without the global reach of an international operator.
87. It is recommended that Council agree to this proposal.

### Attachments

- Attachment 1. Analysis of Submissions Page 21
- Attachment 2. Next Steps Page 25

Author	Kiri Rasmussen, Manager, Economic Development Projects
Authoriser	Derek Fry, Director City Growth & Partnerships

## **SUPPORTING INFORMATION**

### **Consultation and Engagement**

The consultation and engagement undertaken has been outlined in the report.

This is not a decision that requires consultation following the special consultative procedure, or for provision to be made in the Long term plan (section 97 LGA).

The Council does have an obligation to give consideration to the views and preferences of persons likely to be affected by or have an interest in the proposal and follow the decision-making requirements in Part 6 of the LGA.

Also when assessed against the Council's Significance Policy (and the proposed Significance and Engagement Policy) it is officer advice that this decision has a reasonably high degree of significance (ie falling on the continuum between medium and high). In the light of that assessment, it is considered that the decision-making process is in accordance with the relevant provisions of the Local Government Act 2002. In particular:

- Different options have been identified and assessed.
- Benefits and costs have been quantified.
- Information has been provided to the Council for consideration.
- Consultation has been undertaken and the Council is able to give proper consideration to community views.

When tailoring the decision-making process for this proposal (which is what the LGA requires the Council to do), the matters taken into account have included:

- That the Proposal has a reasonably high degree of significance.
- The principles set out in s 14 of the Act.
- The extent of the Council's resources.
- The nature of the Proposal and the circumstances in which the Council is considering this decision.
- The principles of consultation.

Having taken the above matters into account, it is considered that the decision-making process followed by Council, including the consultation, has been in accordance with the LGA.

### **Treaty of Waitangi considerations**

The Port Nicholson Block Settlement Trust and Ngati Toa were briefed on the proposal during the engagement phase, with no objections noted. It is noted that an Archeological Authority will be required by the Developer and that given the location of the site, PNBST would be notified of any issues arising under that.

### **Financial implications**

The financial implications are set out in the body of reports 1 and 2. If agreed, the funding set out in this report will be included in the 2015 /2025 Long Term Plan. The Council is legally able to make a decision to proceed is made in advance of agreeing the draft and final 2015/25 LTP. Agreement to the proposal, and inclusion in the 2015/25 LTP means that the consultation on the LTP (for this proposal) is limited to funding options under the Revenue and Financing Policy (see below).

### **Policy and legislative implications**

The proposal is consistent with the Economic Development Strategy, the Priority Growth Agenda and economic growth is a priority in the 2012/22 LTP.

A new activity will need to be included in the Revenue and Financing Policy, with agreed funding arrangements. This will be included in the draft 2015/25 LTP and consultation on the final funding undertaken as part of the LTP process.

The decision-making framework is addressed under consultation an engagement above.

**Risks / legal**

Legal advice has been obtained on the Council decision-making process under the LGA and the commercial negotiation and documentation of the proposal.

The 24 June 2014 business case included a detailed risk register. The risks around contract, operating and construction risk, have been addressed in the contractual negotiations as summarised in Attachment 1 to Report 2.

## ANALYSIS OF SUBMISSIONS

### Overview of who submitted

Seventy six submissions were received. Fifty two submissions were received from individuals and 24 from organisations. Organisations represented included businesses, business groups, residents associations and special interest groups. Many of the organisations that submitted were 'umbrella' associations representing entire industry sectors.

In terms of overall support for the proposal, 78 percent of submitters indicated they supported the proposal, while 21 broadly did not support the proposal<sup>3</sup>.

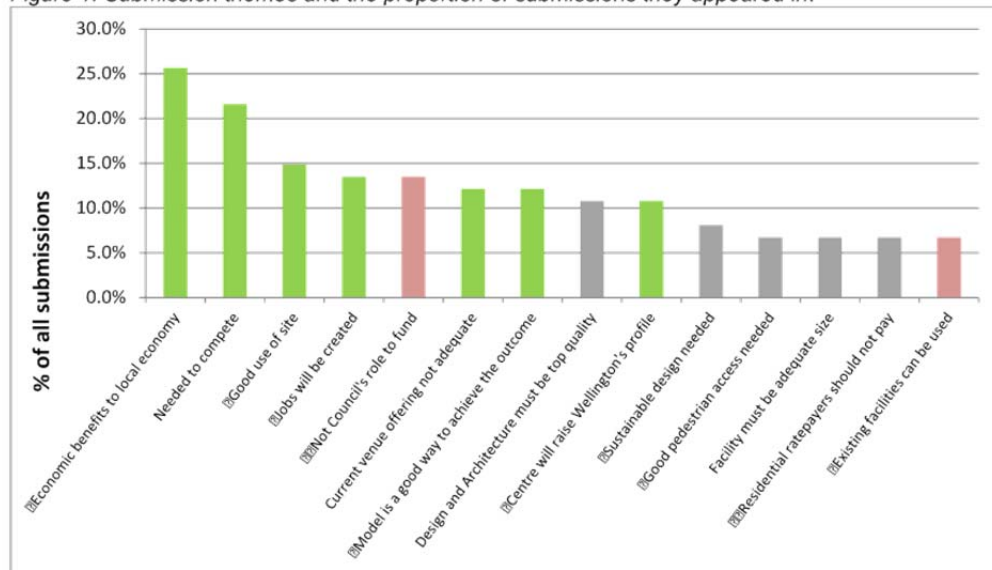
Of those in favour of the proposal, 36 were individuals and 23 were from organisations. Of those who stated opposition to the proposal, 15 were individuals and 1 was a residents association.

### Broad themes

The most prominent themes were around economic benefits and job creation, the need to compete with other cities, the utility of the site and whose role it is to pay for the scheme.

Figure 1 shows the frequency of themes appearing in submissions, and whether they are broadly supportive of the proposal (green), neutral (grey) or a reason against the proposal (red).

Figure 1: Submission themes and the proportion of submissions they appeared in.



<sup>3</sup> Note that we have categorised submissions in terms of overall support on balance. All points raised in all submissions are included in the following analysis.

**Economic benefits**

The most prominent theme was the view that the centre would bring many economic benefits to the city, both direct and indirect. Benefits cited included increased business for related industries like hospitality, other accommodation providers and tourism. Many submitters also noted that the new convention centre would help raise the city's profile internationally.

*Officer comment:*

The convention centre business case indicates that the new facility will stimulate economic growth in the local economy through the construction phase and once it is operational.

The construction stage it is anticipated to add approximately \$50m to the regional economy and the new facility – once operational – will bring an estimated \$29m of additional expenditure to the regional economy per year and add \$15m of GDP.

The visitor growth and additional spending resulting from the new facility will support a broad range of businesses including accommodation providers, the hospitality sector as well retail.

**Job Creation**

A related theme was that of job creation – the Convention centre would deliver jobs from directly employing staff and other businesses are also set to provide increased employment on the back of the extra economic activity the centre would deliver. The tertiary sector noted that the additional jobs would benefit tertiary students through the increased availability of part-time employment.

*Officer comment:*

The new convention facility is projected to create 201 fulltime jobs, and another 300 full time jobs will be created as part of the construction phase.

**Wellington needs to compete**

Growth in economic activity was not the only cited economic benefit – the next most prominent theme was that the centre is required to allow us to continue to compete, especially considering improved facilities in Auckland, Christchurch and Queenstown.

*Officer comment:*

The new convention centre will allow Wellington to compete for market share against proposed new convention facilities in Auckland, Christchurch and Queenstown. The proposed Wellington convention centre would allow the city to not only maintain market share, but also grow its share of the convention business by 10 percent. Conversely, if Wellington did not improve its convention offering, it would lose 8 percent of market share (up to 17 percent at a worst case scenario), and this would have a significant impact on jobs, expenditure in the city and business growth.

**Location and site usage**

Several submitters indicated that they felt the site was a good one for the centre, and that it was a good use of an underutilised area of the City. Some felt that having the Centre in the proposed location meant that it may invigorate the area and be a springboard to further development in the area.

*Officer comment:*

The proposed vacant site in Cable Street is ideally suited to a convention centre and hotel. It is close to Te Papa, the waterfront and Wellington's premier entertainment precinct in Courtenay Place. It is also within easy walking distance of Willis Street and Lambton Quay, and the Parliamentary precinct.

In terms of secondary investment, analysis of what happened in the local market when Te Papa was built, and the recent announcement of Sky City's planned investment in Hamilton following the Claudelands Convention centre development suggest that there will be a level of secondary investment in areas such as accommodation, retail, entertainment and the wider hospitality sector.

***Not Council's role to fund.***

The most prominent theme present in submissions against the proposal was that Council should not be involved in funding the development or running of the Centre. This theme centred around the burden on residential ratepayers in particular. This theme was mostly present in submissions from individuals.

*Officer comment:*

Cities traditionally provide some form of support for convention infrastructure because they bring in new visitors and expenditure which in turn supports businesses, jobs and leads to economic growth. Wellington City Council has been supporting convention infrastructure for many years already through existing facilities – the proposal simply improves the local convention offering in the city to remain competitive in the market. In terms of rating impact on the residential sector, under current settings that will be very modest – a \$12 (0.6%) increase in rates on a \$500k capital value property in year one, and this moves down to \$4 (0.2%) by year five.

***Current offering not adequate***

Several submitters stated that the current venue offering in the city was not adequate. Mostly, this was to do with the size of the conventions the city is 'missing out on', but also the need to have a purpose built facility to meet market demand. A small number of submitters believed existing facilities could be used.

*Officer comment:*

Wellington's current venue facilities have limitations. They are not purpose built, relatively old, and therefore not optimally configured to meet market needs, there are capacity issues during peak times of the year that cannot currently easily be resolved, and there are size constraints that mean the city is limited to hosting small to medium sized conferences. The proposed new facility will be purpose built and will allow the city to be able to meet market demand in terms of facility offering, and cater for larger and a broader range of conventions and business events.

***Partnership model is a good way of achieving the outcome***

Several submitters stated that they believed the proposed funding model represented a low-cost and low-risk way to achieve a convention centre for the city.

*Officer comment:*

The partnership model has a number of advantages over the traditional stand-alone publicly funded / managed model in that council would not build, own, or operate the convention centre – it simply leases the facility and the Hilton operates the facility.

This means there is no increase in council borrowings, no depreciation costs, the financial risk from construction does not rest with council, operating risks are limited to risk of receiving a profit share (with no exposure to losses), and overall the model provides greater flexibility in the long-term. Importantly, the partnership model also allows the city to secure a new convention facility at a much lower cost than any self-build/operate option.

**Building design and city links**

One other set of themes worthy of note are comments by a group of submitters around architectural and urban design elements of the development. Aspects of these submissions focussed on the need to have a distinctive design, the need for good pedestrian links and a high quality surrounding urban environment. The case for sustainable design principles was covered in detail by one submitter in particular. The need to avoid a 'bland' result for the city was a thread through these submissions.

*Officer comment:*

Council officers will work with the developer and Hilton International and advocate for a sustainable building and a design that will be a great addition to the city in recognition of its location opposite Wellington's most visited attraction – Te Papa. However, as council is not the party carrying the construction cost or risk, ultimately final design decisions will rest with the developer.

Council can however ensure any new facility is supported through high quality urban surroundings and linkages to the waterfront, the Courtenay Place entertainment precinct and the wider city. Officers will commence work on this and report back to committee at a later date.

**Funding split**

A number of submitters also traversed the most appropriate funding ratio between the commercial and residential sectors. Individual submitters generally believed commercial ratepayers should pick up more of the funding burden, and commercially aligned submitters believe residential ratepayers should pay more.

*Officer comment:*

The funding ratio for the convention centre will be considered as part of the review of the Revenue and Financing Policy and will be consulted on as part of the 2015-25 long-term plan. It is important to review the funding ratios of activities in context with each other rather than consider activities in isolation.

**Conclusion**

Overall, nearly eight out of ten submissions (78%) are positive towards the proposal, with a minority of opposition (21%). Supportive themes generally focus on the benefits to the wider economy and the city, while those themes that are unsupportive generally refer to the cost burden.



## NEXT STEPS





## 5. Public Excluded

Resolution to Exclude the Public:

THAT the Council :

Pursuant to the provisions of the Local Government Official Information and Meetings Act 1987, exclude the public from the following part of the proceedings of this meeting namely:

General subject of the matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
5.1 Wellington Convention Centre Proposal Report 2	<p>s7(2)(b)(ii) The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>s7(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.</p> <p>s7(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).</p>	<p>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.</p>

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