Wellington City Council

Indicative business case for a new Convention Centre (abridged)[1]

July 2014

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[1] To the extent any information is confidential to the other parties and/or of a commercially sensitive nature this information has not been included within this abridged business case.

1. Executive summary

This indicative business case outlines the case for investing in new convention facilities for Wellington. The case follows an approach from a private consortium led by Wellington based property developer Mark Dunajtschik, to build a 5-star hotel and large scale convention centre on a site fronting Cable St, directly opposite Te Papa. The hotel and convention centre would be operated under a management agreement by an international hotel operator, Hilton International Manage LLC (Hilton). To the extent any information is confidential to the other parties or of a commercially sensitive nature this information has not been included within this business case.

The proposed convention centre is a large modern and purpose build facility covering 4,491 sqm and able to host full format multi-day conferences up to 1,200 people[2], rather than normal hotel scaled conferencing facilities. The facility will meet a gap in Wellington's current market with a 2,592 sqm flat floor space and a nine metre stud height. This main space will be fully flexible with operable walls able to break the space down into five smaller spaces for con-current events, further sub-dividable for smaller meetings. The location directly opposite Te Papa will open up opportunities for even larger events to be held in combination utilising the new centres facilities and Te Papa.

The centre will be able to host large banquets of 1,450 people and seat 2,500 people in a theatre style seating arrangement in a modern and purpose built facility. This capability is something that will complement and strengthen Wellington's business events market offering. The centre is expected to bring new business to Wellington in the larger conferencing market, however the centre will target the majority of its business in the medium sized conferencing market where there is also a greater volume of events.

Council's involvement is critical to the development because the convention centre is proposed to be "city scale" compared to what would normally be required to service a 165 room hotel.

Alternative ways to improve Wellington's convention facilities have been considered in the past and compared to the proposal within this indicative business case. However, the alternative options come at a considerably higher cost and involve the Council taking on significant additional borrowings, construction and operating risk.

The following sections summarise the key areas of the business case.

1.1. Strategic Case

The strategic case for investing in a new convention centre is strong. Wellington currently enjoys 14% of the New Zealand MICE[3] market which delivers over $140 million in expenditure to the city, delivering $76m of GDP and employs the over 1,000 FTE's . In recent years Wellington's share of the multi-day events has declined. Our existing facilities are aging and are limited by size, functionality and often availability due to their multi-purpose functions – they will not be up to the standard required to host larger international conferencing business and be competitive in the future.

Internationally, there is a strong growth trend in the conferencing market which is projected to continue, however NZ is underperforming in comparison. The NZ Government has recognised this and included investment of $34 million over four years in attracting international business events to NZ as a key part of their economic growth agenda. Without international standard facilities, Wellington will not be able to access much benefit from that government investment.

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[2] Horwath HTL completed an assessment of the space and tested this with a recognised professional conference organiser. The main space limitation is the number of trade exhibition stands which for a 1,200 person conference would be limited to 55 exhibition stands.

[3] Business Meetings, Incentives, Conferences and Events are collectively referred to as the "MICE" market

Convention centre developments are planned for Auckland (the NZ International Convention Centre or “NZICC”), Christchurch and Queenstown which will be purpose built and all planned to be open in 2018. In the face of significantly increased capacity of a much higher standard Wellington can be expected to lose up to 17% of their current market share if there is no investment to improve our offering to the market.

Other options considered to improve our facilities are limited to the council building and owning new facilities. These options would require Council to commit significant capital expenditure for the construction and fit out, greater than $50m, which would need to be funded by borrowings. Together with the associated costs of greater than $5.0 million per annum in interest, depreciation, rates and insurance costs alone. Under these options, Council would have all the construction cost and operating risks of the convention centre and the issue of finding a suitable site.

1.2. Proposal Outline

The proposal has been described in the earlier section of the executive summary. The key commercial terms are best described as follows:

- Council will enter into a 20 year lease with the developer for the approximately 4,500 sqm convention centre. Council would pay an annual lease plus a share of the rates and insurance cost of the convention centre.

- Council will sub-let the convention centre to an operating company with a management agreement with Hilton to manage the convention centre. Hilton would also manage the hotel operations under a separate agreement that Council would not be a party to.

- The development will be commensurate with Hilton’s 5-star quality in design and guest experience and incorporate a 165 bed hotel.

- The developer will take on all construction, borrowing and operational risk for this development – there is not expected to be any no cost exposure to Council beyond the costs associated with the lease.

- To ensure all of the parties are incentivised to make this proposal successful there will be a range of incentives and profit shares after which all of the residual operating profits from the convention centre will be returned to Council. These are discussed in the commercial terms of the proposal.

- Council support is critical to the progression of this development - without it the project will not proceed.

1.3. Economic Case

The economic case compares the proposed convention centre development to a “do nothing” baseline option. Under the do nothing option Wellington is expected to lose between 8% and 17% of their current delegate days[4]. Berl have estimated this loss in delegate days will correspond to between $12m and $25m in lost expenditure[5] in the Wellington economy, resulting in between $6m and $13m in lost total GDP and job losses between 86 and 171 FTEs

The new centre is projected to deliver 68,000 new delegate days to Wellington through its ability to attract a range of events to Wellington. This equates to an increase of approximately 10%. The economic benefit from these projected new delegate days is estimated to generate between $24m and

[4] Covec Analysis of NZ’s MICE Market Report

[5] Direct and indirect expenditure

$35m of new expenditure, delivering $13m to $18m of new GDP and 172 to 247 new full time equivalent jobs to the Wellington economy.

The net economic effect from the combined impact from the do nothing impact and the growth projections is $42m in total expenditure in the Wellington economy supporting $22m in GDP for Wellington and just under 300 FTEs.[6]

In addition, it is also expected that 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 Courtenay precinct and result in growth in the Council ratepayer base.

Other associated economic impacts arise from benefits of Hilton's brand power, the resulting international marketing exposure from the Hilton brand and having the accompanying 5-star hotel in Wellington. The ability to support our business sector through hosting their premier industry events in Wellington and the significant economic benefits from a major construction project will also flow through.

1.4. Financial Case

The cost to Council will be the annual lease cost, including a share of rates and insurance costs related to the convention centre, over the 20 year life of the lease. This cost will be offset by the residual profits from the convention centre and the associated growth in the rating base.

Council will be entitled to and expect a profit share under this proposal (profits are expected to commence from between years three and five). There will also be a direct benefit from the construction of the hotel and convention centre from the associated incremental rates income. The average financial cost of the proposal to the city is likely to between $1.5m to $2.5m per annum over the first 10 years. The worst case scenario where no profit share eventuates, whilst unlikely, would result in an average financial cost to the city of $3.5m per annum over the first 10 years.

The economic returns were outlined in 1.3 above. In the Financial Case (Section 5) the economic returns on Council's investment has been expressed as the ratio between the economic outcome and the financial cost (this is the city investment) to the city. Based on "new" business event growth the economic returns range from 10.4:1 to 25.0:1 with respect to new expenditure in the Wellington economy, delivering between 5.5 to 13.1 of new GDP to Wellington for each dollar invested.

The full economic benefit also includes the loss of economic benefits that would have arisen under the "do nothing" scenario, the full return on expenditure increases to 15.8 to 34.0 of expenditure in the Wellington economy for each dollar invested. This equates to 8.3 to 17.8 of GDP to Wellington for each dollar invested. So for every dollar invested by the Council in this proposal $8.3 to $17.8 will be added to the GDP of Wellington.

The indicative impact on rates has been modelled using our current convention centre funding policy of 60% general rates and 40% downtown levy. Under the current funding policy ratepayers will experience a modest one-off increase in rates on commencement of the lease in 2017/18 reducing back to almost original levels as the full profits from the convention centre feed through.

1.5. Town Hall Impact

Wellington's Town Hall is currently closed for earthquake strengthening. Prior to closing, it was a key component of our convention offering to the market. As described earlier, the Town Hall is unlikely to meet the future requirements of convention organisers with an increase in the supply of purpose built,

[6] Based on the mid-point of the economic impact from delegate growth projections and the most likely economic impact from the counterfactual do nothing impact at a loss of 8% of delegate days.

modern and flexible facilities to meet the future customer market. To achieve this standard for the Town Hall would require significant investment in excess of the cost to strengthen.

This proposal will assist in clarifying the future use of the Town Hall as is not envisaged as a future conference centre. This proposal allows Council to consider alternative options for future use of the Town Hall, such as a music centre and scoring stage, or increased community access. This will likely have a positive impact on the Town Hall earthquake strengthening costs by reducing the level of strengthening work required, and therefore the costs involved, and provide a better alternative use for a heritage building.

1.6. Key Risks

The primary risks under the proposal have been summarised in Section 7. A detailed risk analysis has been conducted and this will inform the next phase of negotiating and finalising contractual arrangements.

1.7. Conclusion

In considering this business case and understanding the potential benefits that could accrue to Wellington from this proposal in the changing face of the convention market in New Zealand, it is clear that there is a strong case for change.

If Council wishes to remain competitive in the business events market and enjoy the economic benefits to the city, a modern purpose built facility will be required to complement the city's existing offerings. This proposal is recommended to be the most cost effective and low risk method of achieving this outcome for the city.

PWC has carried out a review and validation of the financial and economic projections in the indicative business case and sensitivity testing around the underlying assumptions. In their view there is a good strategic and economic argument for supporting the convention centre and note that they support the principles proposed by WCC in relation to the proposed financial structure. PWC did not review the proposed contractual and commercial arrangements and recommended that Council takes appropriate commercial and legal advice before committing to any contracts. Wareham Cameron has reviewed the commercial terms of the proposal and this is commented on in Section 3 of the business case. Kensington Swan has been providing legal advice to Council and will continue with respect to any required legal agreements and contracts.

2. Strategic case

Key Points:

- MICE activity in Wellington generates $146m in expenditure delivering $76m in GDP to Wellington's economy and provides employment for over 1,000 FTE's.
- Strong growth trend in international conferencing market which is projected to continue, however NZ has underperformed in comparison
- Wellington's share of delegate days has declined by since 2010, particularly in the multi-day events market, and it could further lose up to 17% of its market share if proposed convention centre developments in Auckland, Christchurch and Queenstown proceed.
- Wellington has aging facilities that are limited in size, functionality and often availability due to their multi-purpose functions – they are not up to the standard required to host larger international conferencing business.

As set out in Wellington's Economic Development Strategy, there is an urgent need for the city to focus on economic development priorities that will deliver long-term, sustainable growth. The strategy recognises the need to respond to challenges that are arising globally and nationally, including the increasing levels of public investment in Christchurch and Auckland.

One of the priority areas for Wellington is to market itself as a destination, not just for tourism activity, but as a city that is attractive for talent, businesses and investment. Through this, and the strategy's other areas of focus, Wellington seeks to support income and productivity growth for the city, job creation, growth in knowledge-intensive exports, innovation and the delivery of 'smart' infrastructure.

2.1. Strategic objectives

To help deliver on these economic outcomes, Wellington is progressing eight "Big Ideas" that aim to boost the local economy and make it more diverse. Idea 4 relates to conference and concert venues, recognising the benefits that activities in these facilities can bring for the city. Conference venues enable the city to host a range of business events, such as meetings, incentives, conventions and exhibitions (collectively referred to as "MICE"). These events support and contribute to the economic development agenda and contribute to Wellington's economic growth through:

- **delegate spend** - domestic delegates spent an average of 3.3 days at the convention venue, while international attendees spent an average of 7.5 days in New Zealand (5.2 in the region hosting the convention). On a per day basis, domestic and international delegates spent an average of around $450 per night on all goods and services.[7]
- **guest spend** - in addition to the revenue generated from the spending of conference delegates, there is also revenue from guests of attendees. It has been estimated that between 15% and 30% of conference attendees in various locations across Australia bring additional guests, and they suggest that an additional 20% of expenditure is generated by these guests.[8]
- **job creation** – associated with new delegates to the city creating new demand on business.
- **smoothing tourism seasonality** - international conventions in New Zealand are typically held between April and November. This timing offsets the peak tourism period, creating a much larger window for visitors to New Zealand.

[7] Ministry of Economic Development. (June 2012). *Convention Delegate Survey*.

[8] Weber, K; Chon, K.S.. (2002). *Convention Tourism: International Research and Industry Perspectives*. Published by Routledge.

- **creating future tourists** – studies in Australia have found that close to 60% of delegates visiting cities as convention delegates indicated that they would return as tourists.[9]
- **business growth –** MICE activity helps grow Wellington businesses by creating international links, promoting innovation and development and facilitating knowledge transfer
- **increasing liveability** –business events bring a diverse range of people to the city and contribute to Wellington's international connectedness. Visitor activity financially supports a range of recreational utilities, such as museums and restaurant precincts, making the city a more attract place to live, work and invest.

2.2. Current situation

During 2012, MICE activity resulted in around 704,000 delegate days in Wellington.[10] Of these, 27,000 days were generated by international visitors, and 201,000 from domestic visitors.[11]

As shown in Table 1, below, Wellington receives around 15% of the total New Zealand market for delegate days. Wellington's relative share of domestic delegate days is almost double its share of the international delegate day market.

Table 1. Delegate days in Wellington and New Zealand (2012)

	Origin of delegates			
Region	*Locals*	*Domestic visitors*	*International visitors*	*Total*
Wellington	476,693	200,648	26,887	704,228
Rest of New Zealand	2,851,923	851,580	238,831	3,942,334
Total New Zealand	3,328,616	1,052,228	265,718	4,646,562
Wellington share	14.3%	19.1%	10.1%	15.2%

Source: Covec; MBIE Convention Activity Survey[12]

The economic activity generated by these delegate days provides significant benefit to the Wellington region, with total delegate spend per year of around $146 million. This expenditure results in around $46 million of direct gross domestic product (i.e. the value-added which is generated by that spending), and around $76 million total gross domestic product including indirect and induced impacts (i.e. the value-added generated by upstream and downstream activity caused by delegate spending, such as consumption by hotel or retail workers employed to service the visiting delegates).

This economic activity also generates employment with over 1,000 FTE's employed as a result of conference activity; again this is through direct, indirect and induced impacts on the labour market.

Table 2, below, provides an overview of the economic benefit of delegate activity in Wellington, and how this translates to GDP and employment.[13]

[9] Melbourne Convention Delegate Study (December 2007), prepared by the Melbourne Convention and Visitors Bureau.

[10] Berl (May 2014), Economic impact of a proposed convention centre in Wellington city.

[11] Covec (May 2013), Analysis of New Zealand's MICE market.

[12] Excludes Marlborough as it only began contributing to the Convention Activity Survey during 2012

[13] Table 2 is derived from the Berl economic impact model, measuring the economic impact of the current level of delegate days in Wellington.

Table 2 Economic impact of delegate activity in Wellington

	Expenditure ($ million)	GDP ($ million)	Employment (FTEs)
Direct	90	46	741
Indirect and induced	56	30	276
Total	*146*	*76*	*1,017*

Source: Berl, Covec, PwC analysis

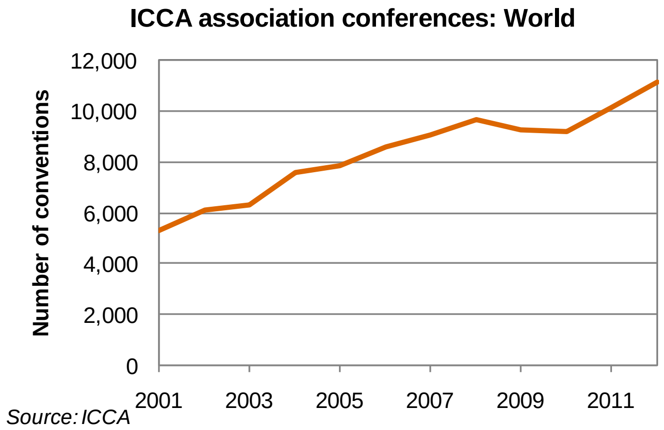
Conference business is an important contributor to the city economy

2.3. Future demand

2.3.1. Global convention market

Figure 1 shows recent global growth trends in international association conferences. The overall world market grew strongly from 2001 to 2012, almost doubling in size even though growth stalled in 2009 and 2010 during the Global Financial Crisis (GFC).

Figure 1 International association conferences growth, 2001-2012[14]



There is a consistent growth trend in international conferences worldwide.

From 2001 to 2008, the number of conferences held worldwide increased at an average rate of 9% per annum. However, from 2008 to 2012 growth has averaged a more modest 3.7% per annum. After declines in 2009 and 2010, the market grew roughly at pre-GFC rates in 2011 and 2012. There is uncertainty as to whether rapid growth will continue in future years due to the impact of external factors such as the European economic crisis and generally increasing fuel prices, however the growth trends represent a significant opportunity for New Zealand, especially with the right facilities.

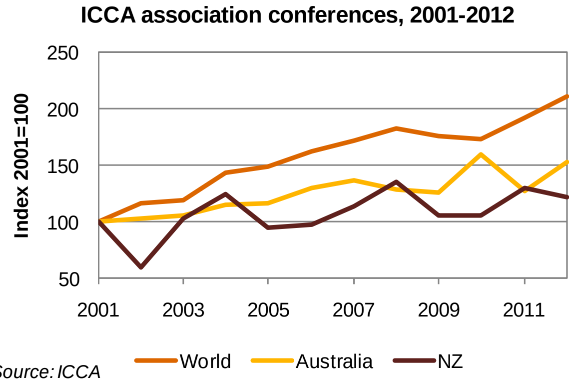
The NZ government have recognised this through their economic growth agenda by investing $34m over the next four years to market NZ internationally as a business events destination. The aim is to attract a larger share of these international events, and Wellington will only benefit with international standard facilities.

New Zealand's share of global growth

Despite this context of world-wide convention growth, the number of international conferences captured by New Zealand has grown much more slowly, and was more severely affected by the GFC, as shown in Figure 2.

[14] ICCA is an industry body representing specialists in organising, transporting and accommodating international meetings and events

Figure 2 New Zealand compared to world growth, 2001-2012



Source: ICCA

NZ growth in international conferences has underperformed compared to Australia

From 2001 to 2012, the number of international conventions held in New Zealand increased at an average annual rate of 1.9%. Whereas the Australian and world markets grew at a relatively continuous pace prior to the GFC, the number of international association conferences held in New Zealand has fluctuated considerably from year to year, given the "lumpy" nature of convention activity.

The slow growth is likely to reflect New Zealand's small size and distance from the major sources of international conventions in the northern hemisphere. The costs imposed by distance are likely to increase in future as a result of expected increases to fuel prices which will continue to be offset to a degree by improving plane efficiency. However, these results are also likely to be the result of a lack of investment in convention facilities and strategic marketing – a major focus for many Asian countries.

This under-investment is changing, however, with $34 million being invested by the Crown over 4 years committed to growing New Zealand's share of the business events sector, as part of the Business Growth Agenda, as well as significant planned investment in infrastructure. While this investment is hoped to have a positive impact on the total number of business events being captured by New Zealand, the impact for Wellington needs to be considered in light of other competing venues nationally, as discussed in Section 2.4.

Without an international standard purpose built facility, Wellington will not reap the benefits of this strategic government investment in the sector as a major part of the marketing campaign will be linked to the new facilities being built across the country. It will also be targeted to international multi-day conferences requiring suitable facilities which Wellington currently cannot generally provide.

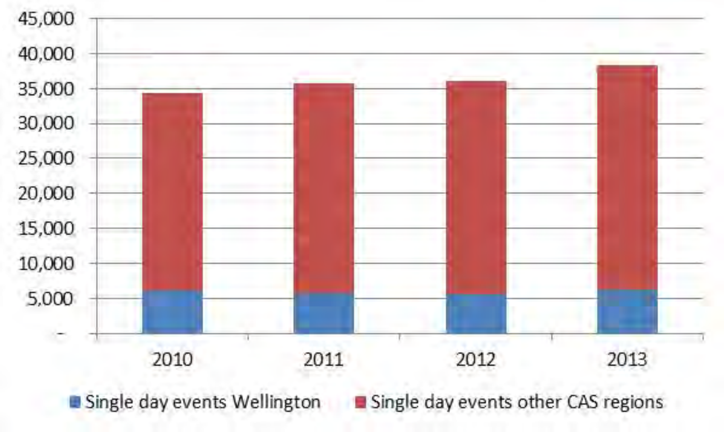
For 2013, New Zealand ranked 51st in the International Conference and Convention Association's (ICCA) annual country and city rankings. This ranking for hosting business events is up four places on the previous year and sits just outside the World's top 50. Whilst New Zealand's ranking and the number of events hosted in 2013 has improved Wellington did not feature in the 2013 city rankings for the first time – in the Asia Pacific & Middle East region, Auckland was ranked 25th, Dunedin 74th and Queenstown 80th.[15] In 2012, Wellington ranked 38th in the same Asia Pacific & Middle East grouping.

2.3.2. Domestic convention market

In 2013, around 48,000 events were hosted in the 13 regions that participate in MBIE's Convention Activity Survey (CAS). While MICE activity is not specifically tagged as 'international' or 'domestic', 80% of these events were single-day events, which are likely to be attracting mainly local or domestic delegates. These single day events are the bread-and-butter of convention centres, filling in the calendar around larger, more internationally focussed multi-day events.

[15] ICCA 2013 County and City Rankings Report

Figure 3 Wellington's share of the single-day event market (2010-2013)



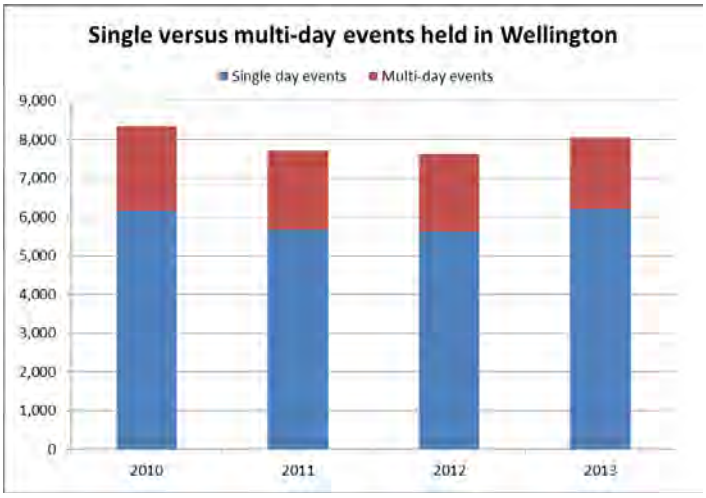
The single-day event market will likely increase in line with population and GDP growth

Source: MBIE CAS dataset, PwC analysis

Wellington captured around 16% of the total market for single-day events and delegates in 2013. This share has shown a slight decline in the last few years, from 18% of single-day delegates in 2010. The overall market for single-day events has seen little growth over 2010-2012, with an uplift in 2013. While it is too early to tell if this trend will continue, it seems logical to assume that at a minimum, the increase in New Zealand's population and growth in GDP over time will result in increased domestic convention activity.

It is however the larger multi-day event market that drives the economic benefits to the city. It is in this multi-day market that Wellington's share has been declining.

Figure 4 Wellington's single versus multi-day event market (2010-2013)



It is in the multi-day event market that Wellington's share of the market is declining

Source: MBIE CAS dataset

The total delegate days is the one consistent measure of the MICE market. The total delegate days across New Zealand have remained relatively stable from 2010 to 2012 at around 4 million per annum nationally. Wellington's share of that market however has declined by 16% over the same period from 843,000 in 2010 to 704,000 in 2012. This shows the significant impact of the Town Hall earthquake prone status announcement and subsequent closure. 2013 has shown a further decline due to the additional closure of the Amora Hotel ballroom following the Cook Strait earthquakes which is among the largest conference facilities outside of the PWV venues (along with Te Papa) so will also impact Wellington's market share.

Figure 5 Wellington's share of delegate days (2010-2013)

Wellington's share of national MICE delegate days has been steadily declining since 2010

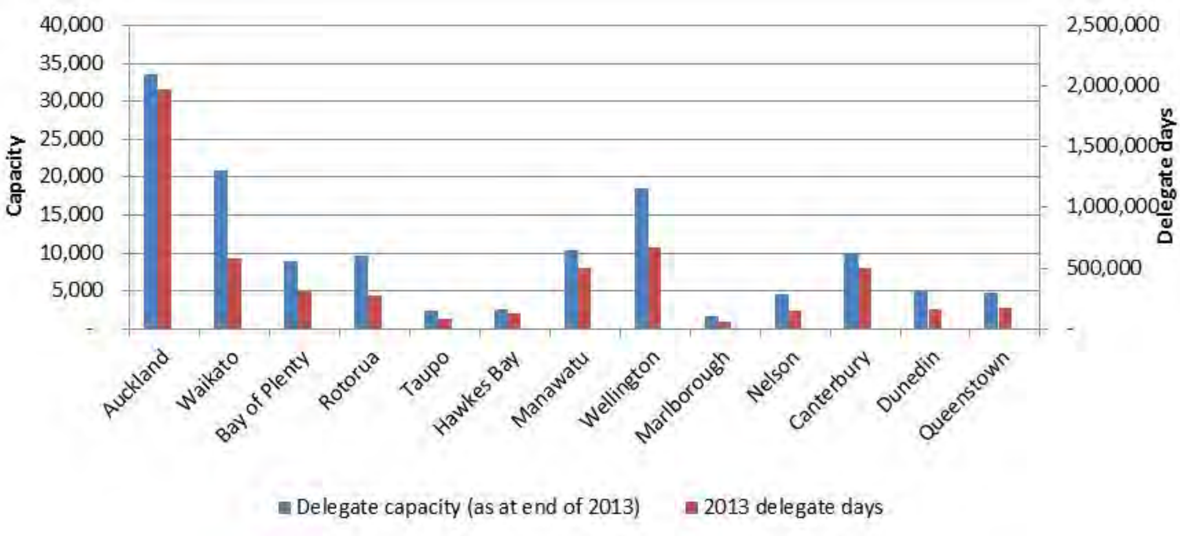
We could expect some recovery when the full impact of the investment in temporary facilities in Shed-6 in August 2013 comes on-stream.

2.4. Competitors

2.4.1. Current situation

Wellington faces competition from regions around New Zealand when attracting domestic and international events. The CAS survey covers 13 regions, Figure 6 below, shows the capacity of these regions, alongside the number of delegate days each area captured during 2013. Wellington provides 14% of the total capacity in New Zealand, and in 2013 accounted for 12% of the total delegate days. This can be explained by the multipurpose use of our venues which are not available 100% of the time for MICE events (e.g. World of Wearable Arts removes Shed 6 and the TSB Arena for 6-8 weeks each year, and the MFC is often not available for MICE events due to NZSO commitments).

Figure 6 Convention venue capacity in New Zealand[16]

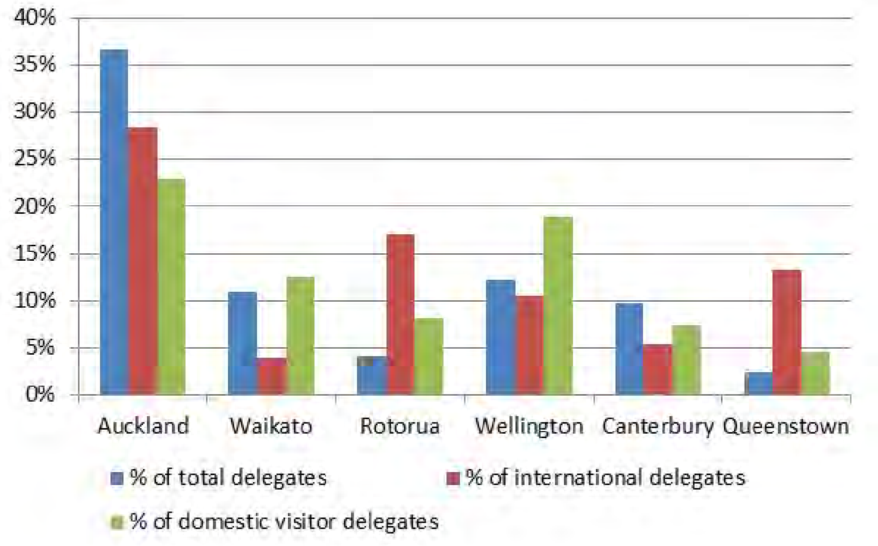


Source: MBIE CAS dataset, PwC analysis

16 Capacity is defined by the CAS as "the largest number of MICE delegates that can be comfortably hosted at one time in spaces regularly used to host MICE events within the venue. The estimate is based on minimal partitioning and theatre style set up of free-form spaces."

When attracting domestic and international MICE visitors, Wellington's key competitors are Auckland, Waikato, Rotorua, Canterbury and Queenstown. As shown in Figure 7, below, Wellington comes second to Auckland in terms of both total and domestic visitor delegates. Wellington ranks fourth, however, in terms of international delegates as Queenstown and Rotorua each capture a significant portion of this market due to their international tourism destination status.

Figure 7 Market share of key competing regions (2013)



Wellington ranks 2nd in NZ for its share of total and domestic delegates, but only 4th in NZ for its share of international delegates

Source: MBIE CAS dataset, PwC analysis

2.4.2. Planned new developments

While these current state figures are based on existing convention facilities, there are proposals to develop a large-scale National Convention Centre in Auckland, and new facilities in Queenstown and Christchurch. These developments would increase the capacity and the quality of New Zealand's convention offering, and would also be likely to divert market share away from existing facilities.

In total, the three proposed new facilities would provide additional capacity for 6,250 delegates, increasing the market capacity by 5%, assuming that other existing facilities are not decommissioned or re-purposed. These facilities would be targeted at the high end of the MICE market, seeking to attract large, international events, and would be competing predominantly against the existing market leaders, including Wellington. The market share that will be captured by these facilities is expected to exceed the proportion of new capacity they provide, as the nature of the developments mean they are likely to have higher than average utilisation rates.

Table 3: Overview of proposed new convention centres

Proposed facility	*Expected cost*	*Expected Opening*	*Capacity*[17]
Auckland (NZICC)	$425m	2018	3,500
Christchurch	$200m[18]	2018	2,000
Queenstown	$55m	2018	750

Source: PwC, WCC

Due to this, competition in the market is expected to increase markedly, both for international and domestic events. While the new facilities will seek firstly to attract large international events, they will also need to capture a significant portion of the domestic event market in order to fill their overall event calendar.

[17] Capacity is defined by the CAS as "the largest number of MICE delegates that can be comfortably hosted at one time in spaces regularly used to host MICE events within the venue. The estimate is based on minimal partitioning and theatre style set up of free-form spaces."

[18] Estimated cost, based on the reported $284m for the entire precinct

While the government investment in attracting international business events is hoped to grow New Zealand's international market share, the introduction of these new venues makes it less likely that Wellington will receive much of the potential growth without investment in its own facilities. In respect of domestic events, the total delegate day numbers have been relatively static for the last few years. Assuming there is no uplift in this market, Wellington's total number of delegate days would be expected to fall as market share is lost to the new facilities. This reduction would, at best, be commensurate with the increased capacity in the market, but may potentially be greater as Wellington would be competing against newer, purpose built venues.

2.4.3. Wellington's competitive advantage

Wellington has a number of advantages to offer domestic and international convention planners that are inherent in the city's character. Some of these key points of difference are:

- **it's a compact city** – delegates can easily navigate between convention activity and other attractions and amenities, and the proximity of the CBD to the airport means that time spent in traffic is minimal.
- **it's the centre of New Zealand's government–** for large international conventions, being hosted in a capital city can be a significant draw card. In addition, the proximity to parliament provides opportunities for conventions to engage with government, such as getting a Minister to speak, and attracting attendees from the public sector and Wellington is the home of many professional associations.
- **it's creative -** Wellington is a magnet for creative thinkers and is widely regarded as New Zealand's arts and culture capital.
- **it's vibrant** – the ease of access to our vibrant nightlife, waterfront and CBD is not comparable anywhere else in NZ which makes us a popular destination with delegates and ensures they stay or evening conferencing activities which is often a challenge for conference organisers.
- **it's amenities** – Wellington has great restaurants, shopping, nightlife and a good range of accommodation, all of which are necessary to encourage MICE activity to come to the city.
- **it's well connected** – Wellington is well connected to all parts of NZ by no more than a one hour flight, and internationally to Australia's east coast.

2.5. Case for change

As set out in the sections above, Wellington currently receives a broad range of benefits from MICE activity, and holds a significant portion of the New Zealand market. However, this is likely to change as new convention centres are developed in other cities around the country.

2.5.1. Impact of doing nothing

New Zealand's total MICE market is forecast to remain relatively static over the period to 2018, after which an uplift in international delegate days is projected[19]. However, when the new convention centres in Auckland, Christchurch and Queenstown come online over the next few years, they will be competing against existing New Zealand venues for the pool of MICE activity, and will have strong competitive advantages in attracting the international delegate market, as a consequence of their new facilities.

If no action is taken, Wellington is expected to face a decline in total MICE activity and delegate days of between 8 and 17% of market share or 59,000 to 118,000 delegate days[20]. Berl have estimated this loss in activity to result in a loss of total GDP of between $6.4 and $12.8 million per annum. These impacts, and the underlying assumptions, are discussed further in Section 4.2.

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[19] Covec (May 2013), Analysis of New Zealand's MICE market.

[20] Covec (May 2013), Analysis of New Zealand's MICE market.

2.5.2. Other drivers for change

In addition to the strategic context of the changing competition in New Zealand, the government's focus on business events, and Wellington's eight "Big Ideas" there are other drivers for change. There have been discussions for a number of years regarding a new convention centre for Wellington, driven by recognition of the constraints and issues with the current venue offerings.

2.5.3. Market positioning

There are three potential avenues from which Wellington may be able to pursue growth in convention activity, in order to further increase the benefits that this activity provides.

- Broad growth in the convention market. Wellington would be expected to secure a share of the overall growth in convention activity
- New international business. After 2018, it is expected that New Zealand will see an increase in international MICE activity. This would be driven in part by the government's $34 million investment, which will raise New Zealand's profile as a business events destination. In addition, the new convention facilities being developed around the country will increase the size and scale of New Zealand's offering and will add to the international profile through the centres' off-shore marketing activities
- Gaining market share. In 2012 Wellington captured around 15% of the total New Zealand MICE market (as measured through delegate days). In addition to achieving growth through general market uplift as outlined above, a key opportunity for Wellington is to increase its share of the market through capturing activity going to other centres. In order to do this, Wellington needs to have a modern, fit-for-purpose facility to attract convention activity. In the absence of such a facility, Wellington will lose market share to the new facilities that are being developed in other regions.

2.6. Other options considered

WCC has previously considered other options to expand the city's convention centre activities. Work completed in October 2012 found the cost to expand the current convention facilities (to the MFC car park) would be around $55m in capital cost. WCC has calculated the operating cost per annum to be $5.7m per annum, covering the costs of capital and property related expenses. In addition this option also utilises land with a market value of around $8m.

Work completed by Gill Consultants on the business case proposal estimated the capital cost to build only a convention centre on the same site opposite Te Papa as the current Hilton proposal would be $53m including the cost of the land. WCC has calculated the operating cost per annum to be $5.1m per annum, covering the costs of capital and property related expenses. Note this option is not available to Council to pursue, and is shown for cost comparative purposes only.

For WCC to undertake a project to expand current facilities, it would be exposed to both the construction risk and the full operational risk of the development. In addition, owning the facilities would significantly reduce WCC's flexibility to respond to changing market demand or civic priorities in the future and significantly increase Council borrowings.

The current proposal has clear advantages over a self-build option, as broadly it provides the same benefits in terms of delivering a convention centre for the city, but at much lower cost to ratepayers, significantly less risk and a superior offering than our MFC car park option. In addition, the proposal brings to the city an international 5-star hotel who will also operate the convention centre.

Table 4: Comparison of proposal to self-build option

	Current proposal	WCC build, own and operate MFC Carpark[21]	WCC build, own and operate Cable St Site[22]
Capital expenditure		$55 m	
Land Cost/Value		$8 m	
Total Capital Cost		**$63 m**	**$53 m**
Capital Funding Source		*Borrowings*	*Borrowings*
Operating expenditure (per annum)[23]		**$5.7 m**	**$5.1 m**
Operational Funding Source	*Rates*	*Rates*	*Rates*
Risk & operation comparison:			
WCC construction risk exposure	None	High	High
WCC operating risk exposure	Limited to lease and property opex cost	High	High
WCC operating flexibility	Medium – constrained by 20 year lease term	Low	Low

[21] Based on upgrade of the Michael Fowler Centre

[22] Based on work from Gill Consultants estimating the cost to build and land cost on the same site as the proposal

[23] Operating expenditure includes property ownership costs (rates & insurance), interest and depreciation or lease costs. For the purposes of comparison, operating surpluses/deficits are considered the same under each scenario and are not included in this total.

3. Proposal outline

Key points:

- To develop a 165 room 5-star hotel and large purpose built convention centre
- The conference centre will be significantly over-scaled relative to the hotel and this is where Council involvement is required. This scale of convention centre would not be built to solely support a 165 room hotel.
- There will be no construction, borrowings or operational risk for Council on what is a major construction project of over $100m.
- Council support is critical without it the project will not proceed. Convention centres are not typically funded through private investment because the benefits are generally from the economic activity they generate rather than their direct return.
- Council would take a 20 year lease on the convention centre with a right of renewal.
- The convention centre will be managed by Hilton who will also manage the hotel
- All parties would be incentivised to make the project work and Council would receive the residual profits from the operations of the convention centre and the incentive mechanisms are reflected in the outline commercial terms.

WCC has been approached by a consortium led by Wellington based property investor/developer Mark Dunajtschik with a proposal to build and own a 5-star hotel and large scale convention centre on a site fronting Cable Street and directly opposite Te Papa. The hotel and convention centre would be operated under management agreements by an international hotel operator, Hilton International Manage LLC (Hilton).

As discussed above in Section 2, research completed by external specialists estimates that Wellington city may lose a large number convention delegate days due to new purpose built convention developments elsewhere in New Zealand, combined with slow growth in convention activity and a lack of fit-for-purpose facilities.[24] This reduction in delegates will have negative economic consequences for the Wellington economy.

The proposal for the new development contains the following key attributes:

- Developers to build a 165 bed Hilton 5-star hotel on a site between Cable and Wakefield Streets opposite Te Papa.
- The hotel will be supported by a 4,491 sqm convention centre with capacity to host full format multi-day conventions of up to 1,200 delegates (or 2,500 people theatre style in its largest single space) and banquets of around 1,450 people.
- The convention centre will be leased by developers to Wellington City Council for twenty years.
- The convention centre is significantly over-scaled compared to the hotel.
- The design and performance of the convention centre will be delivered to the expected quality commensurate with the Hilton 5-star brand
- The total cost of development will be funded by the consortium.

[24] BERL, Covec, Horwath

[18a] Tourism Economics and Policy, Larry Dwyer and Peter Forsyth

- Both the hotel and convention centre are expected to be completed by late 2017, subject to early agreement by the parties.
- Both the hotel and convention centre would be managed by Hilton.

The developer is seeking Council support with respect to the convention centre to make the overall development viable. The proposed convention centre and hotel will not be built without the support of the WCC.

As stand-alone facilities, large scale convention centres are not constructed for financial profitability and often operate at a financial loss when the cost of the assets are accounted for. The case for building convention centres is based on the expectation that they will generate economic activity, through the expenditure of attending delegates, in the community. Because these community benefits are not able to be captured by private investors they would not normally be interested in building and operating a convention centre without subsidies. Therefore typically convention centres are typically built by the public sector and funded through taxes[18a].

In the New Zealand context and internationally most large scale convention facilities rely on funding or support from government or local government. The largest existing convention facilities in Wellington include the Town Hall, the Michael Fowler Centre, the TSB/Shed 6 arena, Te Papa and the Westpac Stadium. These facilities have all been built and are funded through public investment and direct or indirect public subsidies.

3.1. Parties, Ownership and structure

Three primary parties are involved with the proposed development:

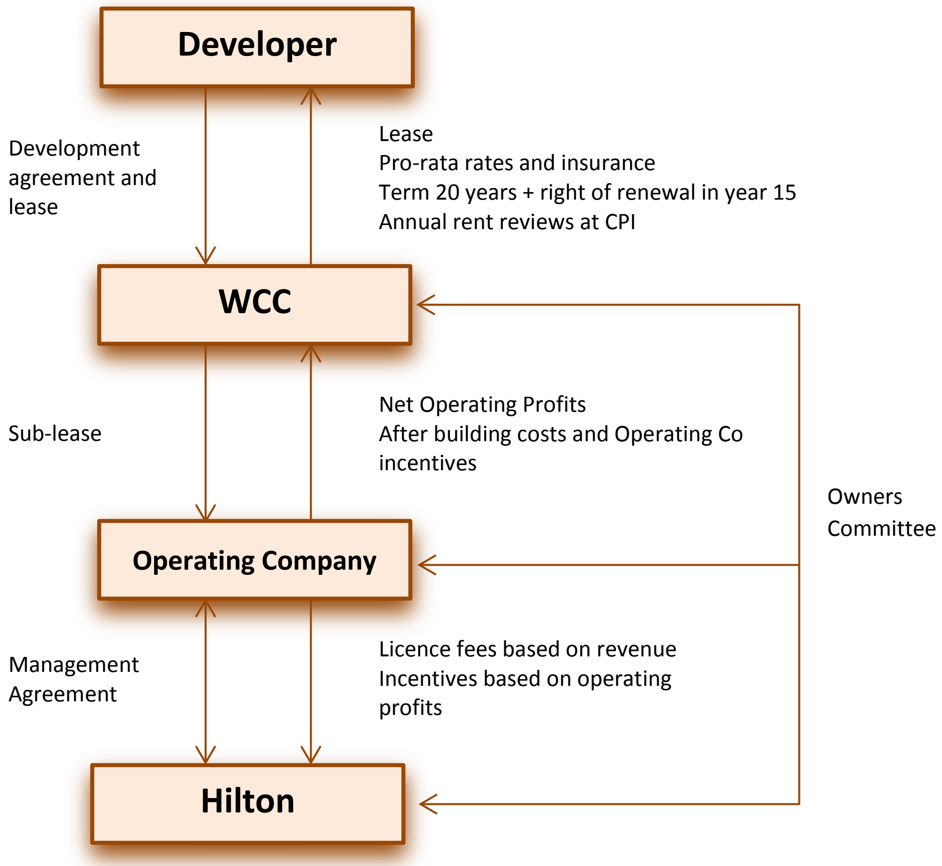
- ***Wellington City Council***
  Wellington City Council will lease the convention centre floor area from developers for a term of 20 years. Wellington City Council will sublease the convention centre which will be operated by Hilton with the rent being based on operating profits. WCC will not be exposed to any construction related risks from the development and operation of the facility. It will however receive the operational profits after any pre-opening costs, incentives and operating losses are recovered.

- ***The consortium of developers and investor***
  The consortium will facilitate the development of the hotel and convention centre, including the financing arrangements involved with the development. The consortium provides knowledge and expertise, and will bear the development risk, funding risk and operating loss risk.

- ***Hilton***
  Hilton will provide the ongoing management infrastructure for the hotel and convention centre, along with a valuable brand and carries largely the reputational risk of the deal.

Figure 8 below shows the relationship between the three parties involved with the development.

Figure 8: Parties involved with the proposed development



3.2. Testing the key commercial terms

Under the terms of the proposal WCC will have a 20 year exposure to the lease cost adjusted annually for the movement in CPI. In addition to the base lease WCC will meet a pro-rata share of the rates and insurance related to the convention centre and these would be offset by the receipt of incremental rates revenues from the growth in the ratepayer base directly resulting from the investment in the hotel and conference centre. In addition there are a series of incentives and profit share arrangements that are discussed in section 3.5 and 3.6.

The key term that underpins Council's investment in this proposal is the annual lease cost over a committed 20 year lease term. It is important to be able to verify that this lease cost represents fair value in relation to the capital investment in the convention centre.

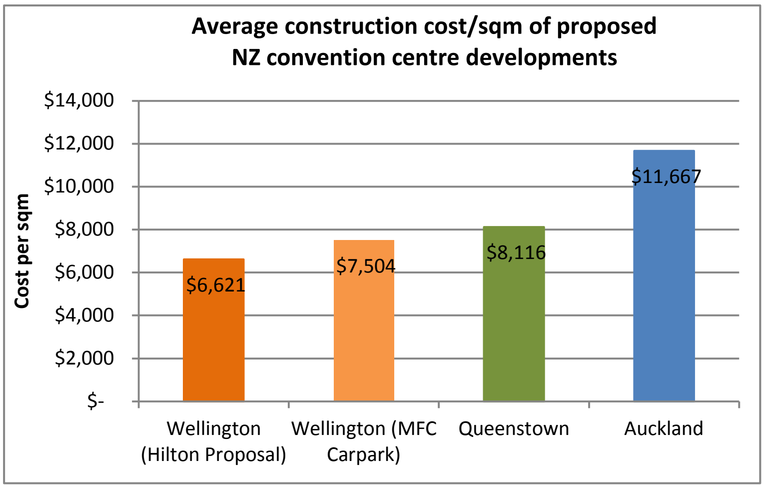
As part of the commercial terms the construction and funding risks all reside with the developer, if the construction costs increase the developer bears that cost and the lease cost would not change. This is an important point within the proposal as this is a major construction project and the construction risk is across the whole project not simply the convention centre itself. The proposed commercial terms protect Council from construction risks.

The project will not move into the detailed design stage until there is an agreement in principle from the parties to go ahead. Preliminary cost estimates carried out for us by Gill Consultants on the outline designs indicate the convention centre will account for around 27% of the total construction cost. This compares to the estimated footprint of the convention centre which takes up around 24-25% of the gross floor area or 28-29% of the gross floor area excluding common and service areas.

The proposed key commercial terms have been provided to Wareham Cameron to review from the perspective of the return to the developer and the commercial viability of the project. Based on the key commercial terms and the estimated total cost for the convention centre in the view of Wareham Cameron ***"the developer margin for the developer is reasonable".***

The development of the Convention Centre as part of an overall integrated hotel and convention centre development provides benefits in reducing the overall cost of the convention centre component compared to building a stand-alone centre. Significant costs in foundations and services etc. are able to be shared across the whole project. This can be seen clearly in Figure 9 below which sets out the relative construction costs of the proposed new convention centre developments in Auckland, Queenstown and Wellington and for comparison purposes the estimated cost from the previous MFC study. The figures for the proposed Christchurch development are not publicly available but we believe they will likely be closer to the Auckland level.

Figure 9: Average construction costs per sqm of proposed convention centres in NZ



The cost of the Wellington proposal compares favourably to other convention centre developments in NZ

This comparison shows the proposed development has the lowest construction cost per square metre at an estimated $6,621, significantly lower than Queenstown and Auckland [25]. This demonstrates the value of the proposed integrated hotel and convention centre model in delivering a lower cost option compared to Council building a stand-alone convention centre. It also gives a level of confidence to the underlying investment required by the developer to deliver the project and indicates the commercial value of Council not being exposed to construction risk.

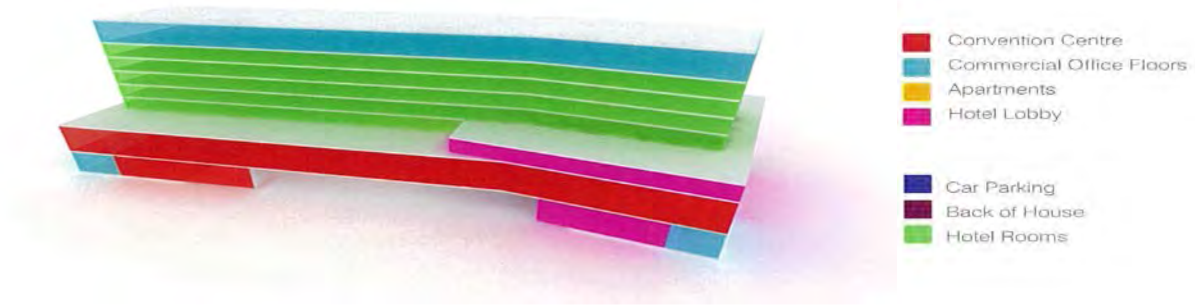
3.3. Scale

3.3.1. Concept Drawings

Initial concept designs suggest that the total area of the proposed development (including hotel and additional facilities) will be around 18,000m². Figure 10 below shows an example of a potential layout for the complex, with the convention area expected to take a large portion of the bottom floors.

[25] Based on publicly available data for Queenstown and Auckland

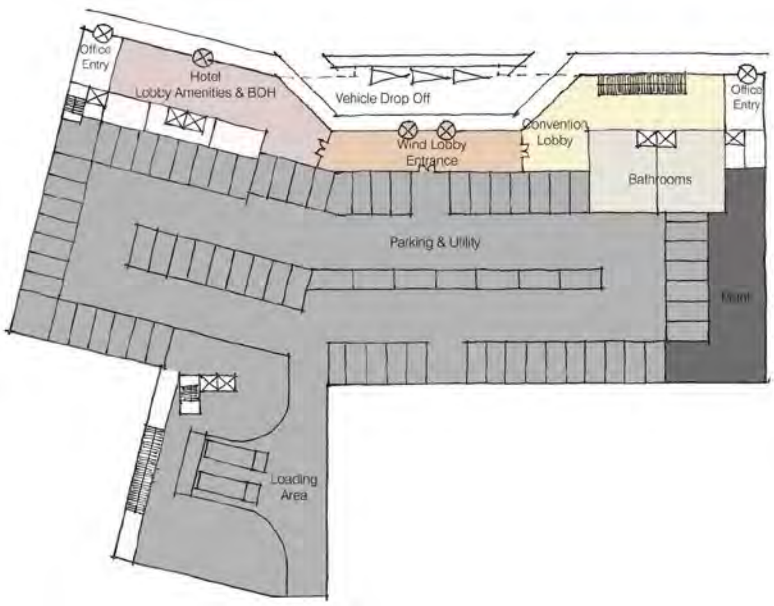
Figure 10: Initial outlines of proposed venue



3.3.2. Floor Plans

The convention centre will deliver a multi-functional and multi-purpose exhibition/conference/ convention/banquet space. The majority of the Convention Centre is located on the first floor of the development. The convention centre has a separate lobby and dedicated access from Cable Street separate to the hotel meaning convention delegates and hotel guests do not need to mix. The back of house (BOH)/parking/deliveries & loading zone for the Convention Centre is accessed off Wakefield Street.

Figure 11: Floor plan of ground floor of hotel and convention centre

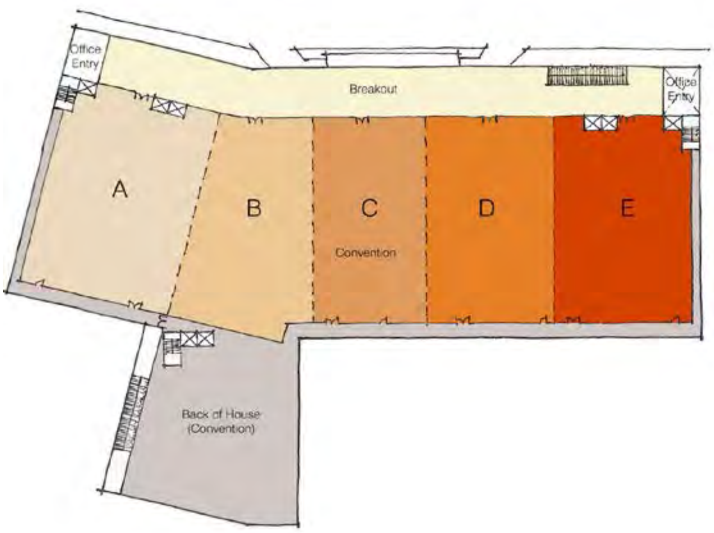


The convention centre has a dedicated lobby and access, separate to the hotel, so that convention delegates and hotel guests do not need to mix.

While not finalised, the floor layout is based on a single floor plate that can be divided in multiple configurations creating flexibility to host a range of different event types as shown in Figure 10.

The convention centre will be dominated by a “flat floor” space of 2,592m2 sub dividable into five approximately equal sized individual function spaces (Rooms A to E). Rooms A to E will be further sub-dividable into smaller spaces for smaller meetings, breakout sessions and events.

Figure 12: Floor plan of first floor of convention centre



The convention centre will be dominated by a flexible flat floor space of 2,592 m² able to be subdivided into five individual function spaces (rooms A to E).

Rooms A & E will be able to be further subdivided into smaller meeting spaces as required by customers.

The convention space will boast a nine metre stud height and break out area fronting the whole site with views to Te Papa and back towards the city. Table 5 below outlines the different sizes of the proposed areas.

Table 5. Proposed convention centre area schedule

		Area m²
Ground Floor		
Convention Centre Wind Lobby		130
Convention Centre Lobby		197
Convention Centre Amenities		164
	Sub total	**491**
First floor		
Function Room A		607
Function Room B		492
Function Room C		445
Function Room D		516
Function Room E		532
	Sub total	**2,592**
Breakout		569
Back of House (including kitchen)		839
Total		**4,491**

The first floor space will feature a nine metre stud height and breakout area the front of the whole site.

3.3.3. Functionality and Capacity

The design of the facility will maximise the flexibility of the main 2,592 sqm space. It will be able to be broken down and used for multiple concurrent events, or as con-current spaces for a single event. The table below outlines the proposed capacity of each space using the different seating and event options.

Table 6. Proposed convention centre venue capacity

Convention Centre	Area (m2)	Cocktail Party (pax)	Banquet (pax)	Convention Theatre style (pax)	Workshop Round Tables Max 10pax
Ground Floor					
Convention Centre Lobby	197	200	-	-	-
First floor					
Function Room A	607	560	340	590	200
Function Room B	492	450	270	480	165
Function Room C	445	410	250	430	150
Function Room D	516	480	290	490	170
Function Room E	532	490	300	510	175
Configurations					
A,B,C,D,E	2,592	2,390	1,450	2,500	860
A,B	1,099	1,010	610	1,070	365
C,D,E	1,493	1,380	840	1,430	495

The centre will be able to host banquets of up to 1,450 pax and seat up to 2,500 in a theatre style using all of the main area. The capacity for a full format conference featuring a trade exhibition, break out spaces, and food and beverage space requirements would be 1,200 under certain parameters[26]. It is anticipated that Hilton will work in with the hotel and Te Papa where additional space is a requirement of a customer.

3.4. Attributes

3.4.1. Location Attributes

The site is strategically located opposite Te Papa providing the following benefits and attributes:

- the ability for Hilton to partner with Te Papa in the delivery of some larger events
- the ability for delegates and attendees of the convention centre to visit Te Papa easily during break times
- ease of access to Wellington's waterfront for spectacular views and a vibrant atmosphere
- ease of access to some of Wellington's best restaurants and bars
- ease of access to retail and shopping experiences
- close proximity to Wellington's CBD.

3.4.2. Physical Attributes

The convention facility will have the following key attributes that differentiate it from the rest of the Wellington and national facilities:

- it will be amongst the largest 5-star hotel / convention facility combinations in New Zealand
- it will boast a single span, flexible flat floor space of 2,592 m^2
- it will have a 9 meter stud height and break out area fronting the whole site with views across to Te Papa and into the city
- it will boast design and fit out commensurate to Hilton 5-star standards
- it will boast a fully equipped commercial kitchen to support the back of house functions.

[26] Horwath HTL completed an assessment of the space and tested this with a reconginised professional conference organiser. The main limitation is the number of trade exhibition stands which for a 1,200 person conference would be limited to 55 exhibition stands.

3.4.3. Operational Attributes

The convention facility will have the following key attributes that differentiate it from other facilities

- it will provide a superior food and beverage offering to customers
- food and beverage staff are employed directly to ensure the standards of quality are maintained
- customers will be provided with a dedicated event manager for the duration of the event (rather than have staff change during the event operating on different shifts)
- Hilton will draw on its global sales and marketing reach to attract events to Wellington
- Hilton has a reputation for superior hospitality and this would be an expected part of their convention operations.

3.5. Commercial terms

The developer is seeking an agreement with WCC whereby the Developer would build and own the hotel and conference centre. The conference centre would be leased to WCC for a term of 20 years with a right of renewal able to be exercised by WCC in year 15. The conference centre would be managed by Hilton under a management agreement with a matching 20 year term. The terms associated with the WCC lease and the Hilton management agreements would be meshed to ensure that exit and performance provisions are matched. This is required to ensure the situation does not arise inadvertently where Hilton are able to exit the management agreements whilst WCC is still committed to the lease and sub-lease obligations without a conference centre operator.

In return for making the conference centre available and to offset the lease costs, WCC would receive all of the operating profits from the conference centre after deduction of Hilton management fees and agreed profit share for the Hilton and any agreed incentives for the developer.

Under the proposal, WCC would be insulated from any operating deficits, these would be absorbed within the conference centre operating company which would have the ability to recover any operating deficits that they have absorbed from future operating surpluses.

The Developer will bear all of the construction risk, the agreed lease fee will be fixed and not subject to variation based on the actual construction cost. The developer will effectively absorb any operating deficits with the right to recover any deficits from future operating profits. The Developer will fund the construction and fit-out project themselves and Council will not have any capital investment or investment funding requirement.

Given the public-private nature of this proposal it is important to ensure that the incentives of the respective parties are aligned with the objective of making the overall project successful.

- Hilton will be incentivised by having their management fees linked to both revenue and net operating profits.
- The Developer will be incentivised by taking the risk on pre-opening and operating losses, having a component of their per annum lease increase dependant on the conference centre generating profits and by receiving a small percentage of operating profits.
- Council will have a fixed exposure through the lease with annual rent reviews linked to CPI and will receive all of the residual operating profits from the conference centre.

The combining of the convention centre into a hotel development allows all parties to come together to achieve their own strategic outcomes through alignment of each party's incentives. This provides for a strong commercial basis for the whole development.

To manage the overall relationships between the parties and ensure aligned outcomes are achieved an "Owner's Committee" is anticipated with a representative from each of the Developer, Hilton and WCC. The committee would review and agree operating budgets, cost allocation parameters between the hotel and conference centre, review operating performance and review audited financial statements.

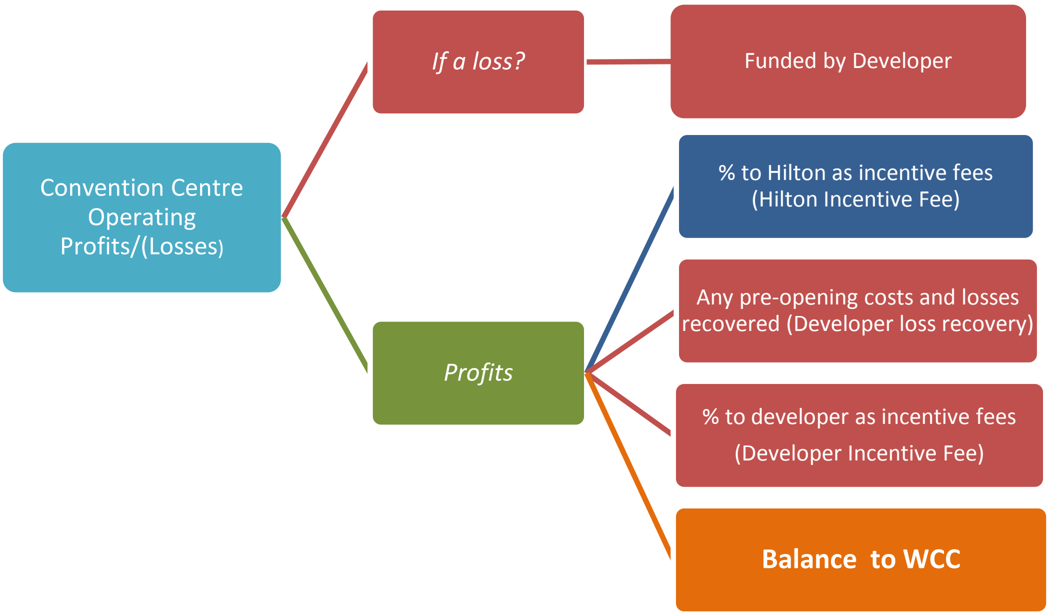
There will be a range of agreements that span the overall project and these will be progressed while the proposal is being consulted on. WCC will not be a direct party to a number of these agreements however through the development agreement, lease, sub-lease and profit share arrangements WCC has an interest in how the overall suite of agreements inter-plays. The process between the Developer, Hilton and WCC will be transparent except to the extent there are commercially sensitive details.

3.6. Profit share calculations

A key principle of the commercial deal is that WCC will not be subject to cost greater than the lease amount (plus the convention centre's share of rates and insurance) and all pre-opening costs and early operating losses will be funded by the developers. These costs incurred by the developers will be recovered from future profits (after Hilton management fees) until repaid in full. It is only when this has occurred that WCC will begin to receive profits.

Therefore under the proposed arrangements profits will be shared and calculated as follows:

- Hilton will receive a share of net operating profits of the Convention Centre.
- Developer to fund all pre-opening costs and any operating losses of the Convention Centre which will be recovered from future profits together with a charge for the cost of funds associated with funding any deficits.
    - The Developer will receive in any year when the Convention Centre is making a profit a share of the net operating profit.
- WCC will retain all residual profits after the above. WCC will not receive any profit share until the developer has recovered all pre-opening and early operating losses.



4. Economic case

Key Points:

- If Wellington does not respond with larger improved facilities it stands to lose MICE market share of delegate days of 8%, with a worst case scenario of 17% of lost business.
- This lost business corresponds to between $12m and $25m in lost total expenditure, $6m to $13m in lost total GDP and 86 to 171 lost jobs from the Wellington economy.
- The proposed convention centre development will protect Wellington's market share of delegate days (and related economic benefit) and generate new economic benefit through 74 new events which will deliver 68,000 new delegate days to Wellington (approximately 10% growth)
- The economic benefit from these projected new delegate days is estimated as $30m of new expenditure, delivering $16m of new GDP and 210 new FTE's to the Wellington economy
- The net economic impact (combined 8% do nothing impact, and the growth impact) is $42m in total expenditure, $22m in GDP for Wellington and just under 300 FTE.
- It is also expected that likely flow on secondary investment in hotels, restaurants, bars, retail and supporting businesses which will have a positive effect especially on the nearby Courtenay precinct and grow the Council rating base.
- Associated economic impacts arise from benefits of Hilton's brand power, international marketing exposure and having the accompanying 5-star hotel in Wellington, the ability to support our business sector through hosting their premier industry events in Wellington and the significant economic benefits from a major construction project.

4.1. Introduction

The economic case compares the proposed Convention Centre development in Wellington to a baseline option, or a do-nothing approach. The analysis presented here estimates the direct and wider economic benefits of the on-going operation of the proposed convention centre.

Scope of economic impacts

As the strategic case for convention development is to protect Wellington's share of the MICE market and the flow on effect this has on the Wellington economy, the economic impact assessment has focussed only on the impacts to the Wellington economy. Convention activity that is displaced from other regions in New Zealand is counted towards the economic benefit of the proposed convention centre to Wellington.

The scope of economic impacts assessed only considers the ongoing operation of the new convention centre, rather than the construction impacts. The development is contingent on the lease agreement with WCC and the construction impacts represent further economic impacts of the proposal. For a development of in excess of $100 million these benefits are likely to be significant.

The economic impacts also do not consider the additional benefits the Hilton hotel operation will provide to the local economy. These and other benefits are discussed separately in section 4.5.

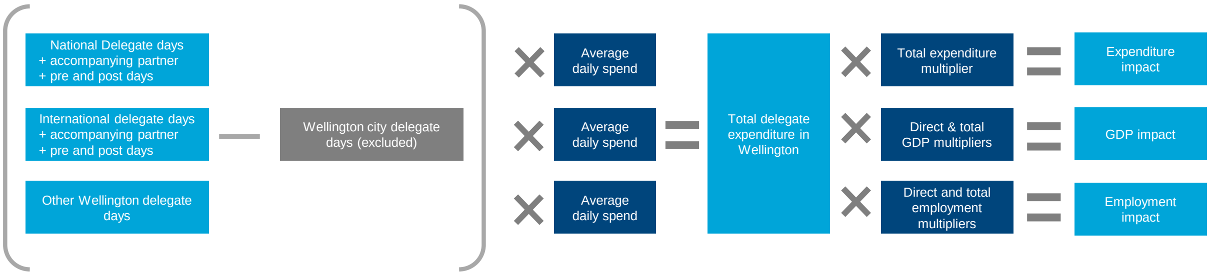
Measuring economic impacts

Conventions held in Wellington will be attended by delegates from both within the region and also from outside of the region who will spend money in the Wellington economy. Spending from delegates from outside of Wellington (and spending from Wellington delegates who otherwise would have travelled out of the city) reflects new spending in Wellington attributable to the proposal.

The total impact of this delegate spending is comprised of direct, indirect and induced components. Examples of direct spending by delegates could include accommodation, food and beverages, retail, entertainment, transport, or other spending made by delegate attendees. Indirect impacts reflect the upstream impacts on supplier industries such as food and beverage producers and manufacturers. Induced impacts reflect the downstream activity generated by the additional delegate spending, such as consumption by the hotel or retail workers employed to service the visiting delegates.

Berl have developed an economic model to assess the direct and total impacts of delegate spending on the Wellington economy, in terms of GDP and also employment.[27] Figure 13 below shows the logic flow of the Berl model calculating direct and total expenditure, GDP and employment.

Figure 13: Conceptual framework of economic impact assessment



These impacts form the basis of an estimate of the impact of a change in convention activity in Wellington.

Basis for comparison

Any economic impacts of the proposed convention centre need to be compared to a counterfactual baseline. In this case, the baseline is no development. As discussed in Section 2, new purpose built developments elsewhere in New Zealand are likely to draw events (and delegates) away from Wellington.

Section 4.2 below outlines the expected economic impact on the Wellington economy of this reduction in delegate numbers.

4.2. Economic impacts of the counterfactual

In the absence of the development of the Wellington convention centre, existing conventions held in Wellington may be relocated to other regions of New Zealand. This section discusses estimates of the impact of new convention activity elsewhere in New Zealand on the number of delegate days expected in Wellington, and the flow on impact of this reduction in the Wellington economy.

4.2.1. Reduction in delegate days

Several proposals for new venues for convention activity are currently in development around New Zealand, and by 2018 are expected to add an additional 5% to the total delegate capacity of venues around New Zealand.[28] Table 7 shows the increase in national capacity from the proposed convention centres in Auckland, Christchurch and Queenstown over the next six years. Wellington's share of national venue capacity is expected to fall from 14.3% to 13.6%

[27] Berl reference

[28] Covec

Table 7: Expected capacity growth from new developments, 2012 - 2018

	Capacity
2012 Delegate Capacity	126,793
+ Auckland	3,500
+ Christchurch	2,000
+ Queenstown	750
2018 Delegate Capacity	133,043

Source: Covec

The purpose built nature of these new developments means that they may capture a greater share of demand than the increase in capacity alone. Regions that are developing new capacity are likely to gain additional market share from regions that do not due to the superior quality and amenity they will provide to the market. This is especially true of Auckland, Christchurch and Queenstown who are well connected from a flight perspective, both nationally and internationally. These convention centres will drive demand that could see further intensification of demand in those destinations.

Covec have modelled three scenarios estimating the likely impact of new convention capacity on the number of delegate days in the Wellington region:

Scenario 1: Trend growth in demand

This scenario assumes zero national growth in the demand for delegate days through to 2018, an assumption that reflects the static growth in national delegate days since 2010. Under this scenario, the number of delegate days is redistributed across New Zealand on the basis of changes in capacity.

Table 8 shows the projected change in the total number of delegate days for Wellington and the rest of New Zealand through to 2018. The total number of delegate days in Wellington is projected to fall by up to 17%.

Table 8: Estimated change in delegate days, 2012 - 2018, trend demand growth scenario

National delegate days	2012	2018	Change	Growth
Wellington	704,228	585,823	-118,405	-16.8%%
Rest of NZ	3,942,334	4,060,740	118,405	3%
Total	4,646,562	4,646,562	0	0.0%

Source: Covec

If no growth in NZ market, a redistribution of business to new facilities would cause a 16.8% reduction in delegate days for Wellington

Scenario 2: Incremental demand for new capacity

This scenario assumes that new convention centre capacity results in additional demand for delegates; that is, demand grows at the same rate as new developments. Under this scenario, there will be no change in the number of delegate days in Wellington resulting from new developments.

Table 9 shows the projected change in the total number of delegate days for Wellington and the rest of New Zealand through to 2018 under the incremental demand scenario. The total number of delegate days in Wellington is projected to remain constant, while demand in other areas of New Zealand is projected to increase.

Table 9: Estimated change in delegate days, 2012 - 2018, incremental demand scenario

National delegate days	2012	2018	Change	Growth
Wellington	704,228	704,228	0	0.0%
Rest of NZ	3,942,334	4,723,584	781,250	19.8%
Total	4,646,562	5,427,812	781,250	16.8%

Source: Covec

If new facilities filled by all new business to NZ, then there would be no impact on Wellington delegate days

Scenario 3: Most likely outcome

Scenarios 1 and 2 represent the best and worst case for the Wellington convention market. Covec reasonably suggest that the actual outcome is likely to lie somewhere between scenario 1 and 2 ranging from a 4% reduction to an 13% reduction in delegate days with the mid-point reduction of 8.4% presented in the table below alongside Scenario 1 and 2.

Table 10: Range of scenarios of Wellington delegate days 2012 - 2018

National delegate days	*No growth*	*Likely range*	*Incremental demand*
Wellington	585,823	645,025	704,228
Change in Wellington days	*-16.8%*	*-8.4%*	*0%*

Source: Covec

In summary, new convention centre developments around New Zealand, combined with marginal growth in national convention activity suggest that in the absence of a new development, the number of delegate days in Wellington is likely to fall by 4% -13% over the next six years with the most likely outcome of a reduction of 8%.

4.2.2. Economic impact of lost delegate days

The reduction in delegate days to Wellington will have a negative impact on the Wellington economy. Following the conceptual approach detailed above in Figure 13, Berl have modelled the impact of the reduction in delegate days on the Wellington market. Berl present two scenarios, reflecting the likely 8% reduction and the worst case reduction of 17% reduction in the number of delegate days.

Table 11 below presents the results from the Berl assessment of the economic impact of the do nothing scenario, under both an 8% reduction and a 17% reduction in the number of delegate days lost.

Table 11: Summary of economic impacts of counterfactual

Wellington city	*Direct impacts*		*Indirect and induced*		*Total*	
	Likely -8%	*Worst Case -17%*	*Likely -8%*	*Worst Case -17%*	*Likely -8%*	*Worst Case -17%*
Total expenditure ($m)	-7.6	-15.1	-4.7	-9.3	-12.2	-24.5
GDP ($m)	-3.9	-7.8	-2.5	-5.0	-6.4	-12.8
Employment (FTEs)	-62	-125	-23	-46	-86	-171

Source: BERL

Under the worst case scenario of a **17%** reduction, the results imply:

- A total loss of $24m in expenditure in the Wellington economy, of which $15m is directly related to delegates, with an additional $9m of flow on spend.
- A total loss of just under $13m GDP from the Wellington economy, of which just under $8m is direct GDP lost, with an additional $5m lost in flow on industries.
- A total loss of 171 FTEs from the Wellington economy, of which 125 are directly related to conferences, and a further 46 in upstream and downstream industries.

Under the likely scenario of an **8%** reduction in existing delegate days, the results imply:

- A total loss of $12m in expenditure in the Wellington economy, of which just under $8m is directly related to delegates, with nearly an additional $5m of flow on spend.
- A total loss of over $6m GDP from the Wellington economy, of which just under $4m is direct GDP lost, with an additional $2.5m lost in flow on industries.
- A total loss of 86 FTEs from the Wellington economy, of which 62 are directly related to conferences, and a further 23 in upstream and downstream industries.

4.2.3. Summary of the counterfactual "do-nothing" approach

Recent developments in the convention market are projected to lead to an increase in overall convention market capacity, with the new developments reflecting purpose built convention facilities of which there is currently a significant shortage in NZ. This increase in capacity, combined with a substitution of existing activity towards new venues is expected to lead to a significant reduction in the number of delegate days in the Wellington region.

Economic modelling prepared by Berl showed that this reduction in delegate days would have significant negative consequences for the Wellington economy, as GDP and employment will fall in response to a reduction in delegate spending,

The negative consequences of the "do-nothing" approach represent the counterfactual to the new development. That is, any positive impacts resulting from the new facility should be considered relative to the negative impacts of not proceeding with the development.

4.3. Economic impacts of the proposal

The proposed convention centre will bring new delegates into Wellington, from elsewhere in New Zealand and internationally. These delegates will inject spending into the economy, spending that will stimulate GDP and employment in the city. This section introduces estimates of economic benefits both directly and indirectly related to the operations of the convention centre development, including a discussion of the assumptions used and sensitivity around these assumptions.

4.3.1. Convention centre business event projections

The proposed development is expected to host a number of events, ranging from large full format multi day conferences with up to 1,200 attendees, through to small banquets and meetings. Horwath HTL ("Horwath") have prepared projections of the number of business event activities in the ten years following the completion of the development. The analysis prepared by Horwath is based on three key assumptions:

- it will open prior to or at the same time as the New Zealand International Convention Centre in Auckland, the new Christchurch Convention Centre and the main Queenstown Convention Centre
- it will be marketed from late 2014 in the certainty that it will proceed, based on an early commitment by Wellington City Council to lease the facility and appoint Hilton to market and manage it
- it will not face direct competition from existing Wellington venues, for medium to large multi-day full-format conferences and meetings (500 delegates and above).

4.3.2. Estimating the number of new events at the venue

The key driver of the economic impacts of the proposed convention centre is the number of new events that the centre will generate for the Wellington region. No growth has been assumed in the small conferencing or day meeting event types under this scenario to reflect the likely target growth market for the Hilton which will be focussed on multi-day events of larger scale.

Table 12 below summarises the average assumed number of events used by Berl, which flow into the economic impact modelling. Note that the values reflect the average over a twelve year period

Table 12: Projected activity at the convention centre

Category	Average # Events
New events to Wellington	74

Source: Berl, Horwath

The proposed new convention centre will bring an average of 74 new business events per year to Wellington.

4.3.3. Delegate days

Converting the number of new events to an estimate of delegate days requires an assumption on both the length and size of events held. These assumptions can be used to estimate the total number of new delegate days from the proposed convention centre.

Table 13 below shows the assumed duration and size of event, by event type, with the average number of new events over the first 12 years of operations, and hence the average number of new delegate days per annum over the same period.

Table 13: Assumed length and size of new events and impact on new delegate days

Event type	*Avg # Days*	*Avg # New Events*	*Avg # New Delegate Days*
Large Conferences	3.6		20,000
Medium Conferences	3.3		26,000
Large Banquets	1		6,000
Small Banquets	1		8,000
Sundry Events / Meetings	2		8,000
Total (average of first 12 yrs)		74	68,000

Source: Horwath/Berl

The 74 new events to Wellington are expected to generate an additional 68,000 delegate days for Wellington, an increase of nearly 10% on 2012 levels.

The 74 new events to Wellington used by Berl are expected to generate an additional 68,000 delegate days for Wellington. This represents about 10% over and above the 2012 total delegate days of 704,000 for Wellington.

A sensitivity analysis of economic impact projections presented in section 4.3.7 includes a discussion on the assumed number of new delegate days to Wellington.

4.3.4. Origin of delegates

Understanding the delegate origins is important because it is only those attending from out of town, for the new events, that deliver new economic benefit to the city through their spending and the flow on effects of this spending. Berl have provided two sources of assumptions to estimate the origin of delegates which determine the total new delegate spending and related benefits:

- ***Historically focussed***: Using the CAS dataset published by MBIE, Berl estimate the origin of delegates across the different event types. Historically a significant proportion of delegate days are from within Wellington, and as a result these estimates are conservative.

- ***Horwath***: Horwath have also provided assumptions for the estimated origin of delegates. The Horwath projections are forward looking, and take into account the expected changes in the event and delegate market as capacity and venue quality is improved in Wellington. They focus on the market Horwath would expect the Hilton to target. The Horwath assumptions assume a much higher rate of domestic and international conference attendance for the new events in keeping with the target market, purpose and nature of the proposed convention centre.

The assumed origin of delegates is an important factor in the economic impact assessment, as the average daily expenditure by an international or domestic delegate is higher than a local delegate, especially for multi-day events where accommodation and food is required. A higher proportion of out of town delegates therefore impacts favourably on the economic impact of delegate spending in the region.

Table 14 below outlines the average daily expenditure assumptions for delegates by event type and origin.

Table 14: Delegate expenditure by origin and event type (average daily spend)

	Wellington City	Other WLG	Domestic	International
Large Conferences	$100	$150	$325	$525
Medium Conferences	$100	$150	$325	$525
Small Conferences	$100	$150	$325	$525
Large Day Meetings	$100	$100	$345	$405
Small Day Meetings	$100	$100	$345	$405
Large Banquets	$150	$150	$200	$250
Small Banquets	$150	$150	$200	$250
Sundry Events / Meetings	$25	$50	$75	$100

As mentioned above, the Horwath assumptions assume a much larger proportion of delegates are from outside of Wellington, with significant positive consequences on the economic benefit to the Wellington region. The projected economic impact has been modelled using both sets of delegate origin assumptions to create a high and low scenario.

4.3.5. Pre and post event expenditure, and partner spend

Table 13 above shows the estimated event length. Delegates who have travelled significant distances to Wellington may choose to stay for an additional period, incurring additional expenditure. Additionally, delegates may have partners who choose to travel with them.

Horwath have estimated the proportion of delegates who will stay extra days, the number of extra days they will stay, and the average daily expenditure for the pre- and post- event days. Additionally, Horwath estimate the proportion of delegates who will be accompanied by a partner, and the average daily expenditure for the partners.

All expenditure incurred by delegates staying additional days and partners of delegates contributes towards the economic impact of the new venue, as this spending would not have taken place in the absence of the event.

4.3.6. Economic impact of new delegates

Following the methodology set out in section 4.1, Berl have modelled the economic impact of these new delegate days on the Wellington economy in terms of direct expenditure, GDP and employment using the two delegate origin scenarios described in section 4.3.4. This provides a range of economic benefits to Wellington from the 68,000 new delegate days.

Table 15 below shows the range of impacts of the proposed new venue; the values reflect the annual average over the first 12 years of operation using the historical CAS origin assumptions as the low, and the Horwath origin assumptions as the high range.

Table 15: Proposed economic impact of new venue

Category	*Direct*	*Indirect + Induced*	*Total*
Expenditure ($m)	15.0 - 21.7	9.3 - 13.4	24.3 - 35.1
GDP ($m)	7.7 - 11.2	5.0 - 7.2	12.8 - 18.4
Employment (FTEs)	125 - 180	46 - 67	172 - 247

Source: BERL

Based on the growth attributed to the new centre, GDP in the Wellington economy will grow by $13m to $18m per annum

Direct delegate spending from the new convention centre is expected to range from $15m to approximately $22m per year, with a further $9m - $13m of indirect and induced expenditure. This expenditure is expected to support a total of between 172 and 247 workers, and result in an uplift of GDP of between $13m and $18m per year.

For context, Wellington GDP in the retail, accommodation and food services industries was just under $1.4 billion; the additional GDP generated by the convention centre is equivalent to approximately 1.5% of Wellington GDP in relevant industries.[29]

4.3.7. Sensitivity analysis of economic impacts

The two key assumptions that drive the estimated economic impacts are the number of new delegate days in Wellington, and the origin of delegate days.

Number of new delegate days in Wellington

The number of new delegate days modelled by Horwath represents a 10% increase over existing Wellington levels in 2012, as outlined in 0 above. If the number of delegate days increases or decreases by a certain percentage, assuming the mix of events is constant the economic benefits outlined in Table 15 above will vary by the same percentage. That is if the growth in delegate days achieved was only half of that projected, the economic benefits would also halve.

Origin of delegates

Section 4.3.4 outlined two approaches to estimating the origin of delegates; historically focussed and a Horwath projection. Economic impacts are calculated using both approaches so this sensitivity has been modelled in the base ranges noted above.

Event Mix

The assumed event mix is another key assumption for the economic impacts. If we use the number of additional delegate days modelled by Horwath (i.e. the 10% increase), but hold the mix of events constant at the historical CAS baseline, then growth in new delegate days will be distributed to some of the small conferences and single day meetings, and the size of the economic benefits falls. This is because guests at larger conferences tend to have a higher level of spending compared to smaller events, and stay for longer.

The results of this approach are shown in Table 16 below.

Sensitivity Economic impacts

The economic impacts of delegate spending under different assumptions for the origin of delegates and event mix are outlined in Table 16 below.

The results presented in Table 16 have several implications:

- The origin of delegates attending conferences in Wellington can have a significant impact on the economic benefit results. International delegates stay longer, spend more, and are more likely to bring a partner compared to New Zealand based delegates, and as a result are an important driver of impacts. In addition, large numbers of local (Wellington) attendees will not drive additional benefits in the Wellington economy as they do not constitute new spending.

- The type of event is also an important component of economic impact. Larger events often bring upwards of 1,000 delegates into Wellington city for multiple days, meaning that small changes in event mix from medium and large multi-day events to smaller single day events can materially influence the scale of economic benefits.

[29] The Wellington GDP figure was derived from the regional GDP estimates published by Statistics New Zealand, and reflects the sum of GDP in the "*Retail Trade*" and "*Accommodation and food services*" industries. The values are 2011 estimates, which is the most recent data series published by Statistics NZ.

Table 16: Sensitivity analysis on economic impacts of delegate spending ($m)

Event Mix			Origin of delegate days: Historical	Mid-Point	Horwath	
Event Mix	Horwath	Expenditure ($m)	24.3	29.7	35.1	Base case
		GDP ($m)	12.8	15.6	18.4	
		Employment (FTEs)	172	210	247	
	Historical	Expenditure ($m)	16.9	20.9	24.9	Sensitivity Case
		GDP ($m)	8.8	11.0	13.1	
		Employment (FTEs)	119	147	175	

This table shows economic impact ranging from $8.8m to $18.4m in increased GDP and 119 to 247 new FTE's in terms of employment, depending on the underlying assumptions used.

Using the historical event mix reduces GDP impacts by $4m to $5m. However, it is not likely that the growth in delegate days will mirror the historical event mix due to the different target market of the new facility. Therefore, in terms of subsequent analysis in this business case, the base case with sensitivity associated with different delegate origin assumptions is used.

4.3.8. Summary of economic impacts of proposal

Berl have estimated the economic impact of delegate spending for new delegates to the Wellington region as a result of the convention centre using two base assumptions of delegate origin (one provided by Horwath and one based on historical CAS data). As shown in table 15, taking the mid-point of these scenarios, it is estimated that the new development will generate $30m in new expenditure in Wellington city, resulting in just under $16m in total GDP and new employment for 210 FTEs.

Section 4.3.7 discussed the impact of assumptions on delegate days and origin of delegates and how these flow through to the economic impacts. Adopting conservative assumptions on delegate days and the origin of these delegates leads to much lower estimates of economic impact, shown in Table 16.

4.4. Net economic impacts

The net economic impact of the proposed development represents the difference between the impacts of the development, less any impacts of the counterfactual option to not develop. Given that the counterfactual option has negative impact resulting from lost delegate days, the net impacts will be higher than the impacts of the development alone.

Table 17 below presents the net economic impact of the proposed convention centre, using the "most likely outcome" identified by Covec of an 8% reduction in delegate days in the counterfactual option combined with the mid-point described in section 4.3.8 above.

The net economic impact of the proposed development on the Wellington economy is:

- $42m of total expenditure annually
- $22m of total GDP annually
- 295 FTEs annually

Table 17: Net economic impacts of proposed development ($m)

	Impact of development (mid)			Impact of Do Nothing (-8%)			Net Economic Impact		
Category	Direct	+ Ind	Total	Direct	+ Ind	Total	Direct	+ Ind	Total
Total expenditure ($m)	18.3	11.4	29.7	-7.6	-4.7	-12.2	25.9	16.1	**42.0**
GDP ($m)	9.5	6.1	15.6	-3.9	-2.5	-6.4	13.4	8.6	**22.0**
Employment (FTEs)	153	57	210	-62	-23	-86	215	80	**295**

Source: BERL, PwC Analysis

4.5. Additional associated economic impacts

In addition to the pure economic and fiscal impacts associated with the convention centre there are a range of associated impacts from the proposal that should also be considered in the overall context of the Business Case for investment.

4.5.1. The Hilton factor

Under the proposal Wellington will benefit directly from the investment in a purpose built large scale convention centre and the strategic case for this is discussed in Section 2 of this report. An integral part of the overall development is the integrated combination of a 5-star hotel and a large convention centre which has opened the door to attract Hilton to be a part of the proposal.

Hilton is a global leader in hospitality and having a Hilton presence in Wellington is an important feature of the proposal. They consistently receive top awards for their brand recognition, and were voted the best business hotel chain in Europe and the UK in the 2013 Business Traveller Awards[30] among many other hospitality awards they regularly receive. This will mean potentially more high net worth international visitors will come to Wellington as a result of the Hilton's presence in Wellington – it adds credibility to Wellington's status as a significant city of worldwide standing.

Hilton Facts

- *Hilton is the fastest growing international hotel chain with a presence in over 90 countries with over 550 hotels.*
- *Hilton continues to be the most recognised hotel brand in the world and research from the Cambridge group shows that over 30% of their revenue is generated by the Hilton brand name*
- *Hilton has been ranked as the number one hotel brand across Asia Pacific for the past five years in terms of awareness and preference and has been operating in the Asia pacific region for over 50 years.*
- *The Hilton loyalty programme, HHonors, has more than 40 million members worldwide and drives utilisation and occupancy with 51% of Hilton occupancy is attributed to HHonors members.*
- *34 Global sales offices servicing customers worldwide with specialists in corporate and MICE serve as a powerful sales engine for all Hilton operations supporting on-site teams reach optimal performance*
- *Pre-eminent brand websites, rated the number 1 brand website for business travel bookings with Hilton.com the most visited hotel website in the last 12 months*
- *Industry leading technology integrates demand generation with service support to ensure all channels are leverage, Hilton received the Travel & Leisure award for social media in travel & tourism recognising the best and most innovative uses of social media*
- *Hilton do not operate casinos in New Zealand which makes them an attractive choice for some customers*

[30] The Business Traveller Awards 2013

There are a range of benefits from having Hilton involved in the project and these include:

- The involvement of Hilton as the manager and operator of the hotel and convention centre as an integrated business provides a high level of confidence that the convention centre under their management will be successful and will deliver the economic benefits to Wellington that underpin the business case.
- The Hilton worldwide reach is extensive and they are clearly among the leading hotel brands worldwide and the clear leader in the Asia Pacific region. A Wellington based Hilton will feature within their on-line marketing and promotion media giving Wellington a presence and profile to international travellers and businesses that would not be able to achieved without extensive direct marketing.
- Hilton is a leader in the field of hospitality and food innovation. They achieve this position through a focus on training and development and Hilton has indicated that they would seek to establish strong relationships with Weltec and the Le Corden Bleu cooking school to provide career paths in the hospitality industry.
- Hilton, while being a large global business, operates with a strong emphasis on corporate responsibility and sustainability at the heart of their values. Living sustainably is a business imperative and a performance indicator that is imbedded into the Hilton brand standard across all of their hotels. This commitment can be clearly evidenced through their annual Corporate Responsibility Report. In addition to the corporate responsibility ethos this approach aligns clearly with Council's goals to ensure efficiency in the use of resources, minimising wastage and impacts favourably on the economics of doing business.

4.5.2. The Precinct factor

The proposed hotel and convention centre is strategically located on Cable Street, directly opposite Te Papa, and the new convention centre will effectively anchor this area as the convention and business events precinct. The area is in close proximity to a range of Wellington's hotels and convention facilities and also a range of tourism attractions, entertainment venues, restaurants and bars.

> *Experience in Australia and elsewhere suggests that convention centres have the potential to act as anchor projects and therefore represent a catalyst for adjoining commercial and residential development. Source CBRE 2013*

The convention centre development is likely to present an opportunity to drive further future development in this area over the medium term and deliver gains to WCC in terms of growing the ratepayer base, enhancing the vibrancy of this precinct area and contributing to economic growth.

Discussions have been held separately with the Hilton and Te Papa about the potential opportunities for them to work together to host a range of larger events and support each other recognising the power of Te Papa as a national tourist attraction and the 5-star Hilton hotel working in combination to further their respective interests and deliver benefits to the city.

4.5.3. Supporting Wellington business sectors

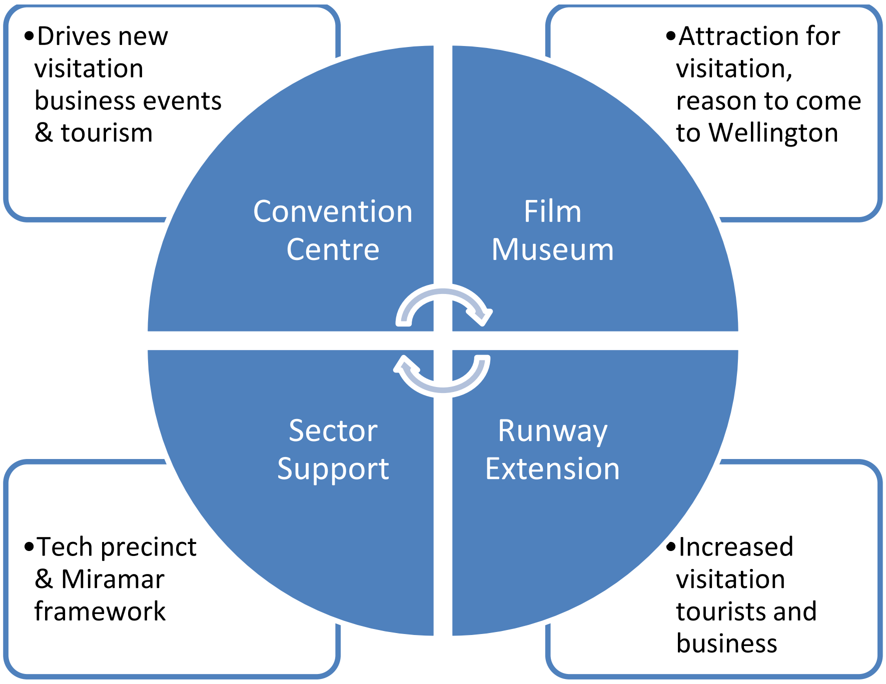
The new purpose built convention centre with an integrated 5-star hotel will open up opportunities for Wellington to raise its profile and support a range of key sectors of the economy. It could be argued that a range of prestigious events by-pass or do not consider Wellington due to limitations in its facility offerings. The new offering would potentially open Wellington up to be able to attract prestigious events like the Halberg awards or similar high profile events.

Conventions are also a strong means by which core sectors of the Wellington economy can be supported. The WCC economic development strategy identifies the technology, film, education and service sector as key focus areas. A stronger convention offering would enable the city to cater for the needs of a range of complimentary business events enhancing knowledge transfer, showcasing the strengths of these sectors in Wellington and providing direct networking opportunities for local interests. Examples of the types of events could include the Worldcon convention and the Asia-Pacific conferences of the large professional firms.

4.5.4. A catalyst for the WCC growth agenda

The Council's growth agenda includes (but is not limited to) 8 big ideas that aim to boost the local economy and make it more diverse. Transformation is not new to Wellington and we have 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.

The 8 big ideas do not exist in isolation and each support and rely on others in a number of ways. There is value in getting the agenda underway with what could be viewed as a catalyst project in the convention centre. The business case for the convention centre stands on its own in terms of its strategic context and economic justification but it has additional value in the support that it provides across the growth agenda.



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. A growing ratepayer base provides the means to deliver on the *Smart Capital* vision.

4.5.5. The economics of the construction project

Section 4 sets out the economic case for the convention centre from the perspective of the on-going benefits of the expenditure from increased conference delegates and the protection of the current economic benefits conferences deliver to the Wellington economy.

The construction aspect of this project is estimated to cost in excess of $100m and will make a material contribution to the Wellington regional economy through the two year construction period. This will be in terms of contributing to the regional GDP and supporting a significant number of jobs through the construction period.

Berl assessed the economic impact of the construction aspect of the proposed Queenstown Lakes convention centre. Based on a $45.3m construction spend Berl has estimated the economic benefit to the region as adding $23m of GDP over two years to the regional economy and sustaining 267 FTE jobs through the two year construction period.

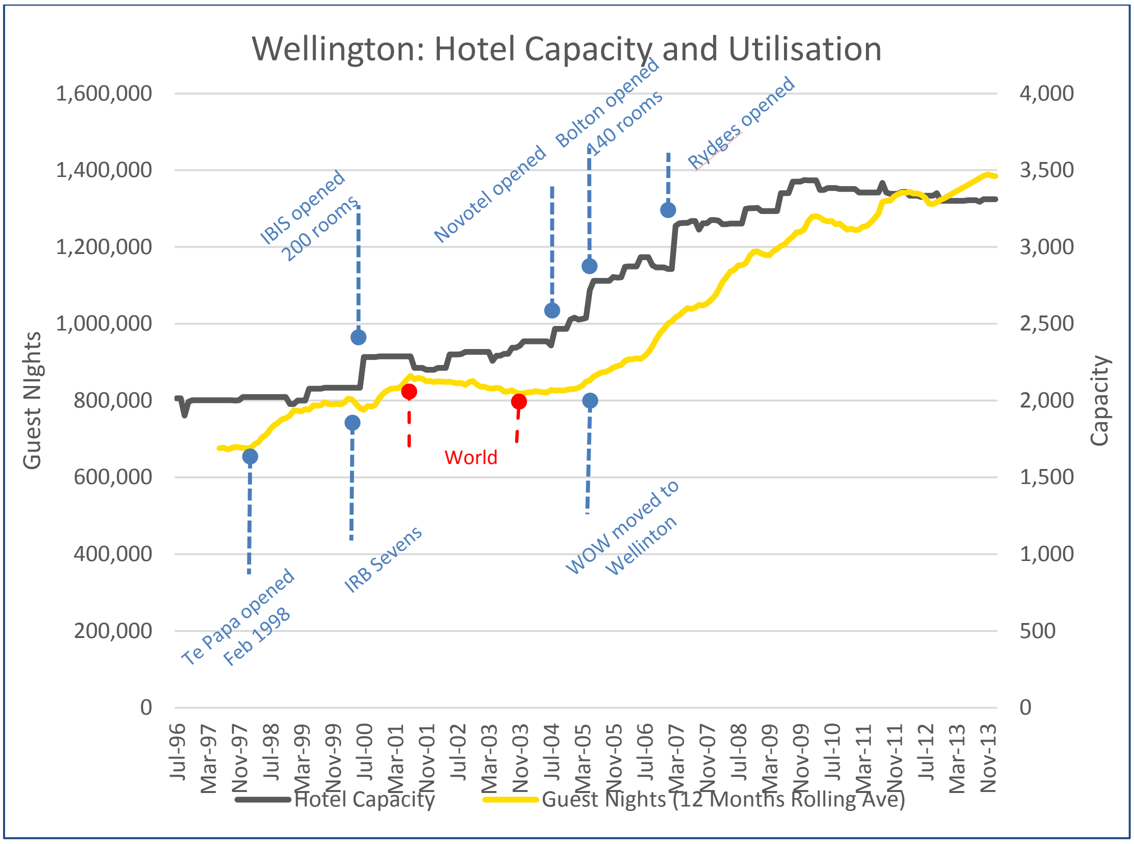
Based on the Berl work completed for the Queenstown Lakes convention centre we could expect the economic impact from the construction project on the Wellington hotel and conference centre to add in excess of $50m to the regional economy over the two years and support over 300 jobs through the construction period.

4.5.6. Flow in benefits of secondary investment

Growth in the ratepayer base is a key objective of the economic growth agenda. A growing ratepayer base is a sign of a healthy and growing economy and in an environment where the cost and demands on a range of Council services are ever increasing growth in the ratepayer base provides a basis for maintaining the required levels of investment without primary recourse to raising rates.

The proposed convention centre and hotel development with an estimated construction cost of over $100m will directly result in an increase in the ratepayer base of a similar value. In its simplest form this provides incremental rates income to support funding decisions or reduces the impact of future rates increases on ratepayers. This represents the direct impact on the Council ratepayer base as a direct consequence of the project.

Section 4 discusses in detail the impacts on the Wellington economy resulting from the increase in delegate days from new business events in terms of the impact on Wellington GDP and employment. In addition to the direct impacts there are secondary investment impacts that will feed through into the Wellington economy as a consequence of the investment in the convention centre. These impacts are related to the subsequent investment decisions that will follow as demand for goods and services from the growth in delegate days unfolds. This will be seen through increased demand for hotel beds, restaurants, bars, transport services, retail, tourist activities and support services. As existing capacity in these sectors is consumed there will be an inevitable investment over time to increase capacity as demand increases. These secondary investments arise as a direct consequence of investment in the convention centre and its primary objective to protect and grow the number of business events and therefore delegate days in Wellington. The table below provides an illustration of this showing the investment in hotel rooms in Wellington in response to investment activities to drive visitation and the associated demand for hotel rooms.



The investment in Te Papa has undoubtedly underpinned a period of steady growth in visitation to Wellington since its opening in 1998. Subsequent investments in the Westpac Stadium and in major events such as the sevens and WOW and strategic marketing of the city have helped to sustain the growth that can be clearly seen in the graph above. We have overlaid onto the graph the points where secondary investment has occurred as measured by investment in additional hotel beds. There is a clear and obvious correlation between the increasing demand and the investment in supply.

There has been limited investment in increasing the supply of hotel beds since the Holiday Inn (now Rydges) opened in 2007. If the correlation holds true based on the steady growth in guest nights we should see imminent investment plans for increases in hotel bed numbers and this can be seen with the planned Sofitel Hotel with 135 rooms and in effect this proposal for a 165 bed Hilton branded hotel. These are largely responses to existing demand trends as evidenced above.

The table below considers the likely growth in demand for hotel beds in Wellington assuming the convention centre goes ahead compared to the supply, where supply has been increased in 2017 for the Sofitel and the 2018 for the Hilton. This shows the projected occupancy rates. With respect to hotel developments the investment trigger point from an occupancy perspective is widely viewed as 75% occupancy[31]. Once occupancy rates go beyond this level investment in hotels becomes attractive.

(nights in thousands)	*2013 base*	*2017 projected*	*2018 projected*	*2019 projected*	*2020 projected*	*2021 projected*	*2022 projected*
Occupancy (nights)	899	933	941	969	1,009	1,056	1,112
Supply Hotel beds (nights)	1,206	1,255	1,315	1,315	1,315	1,315	1,315
Occupancy Rate	74.5%	74.3%	71.6%	73.7%	76.7%	80.3%	84.6%
Additional rooms to maintain 75% occupancy rate	-	-	-	-	62	191	345
Estimated investment in Hotel room to maintain 75% occupancy ($millions)					$ 25	$ 76	$ 138

Source: PWT

This table illustrates the potential for secondary investment from the convention centre project. The growth in occupancy nights shown reflects the growth associated with the increase in conference delegate days. Applying the rule of thumb (75% hotel investment trigger) suggests that by 2021 there would be clear potential for further investment in hotel rooms in the city of 191 rooms rising to 345 rooms in 2022. The associated secondary investment levels are estimated at around $138 million in today's dollars to provide this number of rooms by 2022.

This exercise purely illustrates the potential flow on secondary investments from solely a hotel perspective within 5 years of the proposed convention centre starting operating. The secondary investment flows are not exclusively restricted to hotels. The increase in the Wellington GDP of up to $18.4m per annum will increase demand within the hospitality and retail sectors and support investment in these sectors. The up to 247 jobs created will ultimately impact housing markets and provide further casual employment opportunities to students, casual job opportunities for students is critical to support growth in the education sector. It would not be unreasonable to assume that for every $1 of direct investment in the proposed convention centre and hotel we should anticipate an incremental secondary investment of at least $2 driving future growth in the commercial ratepayer base.

The impact this has on rate funding is discussed in section 5.8.4.

[31] NZ Hotel performance and profitablity, S Hamilton Horwarth HTL Limited

5. Financial analysis

Key Points:

- The cost of the project varies over the life of the lease – in the early years there is no profit share, but as operations stabilise and any early losses funded by the developer are repaid, profits will flow to WCC to offset the cost of the lease. Profits are forecast from year three under the base scenario, or from year five under the low operating scenario.
- The development will deliver a direct increase to the commercial ratepayer base of in excess of $100m which generates approximately $1m of new rates capacity.
- This means the first $1m of cost of the lease (every year) is funded by the project itself.
- The average financial cost of the proposal to the city is modelled to range from $1.5m to $2.5m per annum over the first 10 years, with a worst case of $3.5m if no profit share eventuates.
- The GDP return on investment of the proposal ranges from $20.7m to $26.7m per annum. This represents a return on the ratepayer investment of 8.3:1 to 17.8:1 for every dollar of ratepayer funding.
- The estimated level of rates growth from secondary induced investment required to offset fully the projected ratepayer funding is estimated at between $150m and $250m.

In this section we provide a financial overview of the proposal.

It should also be noted that negotiations are on-going with the developer and Hilton, the details of which are still commercially confidential. Some of the assumptions may change as negotiations and legal agreements are finalised and may have financial consequences. However, we outline below the key underlying principles for WCC that have underpinned and informed the business case.

5.1. Principles of the financial analysis

The financial analysis presented in this section is based on three broad principles:

- WCC are not funding any capital expenditure towards the development and there is therefore no impact on Council borrowings.
- WCC are not bearing any construction risk associated with the development.
- WCC are not bearing any loss risk associated with the operations of the convention centre

5.2. Key assumptions of the financial analysis

The financial analysis presented in this section is based on the following assumptions:

- Convention Centre operating projections are based on the event projections (outlined in section 4) and the resulting financials calculated by Horwath. These have not yet been agreed with Hilton as the proposed manager of the centre and will be done as part of the due diligence process. Horwath have made the following three key assumptions in their financial projections:
    - it will open prior to or at the same time as the New Zealand International Convention Centre in Auckland, the new Christchurch Convention Centre and the main Queenstown Convention Centre
    - it will be marketed from late 2014 in the certainty that it will proceed, based on an early commitment by Wellington City Council to lease the facility and appoint Hilton to market and manage it

    - it will not face direct competition from existing Wellington venues, for medium to large multi-day full-format conferences and meetings (500 delegates and above). that is essentially that Council will not drive prices down in the market to fill civic venues.[32]

- Lease and property cost assumptions are based on the commercial terms outlined in section 3 and reflect the latest negotiated terms at the time of writing. These may be subject to change in detailed negotiations and development of formal agreements.

- Hilton management fees have been determined as presented by Horwath and reflect the arrangements proposed to date. These may be subject to change in the detailed negotiations and development of formal management agreements.

- Additional lease related costs for rates and insurance have been estimated by WCC with reference to property experts, rates have been conservatively estimated by WCC based on 2013/14 values and inflated to the proposed opening date in 2017/18.

The remainder of this section will discuss the projections of financial activity at the new venue, the impact of this activity on the share of profit for WCC, the return on investment and the linkages between this and the lease agreements. Through the financial projections we refer to a range of scenarios and these are described as follows:

Howarth Base Case, these are the base projections provided by Howarth with respect to their expectations around the financial performance of the convention centre. The economic benefits in Section 4 are linked to this Base Case scenario. For the ROI we have used the Berl high economic benefits per Section 4, adjusted for inflation. Whilst this is the base case projection provided by Howarth we have adopted it as our effective high case.

Howarth Low Case, this scenario represents the Base Case with a set of lower operating projections reflecting a reduction in the number of medium (10) and large day meetings (10) held at the centre. For the ROI we have used this scenario, against the Berl low economic benefits per section 4 adjusted for inflation.

The Mid Case, the Mid case is simply the mid-point between the Base Case and the Low Case. The economic benefits linked to the Mid Case are the Berl mid-points of their projections adjusted for inflation.

The Worst Case, the Worst Case represents a scenario where the convention centre does not make any operating surpluses and reflects a higher cost with respect to rates and insurance. To give context to the worst case scenario this would require a 20% reduction in revenues and a simultaneous 20% increase in fixed operating costs. The economic benefits linked to this scenario are the Berl economic benefits from doing nothing per section 4 adjusted for inflation.

5.3. Financial projections

Total revenue for the proposed convention centre is expected to be generated through floor space rental, direct catering revenue, labour and other general revenue, and technical services provided to venue hirers. This revenue is offset by fixed and variable operating costs, management fees and property costs.

A substantial pre-opening fund will be established within the convention centre operating company to support the initial activity, marketing and costs incurred prior to the opening of the hotel (and therefore before revenues are generated). This fund will be covered by developers, and recovered from future operating profits together with an interest recovery.

[32] That is essentially that Council will not drive prices down in the market to fill civic venues.

The convention centre is expected to generate operating surpluses and the projections for the proposed convention centre are shown in Table 18 below. Projections made by Horwath show small losses in the first year, followed by positive returns as utilisation of the centre increases.

Table 18: Financial summary of proposal for WCC (Horwath base scenario)

($m) - inflated	*Yr 1*	*Yr 2*	*Yr 3*	*Yr 4*	*Yr 5*	*Yr 6*	*Yr 7*	*Yr 8*	*Yr 9*	*Yr 10*	*Avg*
Net financial cost to city	**3.09**	**3.15**	**2.64**	**1.40**	**0.83**	**0.87**	**0.92**	**0.96**	**1.01**	**1.05**	**1.59**

Source: Horwath / WCC

Note that the financial projections in Table 18 above do not include consideration of FF&E renewals which are expected to be a cost of the developer.

Sensitivity and scenario analysis on the operating projections of the convention centre have been undertaken and are discussed in section 5.7.

5.4. Return on Investment

The reason for Wellington City Council to be involved in this proposal is not to seek financial gain or reward for Council, but to protect and grow Wellington's economy through investment in facilities to support the lucrative and beneficial MICE market.

To determine the return on investment, the net cost of the proposal can be compared to the net economic gain of the proposal (as determined by Berl and summarised in section 4.4). This section introduces the summary results of the sensitivity analysis discussed in section 5.7 which outlines a second operating model provided by Horwath with lower event projections, the "Horwath Low" scenario and a "worst case" operating scenario.

The following table outlines the average return on investment over the first 10 years of operations based on the cost to Council of each operating scenario.

Table 19: Financial summary of proposal comparing 10 year average results by scenario

10 year averages (inflated)	Horwath Low $m	Mid Case $m	Horwath Base $m	Worst Case $m
Net Financial Cost to the City	**2.5**	**2.0**	**1.5**	**3.5**
Secondary capital investment required to offset net cost to the city	250	200	150	350

This shows a likely average financial cost to the city range of $1.5m to $2.5m. A worst case financial cost to the city would be an average of $3.5m per annum over the first 10 years if no profit share were to eventuate.

Secondary investment in hotels, hospitality, retail and other business that could be expected would potentially offset this cost for the city ranges from $150m to $250m, with a worst case of $350m. Resulting in an increase in the ratepayer base that minimises the impact on future rates.

The following table outlines the average economic benefits achieved per annum from the proposal as outlined in section 4.4, but inflated so that an appropriate comparable investment returns could be calculated.

Table 20: Economic Benefits summary of proposal (inflated)

Average Annual Economic Returns	Historical delegate origin $m	Mid $m	Horwath delegate origin $m
Growth impact only (inflated)			
Total Expenditure	26.0	31.8	37.5
GDP Value add	13.6	16.7	19.7
8% do nothing counterfactual (inflated)			
Total Expenditure	13.4	13.4	13.4
GDP Value add	7.0	7.0	7.0
Growth + 8% do nothing counterfactual (inflated)			
Total Expenditure	39.4	45.2	50.9
GDP Value add	20.7	23.7	26.7

Table 21 below outlines the return on investment calculations across the range of likely operating scenarios, and the worst case scenario. Investment returns have been calculated on a growth only economic basis and a growth + 8% net economic basis.

Table 21: Return on Investment based on average over first 10 years (inflated)

Table 22: Return on Investment based on average over first 10 years of operations	Horwath Low Case	Mid Case	Horwath Base Case	Worst Case
	$m	**$m**	**$m**	**$m**
Net Financial Cost to City (10 yr average)	2.5	2.0	1.5	3.5
Economic Returns (Growth only)	**$m**	**$m**	**$m**	**$m**
Total Expenditure benefit	26.0	31.8	37.5	-
Wellington GDP value add	13.6	13.7	19.7	-
Investment Returns (Growth only)	**Ratio:1**	**Ratio:1**	**Ratio:1**	**Ratio:1**
Total Expenditure Benefit ratio	10.4	15.9	25.0	-
Wellington GDP ratio	5.5	8.3	13.1	-
Net Economic Returns (Growth + 8% do nothing)	**$m**	**$m**	**$m**	**$m**
Total Expenditure benefit	39.4	45.2	50.9	13.4
Wellington GDP Value add	20.7	23.7	26.7	7.0
Investment Returns (Growth + 8% do nothing)	**Ratio:1**	**Ratio:1**	**Ratio:1**	**Ratio:1**
Total Expenditure benefit ratio	15.8	22.6	34.0	3.8
Wellington GDP ratio	8.3	11.8	17.8	2.0

This shows a return on investment ranging from 10.4 to 25.0 of new expenditure for each dollar invested using the growth returns only. Using the net economic returns which include the counterfactual benefit of protecting our market share otherwise lost in the doing nothing scenario the return on investment ranges from 15.8 to 34.0 of new expenditure for each dollar invested.

GDP return on investment of the proposal ranges from 5.5 to 13.1 of new GDP for each dollar invested using the growth economic returns only. Using the net economic returns which include the counterfactual benefit of protecting our market share otherwise lost in the doing nothing scenario the return on investment ranges from 8.3 to 17.8 of GDP increase for each dollar invested.

A worst case example shows the cost if no profit share is achieved over the first 10 years, and the assumption that only market share protection has occurred and no growth in events or economic benefit flows. Under this scenario, the return on investment is still positive showing that for every dollar invested in the new convention centre, 3.8 of expenditure or 2.0 of GDP was protected from loss to other cities.

The economic benefits and employment impact of the construction project are not included within the economic benefits set out above as discussed in Section 4.5.5, these would be additional economic benefits over the two years of the construction project.

5.5. Lease by Wellington City Council

Section 3.1 noted that the WCC will lease the convention space from developers for an fixed annual fee over a twenty year period. The value of the lease is a function of the capital development costs, and also includes a commercial return for developers.

As leasee of the convention centre, Council will be responsible for its share of rates and insurance. Other building operating costs such as air conditioning/lift maintenance will be the responsibility of the operating company as operational expenses of the convention centre.

The lease agreement mitigates a number of risks for WCC that are typically associated with a large scale development, including:

- No WCC capital outlay for the development of the convention centre, meaning that the council has no exposure to any development risks as they are only funding the lease once the convention centre has been completed.
- Minimal operational risk for WCC as Council exposure to costs is limited to the CPI increases on rates and insurance

The lease agreement will enable the Council to access the significant economic benefits that a convention centre can generate for a local economy, at minimal risk to WCC.

5.6. Profit share for Wellington City Council

A core component of the proposal is a profit sharing agreement between WCC and the consortium of developers and investors. WCC will receive a share of operating profits for the convention venue, which will be offset by lease costs and property costs.

The real value in the convention centre is not the potential profits from the convention centre to Council, but the economic benefits that convention delegates bring to the city. This is true of most convention centre developments, where the centre acts as a catalyst for economic activity rather than simply profit generation.

5.7. Sensitivity analysis on financial projections

The profit shares for WCC within the financial projections are based on assumptions provided by Horwath within the Base Case. Alternative scenarios, described earlier, have been modelled to understand the impact on the profit share for WCC in the case of lower and worst case cost profiles.

This analysis provides a likely range of average net cost to the city over the first 10 years of operations of between $1.5m ('Horwath base' case) and $2.5m ('Horwath low' case), with a mid-case of $2.0m per annum. Under the worst case scenario of no profit share to WCC and higher property rates and insurance costs the net cost to the city would be $3.5m.

5.8. Funding options

5.8.1. Capital funding of the proposed development

All land and capital construction costs of the proposed hotel and convention centre development in this proposal are funded by the developer. The developer will take all construction risk on the project in the expectation they will receive a return on their investment through the lease on the convention centre, incentives linked to the performance of the convention centre and operational profits of the hotel business.

Indicative capital costs involved in this development are in excess of $100m. Under this proposal there is no capital cost outlay or borrowing requirement for Council.

The funding benefits to Council in this arrangement are that we are achieving the service and economic benefits for the city without investing in the asset ownership. This means we can be agile in a future market without the need to renew or re-purpose a building in public ownership that can often face significant community resistance and cost.

5.8.2. Operational funding of the proposed development

Under this proposal, Council will fund a lease agreement with the developer resulting in an operational expense to the Council. The commencement of the lease is anticipated to be in 2017/18 when the development is complete and convention centre operational. Council will be responsible for a share of the building costs, such as rates and insurance, which are applicable to the convention centre. Council will also receive the profits of the convention centre after pre-opening costs and early operating losses are recovered (currently projected to be in year 3 of the lease arrangement).

All operating costs of the convention centre will be held within an operating company with the expectation that the revenue generated from the convention business will fund all costs and generate a profit for Council. Profits are expected from year 3 of operations (based on baseline operating projections from Horwath HTL).

Council will also have an increased commercial valuation base upon which to spread these costs over, minimising the cost impact on our existing ratepayer base by approximately $1 million per annum. This effectively means that the first $1 million of cost would not impact current ratepayers.

Table 18 outlines the net costs based on the Horwath Base Case projections and the commercial terms as agreed in the first 10 years of this proposal.

After accounting for the growth in the rating base directly caused by this development, the underlying cost to ratepayers is $3.1 million in year 1 dropping to $0.8 million in year 5 and increasing to $1.1m in year 10. An average of $1.59m per annum over ten years.

5.8.3. Other external funding options considered

Central Government funding:
Central Government is supporting development of the Auckland NZICC proposal (capital cost of $450 million) through legislative changes giving Sky City long term gambling concessions to make the financial business case viable for a private developer, and in Christchurch as part of the earthquake rebuild through direct funding support (capital cost and allocation between Central and Local government has yet to be made public but is expected to be upward of $100 million). Queenstown (capital cost of $56 million) has also approached Central Government for funding support for their convention centre. The government has indicated no more than $10 million is likely to be contributed to this proposal, but nothing is committed at this point.

We have considered whether Wellington should approach central government to also support this proposal financially, however feel that the business case is strong for Councils support at the level proposed (subject to gaining feedback from the community) and government support would require a strong case for additional national benefit which may take some time to demonstrate and negotiate. Government is also unlikely to invest in an operational lease. This proposal has the potential for this centre to be completed ahead of other facilities and to achieve an early anchor in the market place.

Claudelands in Hamilton ($70 million capital cost) was funded by the Local Council with no known support from Central Government.

Government support has however been sought from MBIE to ensure Wellington is included in all promotional materials delivered out of Tourism New Zealand's additional $34 million funding support for international marketing of NZ as a business event destination. The marketing of NZ and Wellington as a business events destination can heavily influence the success and economic benefit of the Wellington proposal, however this requires an international standard purpose built facility to promote.

Bed Tax:
A bed tax is an option being considered as a funding solution in the Queenstown community for their convention centre. 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.

5.8.4. Impact of growth on our ratepayer base

Direct impact
The development of the Cable Street site will add an additional approximately $100 million to our commercial (and downtown levy) rating base (the land value is already in the rating base). The incremental rates collected from a $100 million downtown development are approximately $1m per annum (excluding water usage rates).

Flow on impact
It is also likely that further to the immediate capital value increase from the hotel and convention centre itself, there will also be investment in other commercial properties in the vicinity to support the services required by conference delegates and hotel guests. This could include additional hotels, hospitality and retail developments. This has not been quantified, however analysis of hotel development across the country suggests that there is a strong link between convention and other key destination infrastructure and hotel development. A good example of this is Sky City's possible investment in Hamilton following the Claudelands Convention Centre development, and also Wellington's experience of hotel development after Te Papa was built.

Any flow-on development will also benefit all ratepayers by creating more capital value to spread the rates requirement across. We have not tried to quantify the potential impact but note that the conference centre component is significantly oversized relative to the hotel component of this development. This should therefore drive up hotel occupancy rates and increase demand in the hospitality, retail, tourism and transport sectors which should lead to further development in these sectors, particularly in the areas around this precinct.

5.8.5. How would we pay for it?

Council currently funds our Convention business 95% by rates, split 55% to the general rate and 40% on the Downtown Levy, with the remaining 5% by user fees & charges (MFC Carpark revenue).

Table 23: Existing funding policy for convention centre

Activity	Activity Name	User Fees	Rates	General Rate (GR)	Downtown Levy (DTL)	Commercial Targeted Rate (CR)
3.1.3	Convention Centre	5%	95%	55%	40%	0%

The funding policy for the new Convention Centre needs to consider who benefits from the proposal and the best way for these beneficiaries to fund the service (from user charges where readily identified and captured through to a general rate where difficult to identify and capture).

The final decision regarding revenue and financing policy will be determined during the 2015/25 Long Term Plan process, however we will seek feedback during consultation on this project to help inform any proposed policy.

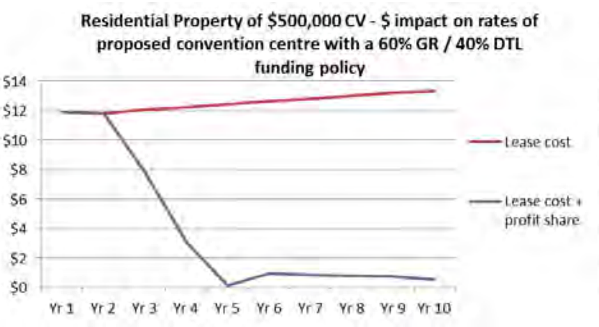
5.8.6. Indicative impact on current rates

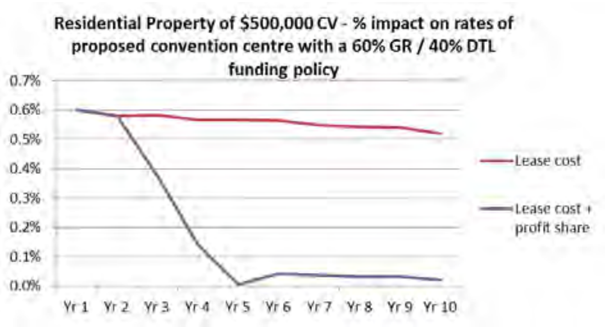
Council's Financial Strategy will be reviewed as part of the 2015/25 Long Term Plan process. Consideration of options such as utilisation of growth in the ratepayer base or ring-fencing profits from the convention centre to fund other Council initiatives are being considered as part of that strategy. These decisions together with the final Revenue and Financing Policy will be subject to public consultation through the Long Term Plan process and will determine the final impacts on rates for each sector of ratepayer for this proposal.

For the purposes of providing an indicative impact of this proposal on rates and ratepayers, if we apply the existing funding policy (adjusted for the 5% user fees from car parking income which does not apply) a 60% GR / 40% DTL policy would apply. Under this funding policy and assuming a $100m growth in the downtown commercial sector valuation base, the following graphs outline the dollar and percentage increase on 2014/15 rates for $500k CV residential property, a $1m CV suburban commercial property and a $1m CV downtown commercial property.

Residential Rates Impact

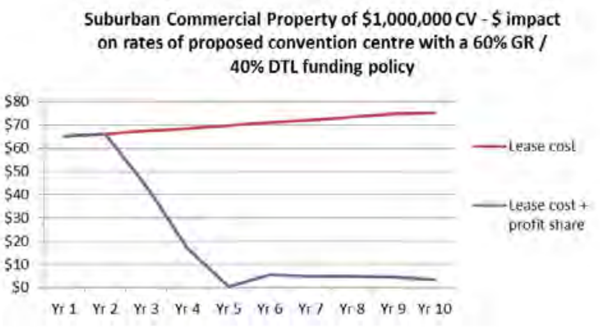
The increase on a residential property valued at $500,000 from a 2014/15 annual rates bill of $1,981 is $12 (0.6%) per annum in year 1 and growing to $13 by year 10 (0.5%) if only the lease cost is funded (our worst case scenario). If profit shares are received from year 3 as forecast in the Howarth base case, the increase in residential rates will be negligible at only $1 (0.0%) per annum from year 5.

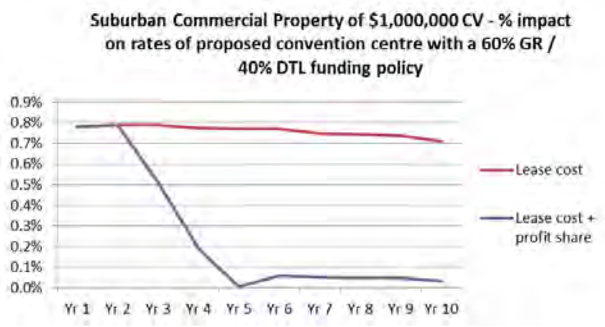




Suburban Commercial Rates Impact

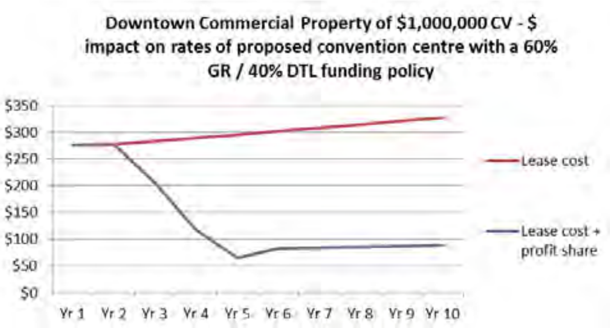
The increase on a suburban commercial property valued at $1,000,000 with a 2014/15 annual rates bill of $8,347 is $65 (0.8%) in year 1 and growing to $75 (0.7%) by year 10 if only the lease cost is funded by rates (our worst case scenario). If profit shares are received from year 3 as forecast in the Howarth base case, the increase in suburban commercial rates is negligible at $5 (0.0%) per annum from year 5.





Downtown Commercial Rates Impact

The increase on a downtown commercial property valued at $1,000,000 with a 2014/15 annual rates bill of $10,250 is $276 (2.7%) in year 1 and growing to $327 (2.6%) by year 10 if only the lease cost is funded by rates (our worst case scenario). If profit shares are received from year 3 as forecast in the Howarth base case, the increase in downtown commercial rates is $86 (0.7%) per annum from year 5.



This analysis demonstrates that ratepayers under the existing funding policy would experience a **one-off** increase in rates on commencement of the lease of no more than 2.7% for downtown commercial ratepayers or 0.6% for residents. As and when profit shares from the convention centre are generated to Council (modelled from year 3), ratepayers would notice a **reduction in their rates** back to levels only 0.7% for downtown commercial ratepayers or close to 0.0% for residents and suburban commercial ratepayers, higher than their 2014/15 rates levels.

6. Town Hall Impact

Key points:

- The Town Hall is not envisaged as a future conference centre.
- This will likely have a positive impact on the Town Hall earthquake strengthening costs.
- Opens up options for alternative uses, such as a music centre and scoring, or increased community access.
- The recently announced proposed performing arts and creative campus will link well with Council's performing arts venues and arts entities utilising the facilities.

Should the proposed convention centre development be agreed, then that questions the need for the Town Hall to be reinstated to the extent that it needs to host conventions and effectively opens the thinking to different uses. The Town Hall would not be required in the future as a convention venue and it would be counter-productive for it to compete on price with the Hilton convention centre.

This assumption is supported by key industry advisors who recommend that for Wellington to put its best foot forward in the convention business event market, a new purpose built facility with flexible spaces that is focussed on this industry will attract more business than a performance venue and adjoining town hall offering such as the MFC/Town Hall. This view is especially held in the face of improved purpose built modern facilities across the country that will change the competition amongst venues and choice for conference organisers.

This creates an opportunity to consider alternative uses for the Town Hall and has the potential to change the type of strengthening methodology used which in turn may have some positive impact on the cost of the strengthening work. Council is exploring a range of options for the Town Hall. None of these options include retaining it as a convention centre, and none involve demolition either.

A possible reuse that is emerging from this work is for the Town Hall to be a dedicated performance centre supporting a fine music centre. The auditorium could be also adapted to provide a scoring stage which would complement the music centre and enhance the city's facilities that support the important commercial and film sector but also be available as a scoring stage for wider community use. This option could be achieved with minimal alterations inside the buildings and would refocus the buildings on performing arts rather than business events and conventions, which is arguably a better use of these heritage assets. It would also align and link well with the recently announced performing arts and creative campus development on lower Cuba St and many synergies could be developed between students on the campus and our national performance and arts entities utilising these venues.

In addition the availability of the Town Hall and MFC without the need for these venues to support the city's conference offerings would open the potential for a greater degree of community use. It is important to recognise that the economic value equation for Wellington is driven by the ability of the city to retain and attract conference business. Business that could have been held in the Town Hall/MFC will be displaced to the new convention centre, the important factor for the Wellington economy is having facilities of a suitable scale and standard to compete with other centres for business events not competing across city venues.

7. Risk analysis

The key risks associated with the development and operation of the proposed convention centre have been considered, along with impact assessments and mitigation strategies. Risks around the contractual arrangements have been assessed in conjunction with Kensington Swan and will be addressed as part of the process to finalise contractual matters should the proposal progress.

Risks related to the economic impacts and the financial analysis are discussed in Sections 4 and 5 respectively.

7.1. Risk Matrix and Methodology

A comprehensive risk assessment has been conducted and the main areas of risk identified have been considered based on their likelihood of occurring and the significance of the consequence in an unmitigated situation. The matrix outlined below shows how the combination of these two factors results in the classification of low, moderate, high or critical risk and this is the inherent risk.

Once risk mitigation strategies have been identified and executed the consequences to Council should be reduced to now fall within acceptable risk levels of low to moderate and this is the residual risk.

The mapping has been used to develop our risk mitigation strategies which have led negotiations to date and have given rise to key principles around risk sharing and commercial terms being sought from the developer and Hilton. These principles, commercial terms and mitigation strategies will be negotiated and managed through the legal drafting of the associated development agreement, lease and management agreements with appropriate legal advice.

Table 24: Risk matrix

		Consequence				
Risk Likelihood	**Likelihood**	**Insignificant**	**Minor**	**Moderate**	**Major**	**Extreme**
The event can be expected to occur (80% or higher)	Almost Certain	Moderate	High	Critical	Critical	Critical
The event will probably occur (60% to 80% chance)	Likely	Moderate	High	High	Critical	Critical
The event might occur at some time (30% to 60% chance)	Possible	Low	Moderate	High	High	Critical
The event could occur (5% to 30% chance)	Unlikely	Low	Moderate	Moderate	High	High
The event may occur in exceptional circumstances (<5% chance)	Rare	Low	Low	Low	Moderate	Moderate

A summary of the key risks are now discussed in more detail in the sections to follow.

7.2. Contractual Risks

Council has engaged property and commercial lawyers to advise and ensure the terms within these contracts protect us from the contractual risks.

7.3. Operating Risks

Operating risks largely link back to our ability to meet the event and revenue targets which will have a financial impact on our profit share, or an economic impact if profits are achieved through delivering high volume single day local events which do not bring the economic benefits that larger multi-day events bring.

We do not intend to contractually set event targets on the Hilton to protect the economic position as we feel this is mitigated through the natural incentive of multi-day events to support the hotel business. We will however require regular event reporting instead, including event type, size, duration and delegate origins and this will be done through the owner's oversight committee which will monitor and review performance of the Hilton.

Our economic agencies also have a role to play to ensure the success of the convention centre through their role in marketing Wellington nationally and internationally as a business events destination.

7.3.1. Impact on Positively Wellington Venues (PWV)

Positively Wellington Venues is a 100% Council owned organisation which is tasked with stimulating vibrancy and economic benefits to the city through management of all Council owned performance venues and delivery of performance and MICE business events. The venues under PWV management include:

- Town Hall
- Michael Fowler Centre (MFC)
- TSB Bank Arena
- Shed 6
- St James Theatre
- Opera House

All venues (with the exception of Shed 6) were originally designed as civic or performance venues. MICE business activity has been added as a key function of these facilities due to the benefits this provides the city combined with the unutilised capacity within our venues which could be managed as dual functioning facilities.

The combination of the Town Hall and MFC provided our largest venue offering in the MICE market until the Town Hall was closed due to seismic strength issues. Shed 6 was fitted out as a temporary venue to try to mitigate the loss of our market share of MICE business and the impact this would have on Wellington's economy and as outlined and clearly demonstrated in Section 2. Since its opening in August of last year there has been a good signs of recovery of MICE business, however there is a limit to the availability, size and types of business events that will find the TSB/Shed 6 combination suitable and this offering would be complemented by the proposed convention centre.

The multi-purpose nature of our facilities has always compromised our ability to maximise the benefits of both the large performance events and large multi-day MICE market events concurrently.

When assessing the impact of this proposal on the levels of MICE event business which is managed and delivered through PWV and may be lost to the new facility, this context and backdrop is important. As is acknowledging the strategic case outlined in section 2 which notes that the impact of facilities being developed in other regions will also result in a loss of MICE business to Wellington of between 8 and 17% which will have a greater relative impact on PWV as they account for approximately 40% of the market in Wellington.

The opportunity this proposal provides is the ability to protect Wellington's economy from the impact of lost business (including PWV) from other developments around the country, and provide a facility that can complement our existing offer and also grow those benefits to the economy in an increasingly competitive market.

PWV currently host 40% of the Wellington MICE market in our venues, and almost all of the Wellington's market share relating to events with more than 500 delegates. Under our "do nothing" scenario Wellington is set to lose 8% - 17% of our national market share in the face of competition from Auckland, Christchurch and Queenstown facilities. Given that the market for these new facilities will be the medium to large sized business, it is not unreasonable to assume that the displacement impact for PWV will potentially be higher than other smaller Wellington providers who host predominantly small single day local business that is unlikely to be displaced by new venues outside of Wellington.

If most of the displacement from the other new developments around the country was in the medium to large events, PWV could be impacted by as much as 20% - 28% under the "do nothing" scenario.

If the proposed Hilton convention centre was built in Wellington, we hope to retain that lost business within Wellington, although it may potentially be lost to PWV and be displaced to the new convention centre.

At this stage it is unclear how the existing customers and clients of PWV will respond to the new venue, and how much business would transfer. It is likely that customers in the larger event space such as Arise Church would continue to use PWV venues for their services and events. It is also likely that business events of the medium size could transfer to the new venue.

7.4. Construction Risks

A key component of this arrangement is that Council is protected from all construction risk. The main risk we carry in this area is the actual delivery of the convention centre on time and budget so as not to put pressure on the operating risks delays in opening would inevitably cause.

This will be mitigated through protection clauses within the development agreements, and the developers will also be motivated to ensure completion on time as all revenue streams providing returns to the developer are contingent on the hotel and convention centre being operational. Again, appropriate legal advice will be obtained.

Appendix A. Basis of Financial Operating Projections

A.1 Horwath Base Case Operating Scenario

Revenue projections

The convention centre is expected to generate revenue from four sources:

- Space rental revenue, where conventions and other business event organisers will rent the floor space within the convention centre.
- Catering revenue, expected to cover more than half of the total revenue for the centre.
- Labour and general services, comprising a small portion of total revenue.
- Technical support services; these are expected to be subcontracted through an external provider.

When the centre is operating at full capacity, the centre is expected to generate more than $20 million per year in revenue.

Variable operating costs

Three sources of variable operating costs relating to the convention venue have been modelled:

- Catering costs, assumed to cover all catering preparation and service staff costs, food costs, and other direct catering consumables and expenses.
- Direct staff costs, reflecting additional services staff costs.
- Technical services costs.

Fixed operating costs

Fixed operating costs cover a range of areas, including:

- Overhead salaries & wages
- Staff costs & training; recruiting costs uniforms training and general support.
- Administration & general; accounting and other professional fees, IT, office software and licensing, security and other misc costs.
- Sales and marketing; direct convention centre costs including travel, online marketing etc.
- Group services;
- Cleaning and energy; contracted cleaning services, and utilities.
- Repairs and maintenance; routine maintenance of leased assets (does not include capital asset replacements).

Management fees and Incentives

Management fees based on revenue are paid to Hilton to cover the management of the centre. In addition Hilton and the Developer would be entitled to receive a share of operating profits, all residual profits would be paid to Council.

Property costs

Property costs for the new convention venue for rates and insurance costs will be met directly by Council as part of the lease agreement all other property operating costs are met within the operations of the convention centre. These costs are effectively offset by the incremental rates income generated from the project.

A.2 Horwath Low Case Operating Scenario

Subsequent and separate to completing their financial projections report, Horwath were asked to provide a "low" operating case. The "low" case reflects a reduction in their baseline operating projections by 10 medium conferences per annum and 10 large day meetings per annum.

A.3 Worst Case Operating Scenario

A worst case financial scenario of business not generating any residual profits for Council through the term of the lease has also been considered. To illustrate the extent of variance from the Horwath high base case before the convention business did not generate any residual profits for Council would require simultaneously reduced revenues by 20% (and variable expenses) and fixed cost increases of 20%.

Under this scenario, it is likely that performance provisions within management agreements would be triggered and far more significant performance discussions would be undertaken.