Wellington City Council

Indicative business case for a new Convention Centre

December 2015

Table of Contents:

1. Glossary

Abbreviation	Description
BERL	BERL - Business and Economic Research Consultants
CBD	Central business district
FTE	Full time equivalent
GFA	Gross floor area
Horwarth	Horwath HTL (Hotel Tourism and Leisure Consultants)
LOTR	Lord of the Rings
LTM	LT McGuinness Limited (construction company)
MICE	Meetings, Incentives, Conventions, Exhibitions
SQM	Square metres
TMM	The Movie Museum (The Museum)
TMML	The Movie Museum Limited (The Museum Operating Company)
WCC	Wellington City Council
Willis Bond	Willis Bond and Company Limited

2. Executive summary

This indicative business case outlines the case for investing in new convention facilities for Wellington. It follows on from the approved scheme and business case first presented to Council in June 2014, then subsequently finalised and agreed in November 2014 and included in the Council's 2015-25 Long Term Plan (LTP). That scheme delivered a 4,833 sqm convention centre through a long term lease with a private developer as part of a Hilton Hotel development on a Cable Street site opposite Te Papa.

That scheme is now not available to Council after the developer failed to secure the land and sought to move the project to an alternative site due to concerns of the financial viability of the entire development project. However, the case for new purpose built convention facilities of a scale to host large full format multi-day conventions (allowing for exhibitors, plenary sessions, break out sessions and a banquet) remains strong for Wellington. Council remained strongly of the view that the best location for a convention centre remained The Cable Street site.

In March 2015, Council commenced a master planning process with Willis Bond and Studio Pacific to work up the viable development options incorporating a convention centre on the same site (50-70 Cable Street and 197-203 Wakefield Street) opposite Te Papa. That site was secured by Willis Bond by way of a conditional sale and purchase agreement with the owner. Through that process, it was idendified that the adjacent site of 205-221 Wakefield Street owned by Foodstuffs would allow for a better shaped facility and allowed for more development options to be considered. Willis Bond negotiated a sale and purchase agreement with Foodstuffs to sercure this site to allow full evaluation of the development options. Through the master planning process a range of options were explored and three viable development schemes were identified:

1. a combined convention centre and movie museum development
2. a convention centre only development
3. a split site, convention centre and private hotel/apartment development

The preferred scheme is the combined convention centre and movie museum development, which would see the movie museum occupy the first two floors of the development, and the convention centre occupy the top floor of the development. In this scheme the convention centre would cover 5,969 sqm and be able to host full format multi-day conferences up to 1,100 people[1].

Through this proposal Wellington has the chance to deliver a very unique offering to the convention market through the joint convention centre and movie musuem development. Whilst the convention business will be run separately from the movie museum business, it is envisaged the co-location will allow some partnering opportunities and significantly enhance the convention centre's ability to win new business, particularly from Australia, due to its unique point of difference. Conferences organisers are looking for venues that will make their events unique and enjoyed by the delegates – we think the ability for delegates to visit the movie museum so easily, and with Te Papa across the road, will significantly enhance their time in Wellington, and provide a uniquely "Wellington" experience to delegates they cannot easily replicate elsewhere.

The facility will meet a significant gap in Wellington's current market with an 1,800 sqm flat floor space and large exhibition space adjacent to this. This main space will be fully flexible with operable walls able to break the space down into smaller spaces for con-current events. 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's facilities.

[1] Horwath HTL completed an assessment of the space and tested this with a recognised professional conference organiser. Depending on the specific requirements of the convention, Te Papa may be needed for one breakout space for events of this size.

The centre will be able to host large banquets of 1,380 people and seat 2,250 people in a theatre style seating arrangement in a modern and purpose built facility. This capability is something the Wellington's business events market has been significantly lacking. 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.

This business case looks costs and viability of a convention centre under the first two development options noted above – a combined convention centre and movie museum development, and a stand alone convention centre development – under a Council build, own and operate scenario. The benefits of the movie museum will be considered in a separate business case.

The following sections summarise the key areas of the business case for investing in new convention centre facilities.

2.1. Strategic Case

The strategic case for investing in a new convention centre is strong. Wellington currently enjoys 14% of the New Zealand MICE[2] market which delivers $146 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 are not up to the standard required to host larger international conferencing business and be competitive in the future as newer modern facilities come on stream.

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 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.

Convention centre developments are planned for Auckland (the NZ International Convention Centre or "NZICC"), Christchurch (as part of the rebuild) and Queenstown which will all be purpose built. Whilst only the Auckland facility has a signed construction contract, the other facilities are still expected to be developed in the next five years. 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.

Whether a stand alone convention centre, or a convention centre combined with a film musuem or other private sector development, the case for Wellington to improve its convention and business event facilities is strong and important for the economy and the City's business reputation.

Other options considered to improve our facilities were partnering with the private sector to deliver a city scale convention centre, leased by Council, as part of larger private developments. These development options included a hotel, apartments and other commercial space. However the opportunity to develop and focus efforts on the combined movie museum and convention centre development, differentiating Wellington's convention centre from the competition offering a unique experience to delegates was considered a combination worth pursuing. In turn delivering on two of the key demand driver projects within Council's economic growth agenda.

From a financial perspective, the cost of building and owning the development (whether a combined convention centre and movie museum or a stand alone convention centre) were significantly less than the cost of a lease.

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

There are significant financial savings from the proposed build and own scheme compared to a public private partnership arrangement, however Council does take on a greater degree of ownership and operational risk.

The benefits both in terms of the financial savings over the life of the project (and asset), and the control Council now has over the project, outweighs this transfer of risk to Council.

2.2. Proposal Outline

The proposal outlined below describes the preferred combined convention centre and movie museum development option, rather than a stand alone convention centre:

- Willis Bond has assigned the conditional sale and purchase agreements for the two adjacent land parcels on Cable and Wakefield Street to Council.
- Council will purchase these two adjacent parcels of land.
- Council will lead the development of the site which will entail the construction of a three storey, 16,711 sqm building to house the Convention Centre (CC) and The Movie Museum (TMM).
- The building will be owned and funded by Council.
- The Movie Museum company (TMML) will lease the two movie museum floors for a period of 25 years[3].
- Council will control who operates the convention centre – it is proposed that our Positively Wellington Venues business will operate the new facility with operating surpluses flowing to Council.
- TMML will take all operational risk of the movie museum.

This proposal is subject to a thorough public consultation process. Should for whatever reason the combined convention centre and movie museum project not proceed, Council would have the option and ability to proceed with the delivery of a stand alone convention centre on the site. The convention centre project already has significant public support and it is the ownership model which is the key difference to the previously approved model. All other benefits remain unchanged and the overall cost of delivery is within the financial parameters set within the long term plan.

2.3. Economic Case

The convention centre operational economic case is the same under all convention centre development options as it is assumed all options deliver a facility of similar size and event capability.

The economic case for Wellington compares the proposed convention centre development to a “do nothing” or status quo baseline option. Under the do nothing option Wellington is expected to lose between 8% and 17% of their current delegate days[4]. BERL estimated this loss in delegate days will correspond to between $12m and $25m in lost expenditure[5] in the Wellington City economy, resulting in between $6m and $13m in lost total GDP and job losses between 85 and 171 FTEs.

A new centre is projected to deliver 62,450 new delegate days to Wellington through its ability to attract events Wellington has previously not been able to host. This is a realistic target and equates to an increase of approximately 9% on the delegate days reported in the 12 months to 30 June 2015.

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[3] The Movie Museum business case is separate to this business case and outlines the strategic case, economic benefits and costs for that component of the proposal

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

[5] Direct and indirect expenditure

The economic benefit from these projected new delegate days is estimated to generate an average of $32m of new expenditure, delivering $17m of new GDP and 225 new full time equivalent jobs to the Wellington City economy. The combined convention center and movie museum strongly increases the likelihood of delivering new events to the city. This is outlined in the following table 1:

Table 1: Net economic impacts of proposed development ($m)

	Impact of development			Impact of Do Nothing (-8%)			Net Economic Impact		
Category	Direct	+ Ind	Total	Direct	+ Ind	Total	Direct	+ Ind	Total
Total expenditure ($m)	19.7	12.2	31.9	-7.6	-4.7	-12.2	27.3	16.9	**44.1**
GDP ($m)	10.2	6.6	16.7	-3.9	-2.5	-6.4	14.1	9.1	**23.1**
Employment (FTEs)	164	61	225	-62	-23	-85	226	84	**310**

Source: BERL, WCC Analysis

The combined economic benefit from the "do nothing" impact and the growth projections is protecting and growing $44m in total expenditure supporting $23m in GDP and 310 FTEs in the Wellington City economy.[6]

In addition to these on-going economic benefits outlined above there will be additional benefits through the construction phase, these benefits differ depending on the development option and are shown in Table 2 below.

Table 2. Construction Economic Benefits for Wellington City

	Convention Centre & Movie Museum				Stand Alone Convention Centre			
Category	Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
Expenditure ($m)	$67.5	$28.8	$13.2	**109.5**	$25.0	$10.7	$4.8	**40.5**
GDP ($m)	$15.5	$12.9	$7.3	**35.7**	$5.5	$4.8	$2.7	**13.0**
FTE (FTE's)	220	168	56	**444**	78	62	21	**161**

Source: BERL

Through the construction phase, the combined convention centre and movie museum development is expected to deliver $109.5m of expenditure benefit resulting in $35.7m in GDP and creating 444 jobs in the Wellington City economy including the direct, indirect and induced benefits.

The stand-alone convention centre development is expected to deliver $40.5m of expenditure benefit resulting in $13.0m in GDP and creating 161 jobs in the Wellington City economy including the direct, indirect and induced benefits for the duration of the construction project.

These projects are both strong demand drivers and in addition to the direct economic benefits from delivering these facilities, it is also expected that secondary investment in hotels, restaurants, bars, retail and supporting businesses which will occur resulting in growth in the Council ratepayer base. This was strongly evidenced when Te Papa was built with the subsequent and consequential investment in hotels and other supporting amenities.

2.4. Financial Case

The financial case outlines the cost of a combined convention centre and film musuem, and a stand alone convention centre. The cost to Council of the proposed project comprises two components under the proposed build and own structure – an initial capital cost, and the ongoing operating costs of the building and the convention centre operations.

The initial capital outlay of the two options can be summarised in the following table:

[6] Based on 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.

Table 3. Capital Costs of Development Options

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

This capital cost will be funded by Council borrowings and is able to be accommodated within the Council's financial strategy.

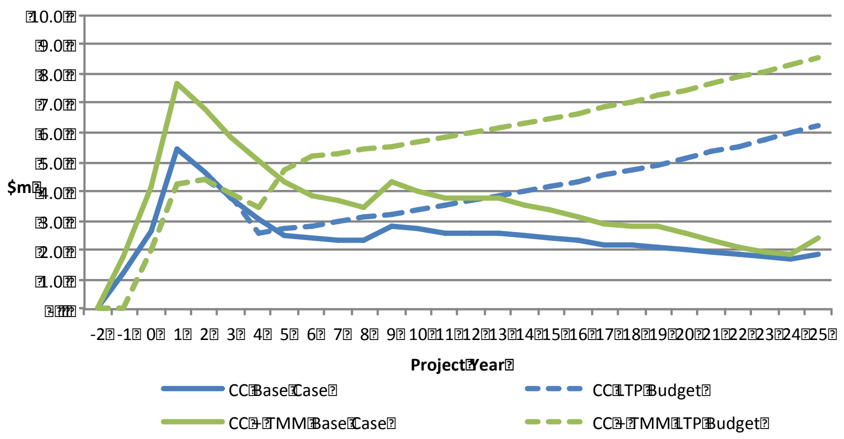
Ongoing operating costs are the financing and asset ownership costs (eg. rates, insurance, depreciation), offset by the returns of the convention centre which will flow from the convention centre operator. Further offsetting the cost in the combined convention centre and movie museum option is the rental income stream from TMML. A summary of the average costs of each option over the first 10 and 25 years is included in the following table:

Table 4. Average Operational Costs of Development Options

Opex Costs Inflated Averages ($ millions)	Convention Centre & Movie Museum		Convention Centre Only	
	10 Yr Avg	25 Yr Avg	10 Yr Avg	25 Yr Avg
Interest & Depreciation	8.9	8.1	3.9	3.6
Opex Costs (Rates & Insurance)	1.1	1.3	1.2	1.4
Total Building Ownership Costs	**10.0**	**9.3**	**5.1**	**5.0**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Net Rates Requirement	**4.9**	**3.2**	**3.1**	**2.2**
Incremental Rates Income	0.8	0.9	0.7	0.9
Net Financial Cost to City	**4.1**	**2.3**	**2.4**	**1.4**

Comparison to Previous Hilton Scheme

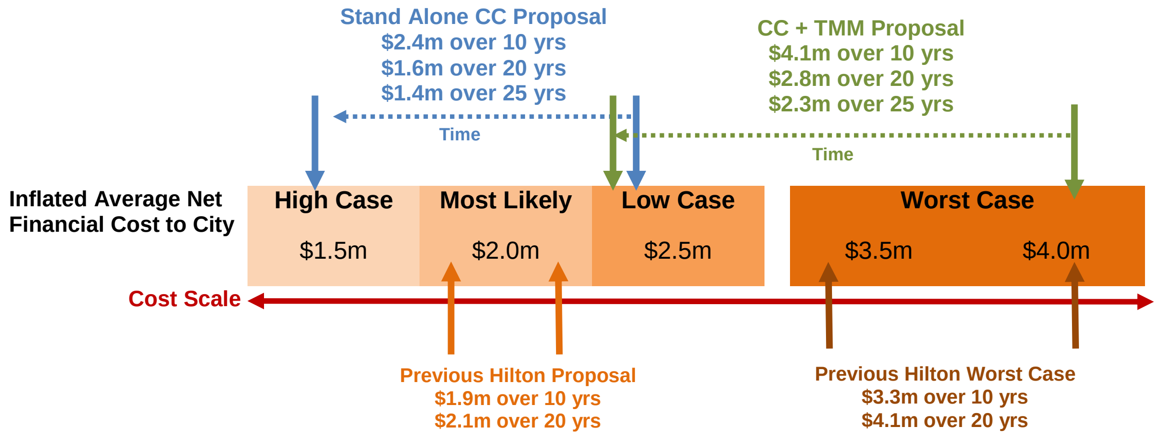
The following figures compare the costs of the current proposal to the previous Hilton scheme (referred to as the LTP budget[7]). The first graph shows the rates requirement difference between the two schemes (before deducting the incremental rates benefit from the growth in the ratepayer base).



[7] Note that the LTP runs from Project Years -2 to 7 in the graph, and from Year 8 the budgets have been made based on the previous business case projections to Year 20, and then further extrapolated to Year 25 for the CC budgets, and extrapolated from year 8 for the TMM budgets.

This graph shows that the current proposal has a higher per annum cost in the pre-opening phase through construction than the Hilton scheme (which had not costs in the phase for Council), but from year three of operations in the stand alone scheme, and year five of operations in the combined scheme the costs per annum become less than the previous Hilton scheme.

When looking at the average per annum cost to the city (after direct incremental rates benefits from growth in the ratepayer base is taken into account), the figure below shows the range of costs over time between the two schemes:



The key difference between the costs of the previous leased proposal and the current build and own proposal is that over time the costs are more favourable. This is largely due to interest and depreciation costs not being subject to CPI adjustments that the lease arrangement was subject to, therefore increasing costs over time. Over time the build/own proposal reduces in cost as the debt balances reduce, so does the interest component.

When the movie museum component of the project is added in, the combined costs over 20 and 25 years are still well within the consulted range of costs for only the convention centre cost component of the previous convention centre scheme.

Return on Investment

The economic returns were summarised in 2.3 above. To ensure the construction cost of the project has been factored into the return on investment calculations the NPV of both the costs and benefits has been calculated.

Returns on investment have only been calculated for the stand along convention center option as this business case does not cover the economic benefits of the movie museum.

Table 5. Return on Investment for the Stand Alone Convention Centre Development

	25 Years
NPV of Project Costs (inflated NPV)	$46.7 m
Economic Returns (including Construction):	
NPV GDP Benefits Growth Only	$199.7m
NPV GDP Benefits Growth + Market Protection	$270.2m
Investment Returns:	
ROI Growth Only	4.3 : 1
ROI Growth + Market Protection	5.8 : 1

This calculation shows a positive BCR (including construction benefits) for the convention centre of 4.3 : 1 when considering only the new growth in the convention market Wellington is likely to gain, and 5.8 : 1 when also accounting for the protection of our current market share when the new facilities in Auckland, Christchurch and Queenstown are operational.

These returns grow over time as the city can continue providing the service through our ownership of the facility at minimal additional cost, but annually we receive the benefits of the facility.

2.5. Impact on Other Venues

Wellington currently does not have any other venues capable of hosting uncompromised conventions of 800 pax, and it is very difficult for Wellington to attract conventions greater than 1,000 pax.

The last two years have already shown a decline in Wellington's business event numbers and this facility will be a welcome addition to the market which for our other venues are at capacity.

2.6. Key Risks

The risks under the proposal have been detailed with mitigation steps in Section 7.

2.7. 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 Wellington to add a modern and purpose built convention facility to the city's infrastructure. The case is even stronger with the combination of the convention centre and the movie museum as it igreatly enhances the "experience" aspect of the Wellington convention offering and provides a unique selling point compared to the more standard conference offerings.

If Council wishes to stay competitive in the business events market and enjoy the economic benefits to the city, a modern purpose built facility is required. This business case supports both a combined convention centre and movie museum or stand alone convention centre development to deliver this for Wellington. The proposal recommended is the combined convention centre and film museum option which will differentiate the Wellington Convention Centre offering in the marketplace and provide a uniquely "Wellington" conference experience to visiting delegates. This proposal delivers two significant demand drivers for Wellington and the combination of them increases their impact.

The movie museum would be delivered four years ahead of the planned dates in the 2015-25 LTP, however the combined project can be delivered within the overall ten-year opex budget levels set in the LTP.

3. 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 expected 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 in the market place for the next 25 years.
- The case applies equally to a combined convention centre and movie museum or stand alone convention centre development, however the combined development will put a unique offering to the market.

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, create jobs, grow knowledge-intensive exports, support innovation and deliver 'smart' infrastructure.

3.1. 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 stayed an average of 2.9 nights in the event region spending on average $483 per night, while international attendees stayed an average of 6.5 nights in New Zealand (4.5 in the region hosting the convention) spending an average of $304 per night. The international delegate spend of $304 per night is almost double the average per night spend for all international visitors according to the International Visitor Survey (IVS).[8]
- **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.[9]
- **job creation** – associated with new delegates to the city creating new demand on business.

[8] Ministry of Business, Innovation and Employment, *Convention Delegate Survey Report, Year to December 2014*.

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

- **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.
- **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.[10]
- **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.

Council has widely consulted on the convention centre and it is included within the 2015-25 LTP as a key component of the growth agenda.

3.2. Current situation

In the year ending December 2014, MICE activity resulted in just under 692,000 delegate days in Wellington. We know 2% of our delegates were international visitors, 29% were domestic visitors and 69% were locals.[11]

As shown in Table 6 below, Wellington receives around 17% of the total New Zealand market for delegate days. Wellington's relative share of domestic delegates at 22% is considerably higher than its share of the international delegate market at 8.5%.

Table 6. Delegate days and origin Wellington and New Zealand (12 mths to Dec 2014)

	Delegate Days	Delegate Origin:			
		Local	*Domestic*	*International*	*Total*
Total NZ	4,117,618	1,689,035	440,120	73,635	2,202,790
Wellington	691,461	233,745	98,764	6,230	338,739
Wellington Share	*16.8%*	*13.8%*	*22.4%*	*8.5%*	*15.4%*

Source: MBIE Convention Activity Survey year ended Dec 2014

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 7, below, provides an overview of the economic benefit of delegate activity in Wellington, and how this translates to GDP and employment.[12]

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

[11] MBIE Convention Activity Survey, year ended 30 June 2015

[12] Table 7 is derived from the BERL, measuring the economic impact of the 2014 level of delegate days in Wellington.

Table 7 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

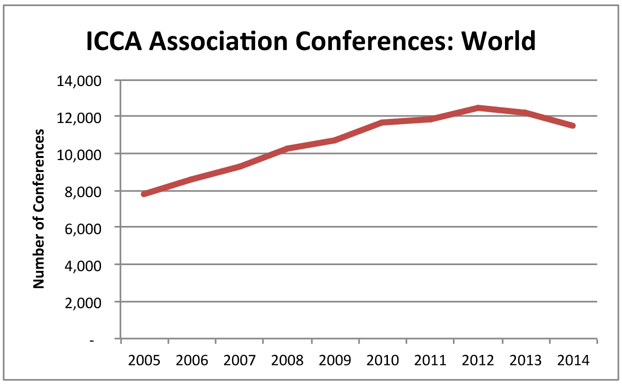
Conference business is an important contributor to the city economy

3.3. Future demand

3.3.1. Global convention market

Figure 1 shows recent global growth trends in international association conferences. The overall world market grew strongly from 2005 to 2012, with a slight decline since 2012 which is a "lag effect" of the Global Financial Crisis (GFC).

Figure 1 International association conferences growth, 2005-2014[13]



Source: ICCA

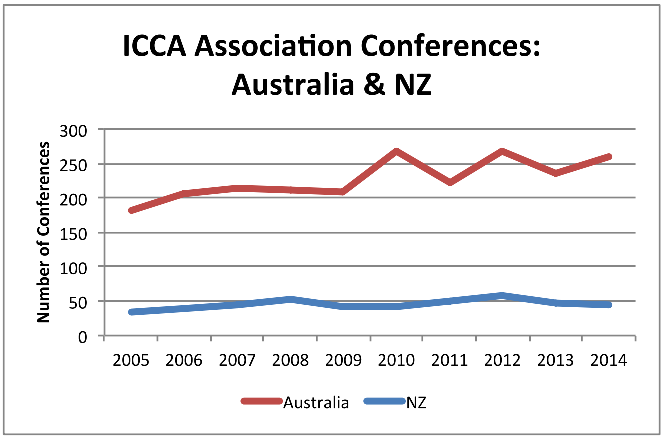
The number of conferences held worldwide has grown steadily in the last 10 years, with a small decline in the last year.

From 2005 to 2012, the number of conferences held worldwide increased at an average rate of 7% per annum, and then reduced over the last two years at an average rate of 4% per annum. Overall this is a strong growth in the convention market in the last ten years.

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 the growth trajectory was interrupted by the GFC, as shown in Figure 2.

Figure 2 New Zealand compared to Australia growth, 2005-2014



NZ growth in international conferences has underperformed compared to Australia – this is likely the result of a lack of suitable convention facilities and strategic marketing

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

From 2005 to 2014, New Zealand had a very modest growth profile compared to the Australian and the world's growth profile. 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 will depend on the level of competition on the key air routes, but 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.

The NZ government have recognised this and have committed to the NZ International Convention Centre (NZICC) in Auckland, a centre as an anchor project in the Christchurch rebuild, and in Queenstown. Also through their economic growth agenda they are investing $34m 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.

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 3.4.

Without an international standard purpose built facility, Wellington will not be able to access 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 provide.

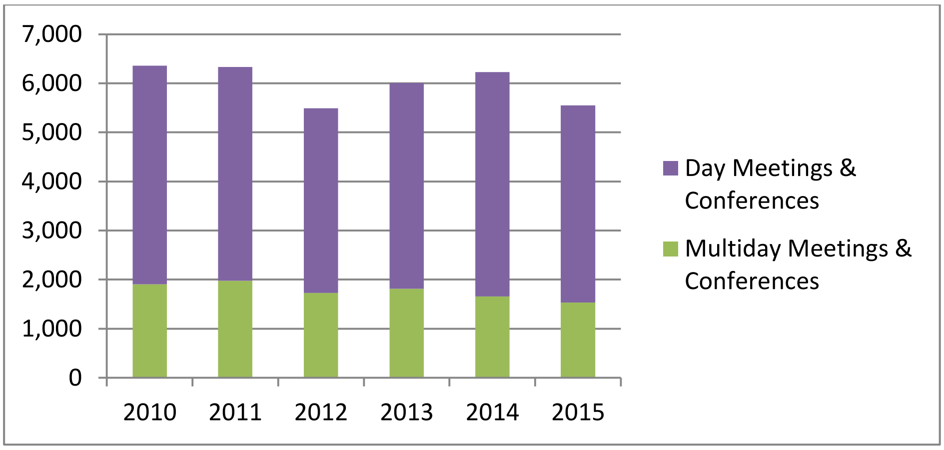
3.3.2. Domestic convention market

In the 12 months to 30 June 2015, around 44,000 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.

Wellington captured around 15% of the total market for single-day events and delegates in the 12 months to 30 June 2015. 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 saw little growth over 2010-2012, with an uplift in 2013 and 2014 then a decline again in 2015. Over time we expect 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 3 Number of Conferences / Meetings Held in Wellington (All Sizes, By Event Length) (6 Years Ended June 2015)

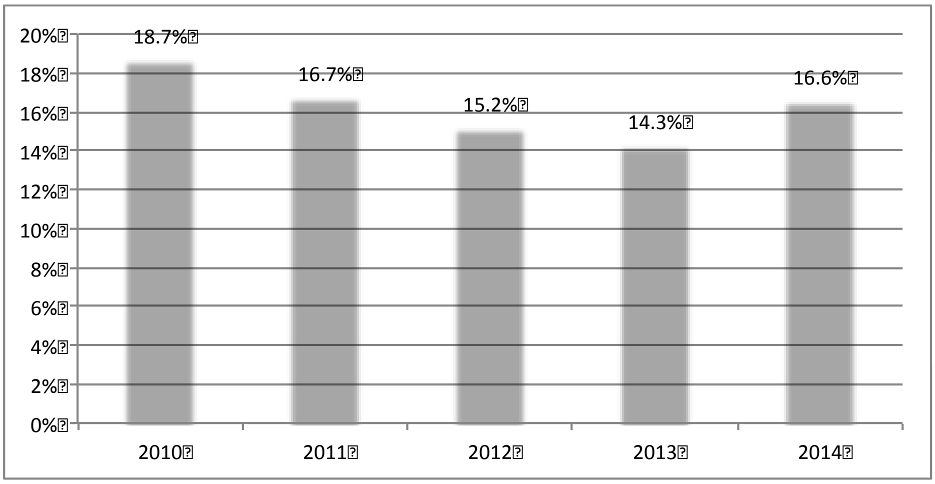


Source: MBIE CAS dataset

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

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 2013 at around 4.5 million per annum nationally and a 1% decline over that time. Wellington's share of that market however has declined by 24% over the same period from 843,000 in 2010 to 639,000 in 2013. The Town Hall earthquake prone status announcement and subsequent closure will have affected these numbers. 2014 saw a small recovery of market share for Wellington with the opening of temporary facilities at Shed 6 in 2013.

Figure 4 Wellington's share of New Zealand's total delegate days (2010-2014)



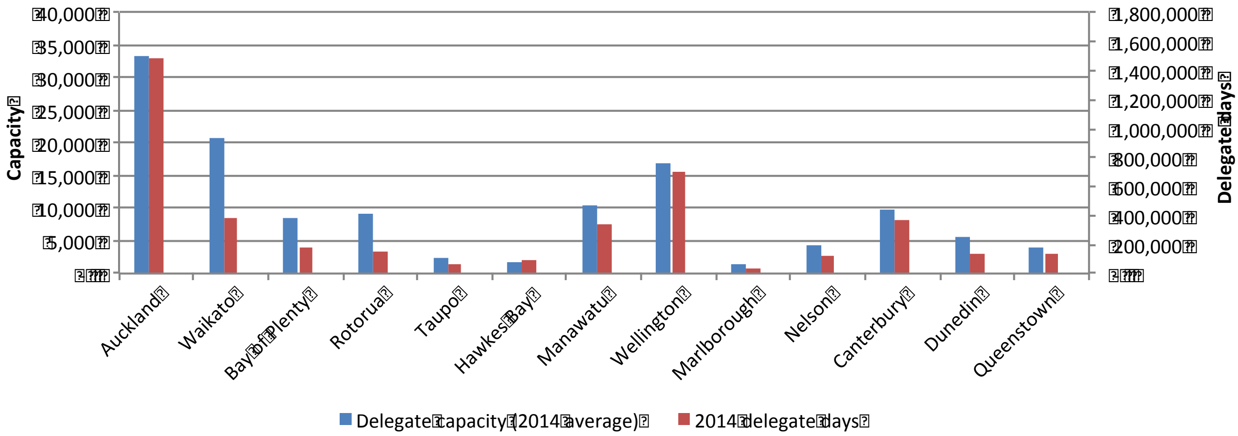
Wellington's share of national MICE delegate days has been steadily declining since 2010, but had a small recovery in 2014

3.4. Competitors

3.4.1. Current situation

Wellington faces competition from regions around New Zealand when attracting domestic and international events. The CAS survey covers 13 regions, Figure 5 below, shows the capacity of these regions, alongside the number of delegate days each area captured for the 2014 year . Wellington provides 13% of the total capacity in New Zealand, but accounted for 17% of the total delegate days.

Figure 5 Convention venue capacity in New Zealand[14]



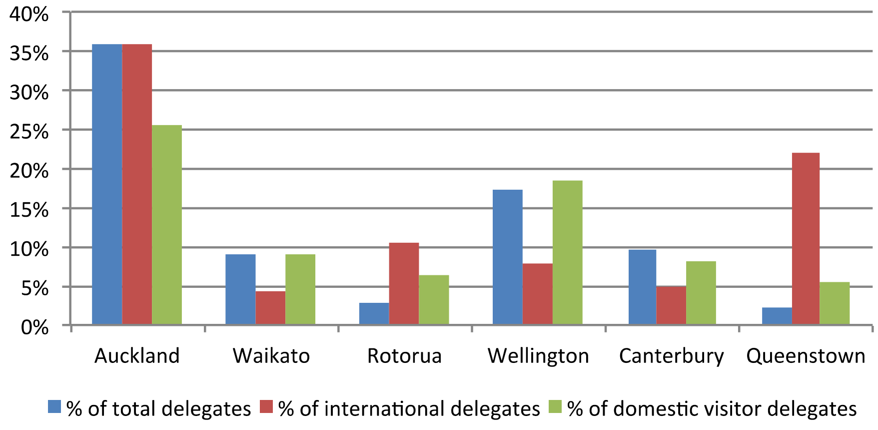
Source: MBIE CAS dataset, WCC analysis

When attracting domestic and international MICE visitors, Wellington's key competitors are Auckland, Waikato, Rotorua, Canterbury and Queenstown. As shown in Figure 6, below, Wellington comes second to Auckland in terms of both total and domestic visitor delegates. Wellington ranks

14 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."

forth, however, in terms of international delegates as Auckland, Queenstown and Rotorua each capture a significant portion of this market due to their international tourism destination status.

Figure 6 Market share of key competing regions (2014)



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

Source: MBIE CAS dataset, PwC analysis

3.4.2. 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 (both a public and private development of 750 capacity each) and Christchurch along with other parts of the country. These developments would not only increase the capacity of New Zealand's convention offering by 12%, it will significantly improve the quality of New Zealand's convention offering.

Table 8: BE Venue Seating Capacity[15] (by Region)

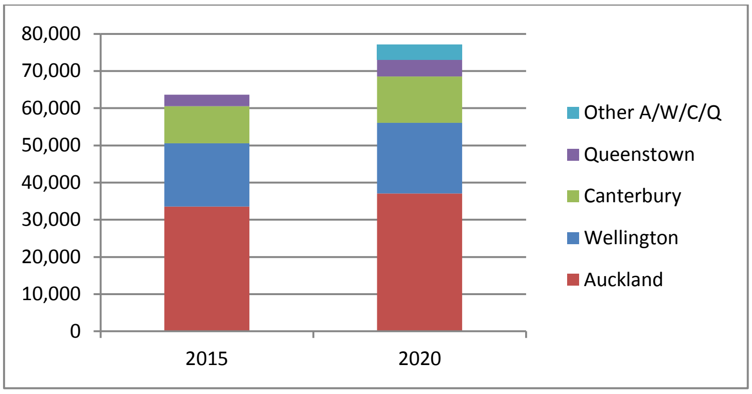
	2015	New	Total	% increase
Auckland	33,556	3,500	37,056	10%
Wellington	**17,016**	**2,000**	**19,016**	**12%**
Canterbury	9,970	2,500	12,470	25%
Queenstown	3,060	1,500	4,560	49%
Other A/W/C/Q	-	4,000	4,000	-
Other 9 regions	62,690	4,000	66,690	6%
Subtotal	126,292	17,500	143,792	14%
Rest of NZ	25,000	1,250	26,250	5%
Total NZ (est)	**151,292**	**18,750**	**170,042**	**12%**

(Source: Horwath HTL)

In total the expected new facilities, if all built, would provide additional capacity for 18,750 delegates, increasing the market capacity by 12%, 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 new to NZ, 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 modern and purpose built nature of the developments mean they are likely to have higher than average utilisation rates.

15 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."

Figure 7 BE Venue Theatre Style Seating Capacity (AKL, WLG, CHC, QTN))



New facilities will target domestic events to fill their event calendars

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.

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 unlikely 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. The estimated reduction is up to 17% loss in our market share.

3.4.3. 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.

The preferred proposal of a combined convention centre and movie museum will also allow Wellington to have a unique offering in the market place, providing a delegate experience unable to be replicated anywhere else in New Zeland or Australasia. This will provide additional competitive advantage and an important point of difference in the marketplace.

3.5. 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, and as our facilities are aging and the compromises for event organisers become to great compared to other centres.

3.5.1. 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[16]. 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[17]. 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 5.2.

3.5.2. 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. These include:

- **aging and offline facilities** - industry feedback is that Wellington is falling well behind our counterparts in quality convention facilities. Our convention spaces are not modern or purpose built, and venues such as the currently closed Town Hall will require significant investment to address these issues and were dated offerings at best. The Amora Ballroom has also been closed since the earthquakes in 2014. If Wellington wants to compete for domestic and international conferences, particularly attracting conferences with delegates attending from Asia, our facilities need significant improvement and investment.
- **size constraints** – current venues can only host medium sized conferences, and cannot readily host large exhibitions, banquets and awards shows due to flat floor space restrictions (e.g. Halberg awards and gala functions)
- **limited capacity** – Wellington currently has significant capacity constraints, for example, for a 6 -8 week period each year Wellington is unable to host large conventions due to the World of Wearable Art event. This is in the middle of the peak conferencing period. MICE events and performances have to work around each other in the same venues.
- **limited functionality –** many of Wellington's existing venues are not purpose-built or able to be optimally configured for MICE events and compromises are becoming less acceptable in the market place.

These factors result in Wellington missing out on a range of conferences and business events that would be available to Wellington if suitable facilities were available.

3.5.3. 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.

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16 Covec (May 2013), Analysis of New Zealand's MICE market.

17 Covec (May 2013), Analysis of New Zealand's MICE market.

- Broad growth in the convention market. Wellington with suitable facilities 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. New purpose built facility in tandem with an international quality movie museum would position Wellington to benefit from this activity.
- Gaining market share. In 2015 Wellington captured around 17% 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.

3.6. Other options considered

Council has considered the following alternative options to deliver larger scale and purpose built convention facilities for Wellington. These options include:

- The 2014 Hilton Hotel and Convention Centre lease proposal on Cable Street

- A build option on the Michael Fowler Centre carpark (adding exhibition halls and some foyer/breakout space to complement the MFC/Town Hall offering)

- Other public private partnership options on Cable St

These proposals were unsuccessful either in feasibility, delivery stage or in negotiating acceptable commercial terms so are now "off the table". Through the master planning with Willis Bond on the Cable Street site a wide range of schemes were developed and evaluated and three viable options were indentified:

  - a combined convention centre and movie museum development
  - a convention centre only development
  - a split site convention centre and private hotel/apartment development

When comparing the costs of these three options under a public private partnership (PPP) arrangement versus a Council build and own model it became apparent the lease terms under a PPP were not the financially favourable position on these new schemes. There is a significant advantage for Council with respect to funding capital projects with is strong balance sheet and AA credit rating, the best financial outcome is achieved utilising the Council financial strength and delivering the construction project with the efficiency of a PPP[18].

The following table compares the current stand alone convention centre proposal with the previous Hilton Hotel lease proposal, and the option to build exhibition halls on the MFC carpark site analysed in 2012.

[18] This does not discount the future possibilities to sell and lease back the building to a third party, or to consider different operating models for the facility should future analysis and evaluation change this position.

Table 9: Comparison of proposal to other options

	WCC build/ own on Cable St Site[19]	Previous Hilton Hotel Proposal[20]	WCC build, own and operate MFC Carpark[21]
GFA of Convention Centre proposed (m²)	**5,969m²**	**4,833m²**	**7,329m²**
Capital expenditure (excl FF&E)	$39 m	$ -	$55 m
Land Cost/Value	$22 m	$ -	$8 m
Total Capital Cost	**$61 m**	**$ -**	**$63 m**
Capital Funding Source	*Borrowings*	*n/a*	*Borrowings*
Asset Operating Expenditure (avg p.a.)[22]	**$ 3.4m**	**$5.1 m**	**$3.6m**
Operational Funding Source	*Rates*	*Rates*	*Rates*
NPV of all cashflows (over 25 Years)	**$46.9m**	**$36.7m**	**Not available**

Additionally site analysis has been undertaken, and a key for a convention centre's success is its proximity to other ammenities. The benefits of the Cable Street site are:

- Large land area footprint - allows a single level flat floor space larger than most other sites
- Proximity to hotels – the Cable Street site is easy walking distance from a good range of existing accomodation (Museum Hotel, Amora Hotel, Copthorne Oriental Parade, West Plaza, Intercontinental), and also possible future hotel development sites.
- Proximity to Te Papa – allows operating synergies and co-hosting opportunities between the two venues, and a fantastic activity for delegates in break time
- Proximity to waterfront – provides delegates with a world class recreation space to enjoy in a break from conventions, or while in Wellington
- Proximity to CBD, Courtney Precinct and Tech Hub – provides easy access for delegates to do business and entertain while in the city
- Stimulus for the regeneration of this area of the city which is a primary gateway to the city and an area with several vacant lots and dilapidated buildings.

19 Based on stand alone facility option outlined in this proposal, as costed by LT McGuiness and QS compared by Rider Levett Bucknell

20 Based on agreed lease costs

21 Based on upgrade of the Michael Fowler Centre as tested in 2012, with opex costs updated to align with current assumptions used. Note that the GFA for this option includes some redesigned areas of the existing MFC rather than "new space" and is across three levels

22 Operating expenditure is the average of the inflated property ownership costs being interest and depreciation or lease costs over 25 years. For the purposes of comparison, rates & insurance costs and other operating surpluses/deficits have not been compared to get a true comparison of the different options considered.

4. Proposal outline

Key points:

- This proposal is to develop a modern purpose-built convention centre on the Cable and Wakefield Street sites opposite Te Papa, able to host conventions of up to 1,100 delegates, and banquets of up to 1,380 people.
- Two parcels of land is needed to be purchased by Council to allow for this development to take advantage of the available site between 50-70 Cable Street, and 197-220 Wakefield Street.
- Council to take control of the project under a design/build/own model.
- Willis Bond will be appointed as the development managers [redacted].
- The convention centre is proposed to be managed by our venues operating company Positively Wellington Venues. This allows all surpluses to flow to Council without management fees.
- The constuction costs have been independently tested and confirmed with quantity surveyors Rider Levett Bucknell.
- The convention centre will enable Wellington to keep pace with modern facility expectations, but at a more modest scale when compared to the NZICC in Auckland. This allows for a greater return on investment to the city.
- Council may be able to consider complimentary development options for the site in its detailed design stages, but this business case covers the design of a stand-alone convention facility.
- Bell Gully has completed due diligence on the site with no material issues being identified.

As previously noted, a master planning process was undertaken with Willis Bond and Studio Pacific on the preferred site identified three viable options:

- A multi story development where the convention centre sits on the top floor of the development with a movie museum occupying the ground and first floors.
- A stand-alone, single level convention centre covering all of the site
- A split-site development where the convention centre spans two floors on part of the site

The preferred option is the combined convention centre and movie museum option and there is a separate business case to support investment in the movie museum component.

To allow a proper assessment of the investment case for a convention centre, this proposal explores the stand-alone convention centre option. Essentially the cost of the convention centre under a combined scheme with the movie museum is broadly the same with the shared land costs being offset by greater construction costs associated with a larger multi-level complex.

The operational forecasts for the convention centre do not differ across the three schemes as they all contain similar sized public spaces with similar capacity and functionality. This means in a financial and economic return context, the options from purely a convention centre focus are comparable.

The key aspects of this proposal as they relate to the convention centre are:

- Council will purchase two parcels of land for $21.5 million (comprising 50-70 Cable Street and 197-220 Wakefield Street) to be funded by borrowings.
    - ➢ This secures the land for any future development option decided by Council. If for any reason no development proceeds, the Council can decide on what they do with the land (retain or sell). The net holding costs for the land are minimal due to the current lease income almost fully offsetting the ownership costs.

- Council will engage Willis Bond as the Development Manager. [redacted].
    - This enables project delivery and risk management through the key stages of:
        - detailed design
        - construction pricing
        - consenting
        - construction and service contracting
        - construction delivery
        - building commissioned
    - Willis Bond has through this process developed significant intellectual property relevant to this project. [redacted]
- Council to fund the construction project of $39.1 million through additional borrowings.
    - This allows Council's superior lending terms to reduce the overall cost of the project when compared to a PPP lease arrangement.
- Council to appoint the operator of the facility – likely to be PWV.
    - This provides Council full control over the facility operator, allowing flexibility and greater ability to monitor and manage financial performance and delivery of economic outcomes for the city.
- Operating surpluses of the facility will flow back to Council under a management agreement.
    - This ensures the costs of the building are offset as much as possible by operational performance of the facility.
- FF&E of approximately $5 million will be funded by Council but owned and managed by the operator, with a reserve fund being created out of revenues for renewals.
    - This allows Council's superior lending terms to be used to purchase FF&E, but passes the responsibility for maintenance and renewal of this fundamental element of the facility's operation to the operator, who is best placed to respond to the FF&E needs of the convention centre.
- Council as owner of the land will be charged the rates on the property upon purchase, and will incur the normal property ownership costs including insurance, financing, depreciation and building renewal costs.
    - Under PPP arrangement discussions, in all cases the lease arrangements meant Council would be responsible for building ownership costs of rates, insurance and all building services costs. The lease payments are now substituted for interest, depreciation and building renewal costs.
- Construction and operating risks rest with Council, however are mitigated by the inclusion of a 20% construction contingency in the costs (reflecting the early stage of design we are at), appointment of Willis Bond as development manager (with incentives for on budget and on quality delivery), [redacted], and PWV as operator who are now connected closely with WREDA creating a larger business event development team.
    - These arrangements have been put in place to ensure the increased risks Council take on under this proposal when compared to a PPP are managed as effectively as possible, and reflected in the reduced costs over the life of the assets being created. All associated contracts will be drafted to ensure appropriate risk mitigation is incorporated wherever possible. Risks are discussed in more detail in section 8.

As stand-alone facilities, large scale convention centres are not constructed for financial profitability and often operate at a financial loss when the full 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 and the positive experiences they have in the host city. 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.

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 TSB Arena/Shed 6 combination, Te Papa and the Westpac Stadium. The Michael Fowler Centre can also host a large plenary session, but does not have the breakout, exhibition or banquet facilities to match. These facilities have all been built and are funded through public investment and direct or indirect public subsidies and are considered key components of Wellington's cultural and economic infrastructure.

4.1. Parties, Ownership and structure

Three primary parties are involved with the proposed development as it relates to the convention centre:

- ***Wellington City Council***
  Wellington City Council will purchase the land and build and own the convention centre facility. It will also fund the early operational set up costs and any losses of the facility, but will receive all future operational surpluses of the facility. Due diligence on the land has been completed by Bell Gully.

- ***Willis Bond***
  Willis Bond will be engaged to project manage the development. They will provide knowledge and expertise, and will be incentivised to manage the development risk from a cost, time and quality perspective.

  Wills Bond have been deeply involved in the materplanning process to date which has resulted in concept designs, building performance specifications and construction costings to be completed. The knowledge that has been built through this collaborative process is valuable from a time, cost and risk perspective.

- ***The Operator – Positively Wellington Venues (PWV)***
  PWV will provide the ongoing management infrastructure for the convention centre. They will be able to include this facility in their suite of facilities to offer customers and have price-points to meet all event organiser needs. PWV have been and will also be involved in testing concept designs, reviewing event projections and operating revenue and costs.

Figure 8: Average construction costs per sqm of proposed convention centres in NZ (excl land value)

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 $6,551, significantly lower than Queenstown and Auckland [23]. This lower cost represents the single level structure proposed meaning escalators and lifts for moving goods and people is not required, and also a slightly lower stud height.

4.2. Scale

4.2.1. Floor Plans

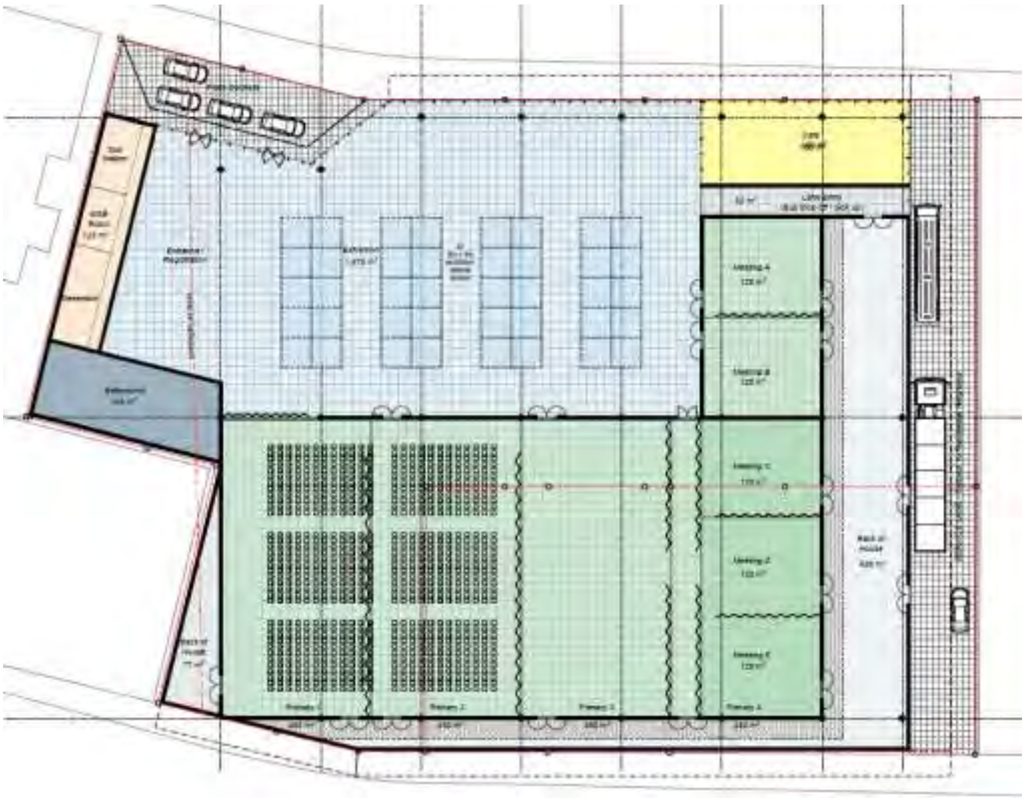
The concept designs for the stand alone facility show that the total area of the proposed development will be around 5,969m². This compares to 4,833m² under the previously approved scheme, and increase of 24% in size.

The convention centre will deliver a multi-functional and multi-purpose exhibition/conference/convention/banquet space. All of the convention centre is located on the ground floor with public access from Cable Street. The back of house (BOH) deliveries & loading zone is accessed via a two-car width laneway connecting Wakefield and Cable Streets.

Following feedback received during the previous project significant effort has gone into trying to improve the connectivity between Wakefield and Cable Streets. The concept designs achieve this through the introduction of a laneway, made possible by the incorporation of the second land parcel owned by Foodstuffs that was not part of the previous scheme.

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

Figure 9: Floor plan of proposed stand alone convention centre



The proposed stand alone convention centre has a large flat floor exhibition space adjacent to the large dividable 1,800 sqm function space and a laneway for ease of servicing.

While still at concept design stage, 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 Table 11.

The convention centre will be dominated by a "flat floor" space of 1,800m² sub dividable into four approximately equal sized individual function spaces (Plenary 1-4). Plenary 4 will be further sub-dividable into three smaller spaces for smaller meetings, breakout sessions and events. Additional, breakout meeting rooms of around 120m² each are shown, convertible into extra exhibition space as required.

The main exhibition hall is 1,673m² adjacent to the event space which is highly desireable from an event delivery and sponsors point of view. Temporary dividing structures can be used to divide this space and allow for concurrent smaller events when necessary. A retail café is an option on the site to allow for independent business catch-ups, and an active face of the centre with the public. However this space is available for additional back of house (BOH) or meeting rooms if required through the detailed design phase.

BOH and bathrooms make up the balance of the convention centre floor area totalling 2,256m² .

The convention space has a minimum five metre stud height and break out area fronting the whole site with views to Te Papa and back towards the city. Table 10 below outlines the different sizes of the proposed areas.

Overall the concept design delivers a better balanced convention centre with less compromise and more opportunity when compared to the previous concept schemes. We expect further design improvements during the detailed design stage to come.

Table 10. Proposed convention centre area schedule

	Area m²
Ground Floor	
Plenary Room (4 @ 450m² ;or 3 @ 450m² +3@120m²)	1,800
Breakout meeting rooms (2@ 120m²)	240
Exhibition / Circulation	1,673
Sub total (Public Space)	**3,713**
Bathroom	146
Back of House (including kitchen)	2,110
Total	**5,969**

The plenary room can be subdivided into four rooms of 450m², or three rooms of 450m² and three of 120m²

Figure 10 below shows the proposed floor plan of the upper storey convention centre in the combined movie museum scheme.

Figure 10: Floor plan of proposed convention centre in the combined movie museum development

The layout and capability of the convention centre in the movie museum scheme is similar to the stand alone scheme

The schemes are similar, with the key difference being the lobby and entrance on the ground level allowing for a separate welcome space, and the need for escalators, lifts and emergency exit stair wells. The total public space is slightly larger than the stand alone facility due to the additional space on the lower level, however overall the convention centre is slightly smaller at 5,285 sqm as the site coverage is less.

4.2.2. Functionality and Capacity

The design of the facility will maximise the flexibility of the main 1,800 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 11. Proposed convention centre venue capacity

Convention Centre	Area (m2)	Banquet Round Tables (10 pax/table)	Theatre style (pax)	Workshop Round Tables (6 pax/table)
Exhibition	1,673	1,290	-	-
Plenary Room 1	450	350	560	210
Plenary Room 2	450	350	560	210
Plenary Room 3	450	350	560	210
Plenary Room 4	450	350	560	210
Meeting Room A	120	90	150	50
Meeting Room B	120	90	150	50
Configurations:				
1,2,3,4	1,800	1,380	2,250	830
1,2,3	1,350	1,040	1,690	620
1,2	900	690	1,130	410
A+B	240	180	300	110

The centre will be able to host banquets of up to 1,380 pax and seat up to 2,250 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 1,000 – 1,100 under certain parameters and use of Te Papa for one breakout depending on the event breakout meeting requirements[24]. It has always been anticipated that we would work in with Te Papa where additional space is a requirement of a customer, or to cater for even larger events, and that spaces would be reset for different uses during breaks (eg plenary during day converted to banquet space for the evening).

Horwath HTL have analysed the "sweet spot" for the facility to be 800 delegates for a full format, multi-day conference with no compromises to the customer in the facility. This is where the bulk of the convention market sized. As event size grows, some compromises will be made around number of exhibitors and onsite breakout spaces.

4.3. Attributes

4.3.1. Location Attributes

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

- the ability 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
- close proximity to Wellington's tech hub.

The location attributes will strongly support the delivery of a superior conference experience.

4.3.2. Physical Attributes

The convention facility will have the following key attributes that will make it competitive in the market place:

- it will boast a single span, flexible flat floor space of 1,800 m^2

[24] Horwath HTL completed an assessment of the space and tested this with a reconginised professional conference organiser.

- it will boast adjacent 1,673 single span exhibition hall
- it will have a minimum 5 meter stud height
- it will boast modern design and fit out

4.4. Commercial terms

Council has control of the land through conditional sale and purchase agreements at the agreed sale price totalling $21.5 million which need to be exercised by 18 December 2015.

A term sheet has been entered into with Willis Bond to secure their services as the development manager for the project should it proceed. [redacted].

[redacted]

Willis Bond has led the masterplanning process and the concept designs, building performance specifications and costings have been developed in conjunction with the following advisors:

- Studio Pacific – architects and design
- Dunning Thornton – structural engineering
- Ecubed – building services
- LT McGuinness – construction and costings
- Rider Levett Bucknell – independent QS on costings

The project costs for the convention centre scheme and the combined convention centre and movie museum scheme are:

		Stand Alone Convention Centre		Combined Convention Centre and Movie Museum	
		$m	$m	$m	$m
Land Cost					
[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
Total Land Cost			21.5		21.5
Construction Costs					
[redacted]		[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
[redacted]		[redacted]	[redacted]	[redacted]	
[redacted]		[redacted]	[redacted]		[redacted]
		[redacted]	[redacted]		
[redacted]		[redacted]	[redacted]		
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	

[redacted]	[redacted]	[redacted]
Total Construction Project Cost	**60.6**	**129.4**

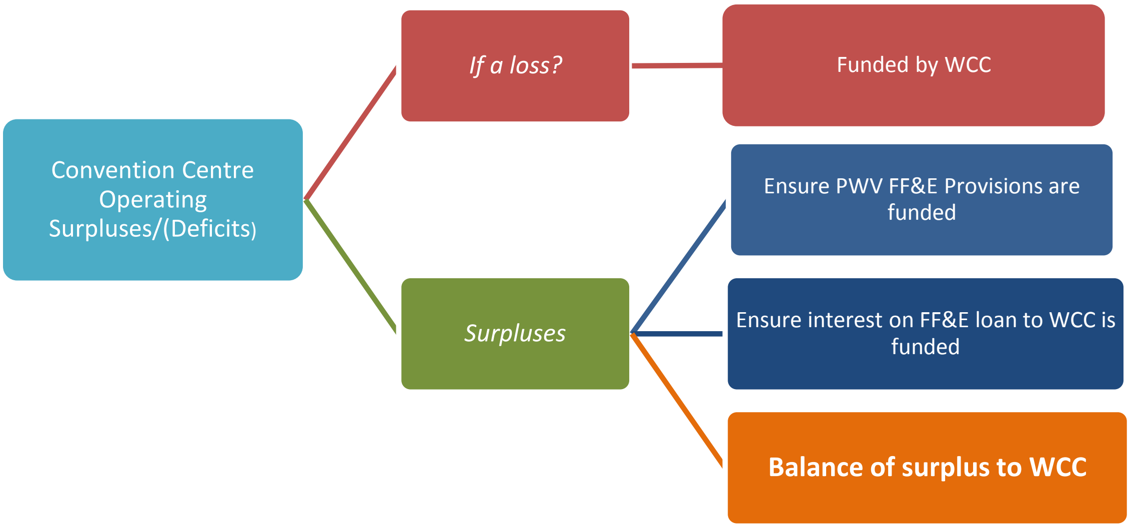
The level of construction contingency has been increased to 20% in these proposals compared to the 12.5% provision made in the costings for the same construction project to be delivered through a PPP lease mechanism and the 15% recommended by the independent QS for the stage of design the project is at. The contingency is there to cover areas of cost uncertainty, cost escalation beyond that envisaged in the costings developed and any scope creep through detailed design.

4.5. Convention Centre Operator

A key principle of this proposal is that WCC will own and that PWV will operate the facility, therefore avoiding any third party management fees. WCC also has the option however to go to the market for a third party operator should they see this as a preferred option. It is recommended that PWV be the operator of choice for the following reasons:

- Under an independent build own structure Council has full control over the operations of the facility
- PWV creates the best value for ratepayers as they do not retain management fees or have any surplus share arrangements – all operating surpluses of PWV flow back to Council
- PWV as an established operater enables the addition of the new convention centre without additional overhead structures.
- Using PWV eliminates any competitive tension in the market place on pricing of facilities to win business. Whilst good for the consumer, it can erode the value add to ratepayers.
- PWV are well respected operators in the NZ convention market and as an integral part of WREDA is well positioned to drive attraction of business events to the city.
- WCC has the ability to change operational structure to respond to the market during the life of the convention centre so retains alll flexibility and control in this area.

The diagram below describes how the operating model would work under a PWV structure:


Convention Centre Operating Surpluses/(Deficits)
If a loss?
Funded by WCC
Surpluses
Ensure PWV FF&E Provisions are funded
Ensure interest on FF&E loan to WCC is funded
Balance of surplus to WCC

5. Economic case

Key Points:

- If Wellington does not respond with larger improved facilities it will 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 67 new events which will deliver 62,450 new delegate days to Wellington (approximately 9% growth)
- The economic benefit from these projected new delegate days is estimated as $32m of new expenditure, delivering $17m of new GDP and 225 new jobs to the Wellington economy
- The net economic impact (combined 8% do nothing impact, and the growth impact) is $44m in total expenditure, $23m in GDP for Wellington and 310 jobs.
- It is also expected that likely flow on secondary investment in hotels, restaurants, bars, retail and supporting businesses will occur due to the increased demand for accommodation and hospitality in Wellington. This will have a positive effect especially on the nearby precinct and grow the Council rating base.
- The construction phase of the project will also generate economic benefit of $41m in total expenditure, $13m in GDP and 161 new jobs for Wellington.
- Associated economic impacts arise from the ability to support our business sector through hosting their premier industry events in Wellington, these have not been quantified.

5.1. 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 also includes the construction impacts for Wellington during this phase.

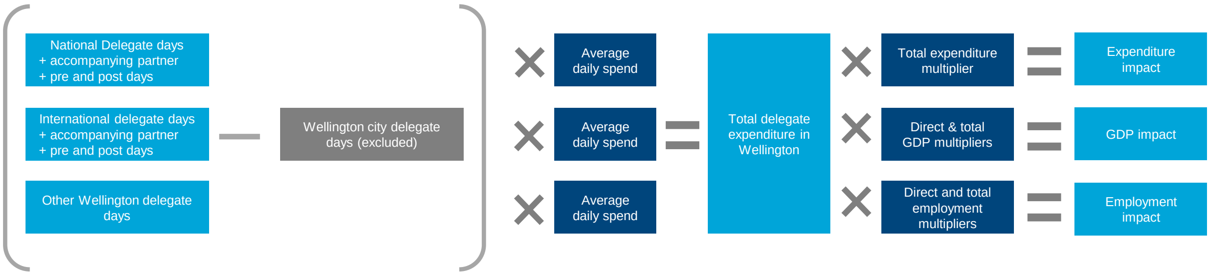
Measuring economic impacts

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.[25] Figure 11 below shows the logic flow of the BERL model calculating direct and total expenditure, GDP and employment.

Figure 11: 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 3, new purpose built developments elsewhere in New Zealand are likely to draw events (and delegates) away from Wellington so a "status quo" position for Wellington does not exist, only a position where our market share and all related economic benefits are eroded.

Section 5.2 below outlines the expected economic impact on the Wellington economy of this reduction in delegate numbers.

5.2. Economic impacts of the counterfactual

This component of the business case is based on Covec's 2013 work on the impact of new facilities in Auckland, Christchurch on Wellington's market share. This counterfactual case holds true in 2015.

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.

5.2.1. 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 12% to the total delegate capacity of venues around New Zealand.[26] Table 12 shows the anticipated increase in national capacity over the next six years. Wellington's share of national venue capacity is expected to fall from 11.2% to 10.1% without any investment in our capacity over the same timeframe.

[25] BERL reference

[26] Covec

Table 12: Expected capacity growth from new developments, 2015 - 2020

	Capacity
2015 Delegate Capacity	151,292
+ Auckland	3,500
+ Christchurch	2,500
+ Queenstown	1,500
+ Wellington	2,000
+Other A/C/Q/W	4,000
+ Rest of NZ	5,250
2020 Delegate Capacity	170,042

Source: Horwath HTL

The purpose built nature of these new developments means they are likely to 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, in their 2013 report, modelled three scenarios estimating the likely impact of new convention capacity on the number of delegate days in the Wellington region. These scenarios have not been updated for the latest data as the market has not changed significantly nationally (no significant new facilities have opened since the report was written to impact the scenarios materially), and Wellington has already experienced some of the predicted decline in market share through the closure of our Town Hall and the Amora Ballroom offset in the last year by the opening of Shed6. The impacts if other venues open and compete with Wellington for our remaining market share are therefore considered to remain as indicated in the 2013 Covec report.

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 13 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 13: 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 14 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 14: 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 15: 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

The most likely scenario is that Wellington will lose 8.4% of delegate days

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% -17% over the next six years with the most likely outcome of a reduction of 8%.

5.2.2. 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 11, 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 16 below presents the results from the BERL assessment of these scenarios.

Table 16: 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 jobs 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.

5.2.3. 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 is likely to 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 additional to the impacts of not proceeding with the development.

5.3. 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.

5.3.1. 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 1,100 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 approximately 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 2016 in the certainty that it will proceed, based on an early commitment by Wellington City Council
- it will not compete directly for business, especially for medium to large multi day full-format conferences and meetings (500 delegates and above) with existing Wellington venues.

Table 17 below shows the projected number of business events over the ten year period, split across the different event types. The table also includes the assumed average attendees per event and the average number of days for each event, and shows the total number of event days for each year.

Table 17: Business Event Activity Projections

Event type	*Avg pax*	*Avg days*	*Yr 1*	*Yr 2*	*Yr 3*	*Yr 4*	*Yr 5*	*Yr 6*	*Yr 7*	*Yr 8*	*Yr 9*	*Yr 10*
Large Conferences	*1,000*	*3.6*	3	4	5	6	7	7	7	7	7	7
Medium Conferences	*600*	*3.3*	10	15	30	23	24	24	24	24	24	24
Small Conferences	*150*	*2.8*	50	50	50	50	50	50	50	50	50	50
Large Day Meetings	*300*	*1*	50	50	50	50	50	50	50	50	50	50

Event type	Avg pax	Avg days	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Small Day Meetings	100	0.5	100	100	100	100	100	100	100	100	100	100
Large Banquets	750	1	6	8	10	12	14	14	14	14	14	14
Small Banquets	250	1	26	37	46	53	58	58	58	58	58	58
Sundry Events / Meetings	250	2	50	55	60	65	70	70	70	70	70	70
Total events			297	319	341	359	373	373	373	373	373	373
Total event days			418	459	500	533	556	556	556	556	556	556

Source: Horwath, BERL

Once fully operational, the convention centre is expected to host 373 business events per year, encompassing an estimated 556 event days per year. Note that this reflects the projected number of events at the new venue including displacement of existing activity from within Wellington.

These independent projections form a core part of the economic impact assessments, where the contribution of delegate spending to the Wellington economy resulting from these events is assessed. They also form the basis for the core financial projections in Section 6 of this report.

5.3.2. 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. Within the activity projections in Table 17 above, Horwath have assumed new events to Wellington as detailed in Table 18:

Table 18: Assumed New Business Event Activity included in Projections

Event type	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Average
Large Conferences	2	3	4	5	6	6	6	6	6	6	5
Medium Conferences	-	5	10	13	14	14	14	14	14	14	12
Large Banquets	2	4	6	8	10	10	10	10	10	10	8
Small Banquets	2	11	20	27	32	32	32	32	32	32	26
Sundry Events / Meetings	-	5	10	15	20	20	20	20	20	20	16
Total											67

Source: Horwath

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 facility which will be focussed on multi-day events of larger scale.

5.3.3. Displaced events from within Wellington

Table 17 and Table 18 above shows the total number events held at the convention centre, and the new business projections included within those total projections. The difference represents the level of events that are assumed to be displaced from existing Wellington venues. Delegate days that are displaced from existing venues should not be included in the estimates of economic benefits, as they do not reflect new delegates to Wellington, and do not generate additional economic benefit.

Table 19: Displaced Business Event Activity

Event type	# Events
Large Conferences	1
Medium Conferences	10
Small Conferences	50
Large Day Meetings	50
Small Day Meetings	100
Large Banquets	4
Small Banquets	26
Sundry Events / Meetings	50
Total	291

Source: Horwath, BERL

The annual baseline of events assumed to transfer to the new facility totals 291, leaving an average of 67 new events per year as the estimate of the number of new events to Wellington.

Table 20 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 20: Projected activity at the convention centre

Category	Average # Events
Total events for the new convention centre	373
Baseline level of events	291
New events to Wellington	67

Source: BERL, Horwath

The proposed new convention centre will bring an average of 67 new business events per year to Wellington.

5.3.4. 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 delegate days from the proposed convention centre. The new convention centre is assumed to host just over 160,000 delegate days per year on average over twelve years.

Table 21 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 21: Assumed length and size of new events and impact on new delegate days

Event type	Avg # Days	Avg # People	Avg # New Events	Avg # New Delegate Days
Large Conferences	3.6	1,000	5	18,600
Medium Conferences	3.3	600	12	23,100
Large Banquets	1	750	8	6,250
Small Banquets	1	250	26	6,583
Sundry Events / Meetings	2	250	16	7,917
Total (average of first 12 yrs)			67	62,450

Source: Horwath/BERL

The 67 new events to Wellington are expected to generate an additional 62,450 delegate days for Wellington, an increase of 9% on 2014 levels.

The 67 new events to Wellington used by BERL are expected to generate an additional 62,450 delegate days for Wellington on average over theh first 12 years of operations. This represents about 9% over and above the 2014 total delegate days for Wellington and is not a major increase in the context of the new capacity and business currently being turned away.

5.3.5. 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 adopted the assumptions provided by Horwath HTL which are 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 Wellington to target.

The Horwath assumptions assume a higher rate of domestic and international conference attendance for the new events than the historic CAS averages. This is expected as the new events are not assumed to come from local origins, and will be focussed on winning new business from other regions both domestically and internationally – this is the fundamental assumption underpinning the reason for investment and aligns with the purpose of the proposed convention centre.

Table 22: Assumptions on origin of delegate days

Event type	*Horwath Assumption*			
	WLG City	*Other WLG*	*Dom*	*Intl*
Large Conferences	4%	2%	84%	10%
Medium Conferences	7%	3%	85%	5%
Small Conferences	10%	4%	84%	2%
Large Day Meetings	70%	25%	5%	0%
Small Day Meetings	70%	25%	5%	0%
Large Banquets	30%	20%	42%	8%
Small Banquets	40%	30%	25%	5%
Sundry Events / Meetings	70%	20%	10%	0%

Source: Horwath

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

Table 23: 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.

5.3.6. Pre and post event expenditure, and partner spend

Table 21 above shows the estimated event length, and Table 22 shows the origin of delegates attending these events. 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.

5.3.7. Economic impact of new delegates

Following the methodology set out in section 5.1, BERL have modelled the economic impact of these new delegate days on the Wellington economy in terms of direct expenditure, GDP and employment. This provides a range of economic benefits to Wellington from the 62,450 new delegate days.

Table 24 below shows the range of impacts of the proposed new venue; the values reflect the annual average over the first 12 years of operation.

Table 24: Proposed economic impact of new venue

Category	*Direct*	*Indirect + Induced*	*Total*
Expenditure ($m)	19.7	12.2	31.9
GDP ($m)	10.2	6.5	16.7
Employment (FTEs)	164	62	225

Source: BERL

Based on the growth attributed to the new centre, GDP in the Wellington economy will grow by $16.7m per annum

Direct delegate spending from the new convention centre is expected to be approximately $20m per year, with a further $12m of indirect and induced expenditure. This expenditure is expected to support a total of 225 workers, and result in an uplift of GDP of around $17m 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.[27]

5.4. 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.

As the functionality and capability of three different masterplanning options is similar, the event projections and economic impacts are the same under any of the possible schemes.

Table 25 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 benefits described in section 5.3.7 above.

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

- $44.2m of total expenditure annually
- $23.1m of total GDP annually
- 310 FTEs annually

Table 25: Net economic impacts of proposed development ($m)

	Impact of development (market growth)			*Impact of Do Nothing (market protection-8%)*			*Net Economic Impact*		
Category	*Direct*	*+ Ind*	*Total*	*Direct*	*+ Ind*	*Total*	*Direct*	*+ Ind*	*Total*
Total expenditure ($m)	19.7	12.2	31.9	-7.6	-4.7	-12.3	27.3	16.9	**44.2**
GDP ($m)	10.2	6.5	16.7	-3.9	-2.5	-6.4	14.1	9.0	**23.1**
Employment (FTEs)	164	62	225	-62	-23	-85	226	84	**310**

Source: BERL, WCC Analysis

[27] 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.

5.5. The economics of the construction project

Not only will the project deliver economic benefits from its ongoing operations as outlined above, the construction aspect of this project will make a material contribution to the Wellington regional economy through the expected 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 have outlined the following benefits for the construction of a stand alone convention centre costing $60.3m[28] (including $21.5m of land).

Table 26: Economic impact of constructing a Convention Centre on Wellington City

Category	Direct	Indirect + Induced	Total
Total expenditure ($m)	25.0	15.5	40.5
GDP ($m)	5.5	7.5	13.0
Employment (FTEs)	78	83	161

Source: BERL

The construction phase of the stand alone facility will directly support 161 new jobs

BERL have also outlined the following benefits for the construction of a combined convention centre and movie museum costing $126.3m[29] (including $21.5m of land).

Table 27: Economic impact of constructing a Convention Centre and Movie Museum on Wellington City

Category	Direct	Indirect + Induced	Total
Total expenditure ($m)	67.5	42.0	109.5
GDP ($m)	15.5	20.3	35.7
Employment (FTEs)	220	224	444

Source: BERL

The construction phase of the combined facility will directly support 444 new jobs

Based on the BERL work a stand alone convention centre would deliver $40m of new expenditure, $13m of new GDP and provide around 161 new jobs in the Wellington economy through the construction period.

These benefits increase to $110m of new expenditure, $36 of GDP and 444 new jobs for the larger combined convention centre and movie museum project.

5.6. Additional associated economic impacts

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 2103

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.

5.6.1. The Precinct factor

The proposed 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

[28] The cost estimates used by BERL were subsequently updated in our final costings for the business case to from $60.3m to $60.5m – the difference of $0.2m is not considered material enough to effect the construction benefits estimated by BERL

[29] The cost estimates used by BERL were subsequently updated in our final costings for the business case from $126.3m to $129.4m – the difference of $3.1m is not considered material enough to effect the construction benefits estimated by BERL

precinct. If combined with a movie museum, the precinct factor will be significantly greater and extend to also be a major visitor attraction 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.

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 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 working in combination to further their respective interests and deliver benefits to the city.

5.6.2. Supporting Wellington business sectors

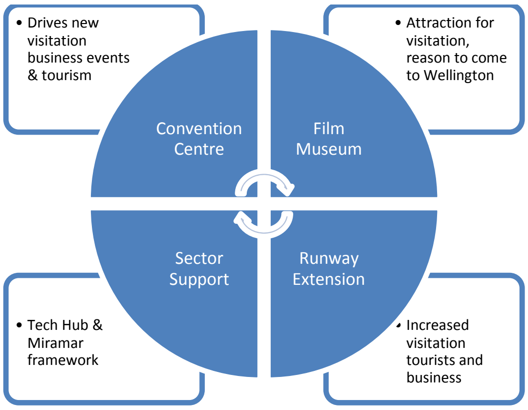
The new purpose built convention centre will open up opportunities for Wellington to raise its profile and support a range of key sectors of the economy. It could be argued that a range of prestigious events bypass or do not consider Wellington due to limitations in its facility offerings. The new offering 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. The combination with the movie museum opens opportunities to target film related events leveraging off the facility and Wellington's status as the home of film in NZ.

5.6.3. 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. The opportunity to deliver two of the catalyst projects and the additional impact from a combined convention and movie museum presents a unique opportunity for the city.

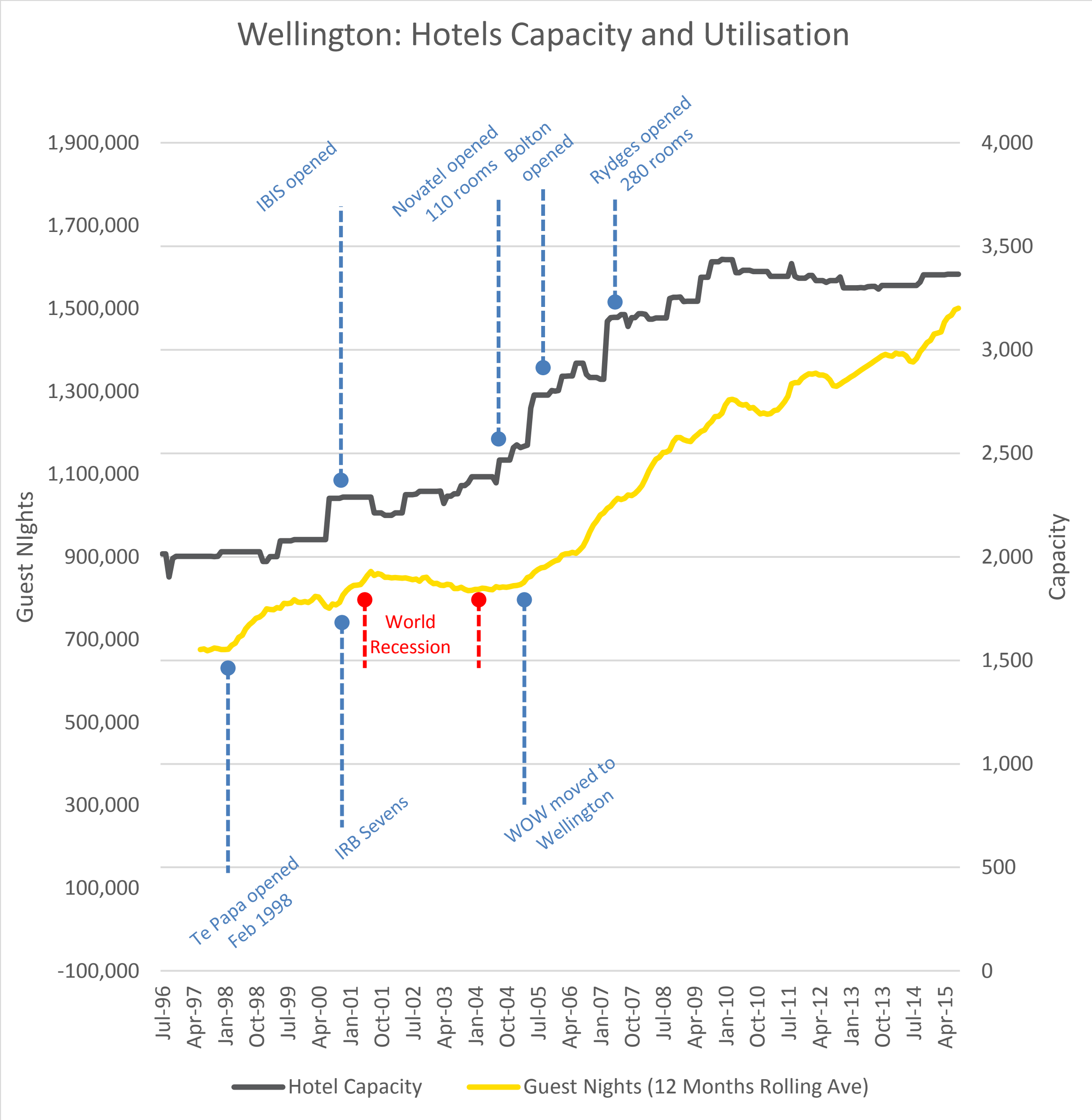
5.6.4. Benefits of secondary investment

Growth in the ratepayer base is a key objective of the economic growth agenda and the Council's 2015-25 LTP. 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.

Any other development that adds value to the city, provides additional funding benefits to exisiting ratepayers. In its simplest form this provides incremental rates income to support funding decisions or reduces the impact of future rates increases on ratepayers.

Section 5 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 figure on the following page provides a graphic illustration of this point as it relates to the investment in hotel rooms in Wellington in response to investment activities to drive visitation and the associated increase in 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 (135 rooms), the new Wellington Airport Hotel (135 rooms) and the office conversion on Lambton Quay (128 rooms). 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 compared to the supply, where supply has been increased in 2017 for the Sofitel, the Airport Hotel and office conversion. 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[30]. Once occupancy rates go beyond this level investment in hotels becomes attractive.

	2015 base	*2017 projected*	*2018 projected*	*2019 projected*	*2020 projected*	*2021 projected*	*2022 projected*
Occupancy (nights, 000's)	944	980	988	1,018	1,060	1,109	1,168
Supply Hotel beds (nights, 000's)	1,228	1,327	1,373	1,373	1,373	1,373	1,373
Occupancy Rate (%)	76.9%	73.9%	72.0%	74.1%	77.2%	80.7%	85.0%
Additional rooms to maintain 75% occupancy rate (# rooms)	-	-	-	-	108	180	215
Estimated investment in Hotel room to maintain 75% occupancy ($ millions)					$43m	$72m	$86m

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 2020 there would be a need for further investment in hotel rooms in the city in the order of 108 rooms, a further 180 rooms by 2021 and 215 rooms by 2022 – in total an additional 503 hotel rooms by 2022 requiring investment of around $201 million[31].

The other associated projects such as the Movie Museum would push the demand increase further and require more secondary investment in hotels and associated amenity than modelled here.

This exercise illustrates the potential flow on secondary investments from a hotel perspective within 5 years of the proposed convention centre starting operating. The secondary investment flows are not exclusively restricted to hotels. There will be increased demand within the hospitality and retail sectors which will support secondary investment in these sectors also.

The new 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.

30 NZ Hotel performance and profitablity, S Hamilton Horwarth HTL Limited

31 This assumes a required investment of $400,000 per room for a new four star hotel

6. Financial analysis

Key Points:

- The project requires capital expenditure to Council of $65.6 million for a stand alone Convention Centre, or $134.4 million for the combined Convention Centre and Movie Museum project, including FF&E costs.
- For the stand-alone convention centre the average financial cost of the proposal to the city is $2.4m per annum over the first 10 years and $1.7m per annum over 25 years.
- This compares to the previously approved Hilton Hotel scheme which had an average cost to the city of $1.9m per annum over the first 10 years and $2.1 per annum over 25 years.
- The GDP protected and grown due to the convention centre proposal alone is $23.1m per annum.
- The NPV of the net project costs over 25 years is $46.7 million for the stand alone facility. The NPV of the GDP benefits over 25 years is $270.2 million including the construction benefits, or $258.7 million without.
- The Benefit Cost Ratio (BCR) for the stand alone facility is therefore 5.8 : 1 including construction benefits, or 5.5 : 1 without.
- The estimated level of rates growth from secondary investment required to offset fully the projected average costs is estimated at $138m over 25 years.

In this section we provide a financial overview for the convention centre only. The convention centre operating component of the combined convention centre and movie museum scheme is the same as detailed here. The changes in other costs for the combined scheme will be discussed in a separate paper to Council. This includes a summary of the financial projections for the venue, the financial responsibilities for WCC, the potential surplus and some sensitivity analysis.

6.1. 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 in November 2015. These have been reviewed by PWV who materially agree with them. 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 early 2016 in the certainty that it will proceed, based on an early commitment by Wellington City
  - it will not compete directly for business, especially for medium to large multi-day full-format conferences and meetings (500 delegates and above) with existing Wellington venues.

- Capital costs for the development are based on costings provided by LT McGuinness, and independently checked and verified with quantity surveyors Rider Levett Bucknell. These may be subject to change during detailed design, however include a 20% construction cost contingency reflecting the early design stage.

- Interest is calculated using rates of 3.25% during the construction phase which will be in the next 2 years. Current short term funding rates are at levels below 3% and are expected to continue to soften. During the operational phase, higher average interest rates of 5.25% have been used for the long run interest calculations, a hedging programme would be implemented to lock in rates at these levels for the first 10 years, currently funding could be hedged at below 5% for 10 years.

- PWV has been assumed to be the facility operator and a management fee of 1.5% of revenue has been included in the operating costs to account for any increased overheads from the addition of the new facility to their operations.

- It is assumed that PWV will own the FF&E, funded by a loan from Council. A renewal fund of 3% of revenue is deducted annually from surpluses to ensure FF&E is kept at a high quality standard. Timing and value of FF&E renewals has been assumed to equal the FF&E renewal fund for the purposes of modelling. In reality it is likely a cash surplus will be generated in early years to be spent in later years.

The remainder of this section will discuss the projections of financial activity at the new venue. Through the financial projections the following scenarios are referred to:

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 scenario.

For the combined convention centre and movie museum option, the economic benefits do not include benefits that may arise from the movie museum. These are discussed in a separate business case.

6.2. Financial projections

Total revenue for the proposed convention centre is expected to be generated through floor space rental, 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 detailed breakdown of the financial projections for costs and revenues of the proposed convention are provided in an appendix.

Pre-opening costs of $500,000 are included to support the initial activity, marketing and costs incurred prior to the opening of the convention centre (and therefore before revenues are generated).

The convention centre is expected to generate operating surpluses and the projections for the proposed convention centre are shown in Table 28 below. Projections made by Horwath show small losses in the first year, followed by positive returns as utilisation of the centre increases.

Table 28: Financial summary for Convention Centre Only per annum (Horwath base scenario)

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

Source: Horwath / WCC

[redacted]

Sensitivity and scenario analysis on the operating projections of the convention centre have been completed in section 6.7.

As the per annum costs change over time, it is useful to also look at the average costs over the first 10 years of operations compared to the average costs over a longer 25 year operating period. The following table outlines the average cost of the proposal over the first 10 and 25 years of operations – these averages exclude the operational costs in the construction/pre-opening stage.

Table 29: Financial summary of proposal – Averages sincc opening

Averages since opening (inflated)	Horwath Base $m 10 yr Avg	Horwath Base $m 25 yr Avg
Interest and Depreciation Costs	3.9	3.6
Building Opex Costs (Rates & Insurance)	1.2	1.4
Total Building Costs	**5.1**	**5.0**
[redacted]	[redacted]	[redacted]
Net Cost to be funded	**3.1**	**2.2**
Additional Rates Income	0.7	0.9
Net Financial Cost to the City	**2.4**	**1.4**
Secondary capital investment required to offset net cost to the city	239	138

This shows an average financial cost to the city of $2.4m over 10 years ($1.4m average over 25 years) under the proposal.

Secondary investment in hotels, hospitality, retail and other business (which increases the city's valuation and ratepayer base therefore reduces the impact current ratepayers) required to fully offset this cost for the city ranges from $138m to $239m.

6.3. Return on Investment/Benefit Cost Ratio

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, a benefit cost ratio has been calculated taking the NPV of the net costs of the proposal including the capital component and comparing to the NPV of the economic gains from the proposal (as determined by BERL and summarised in section 4.4) over 25 years.

Costs:
The NPV of project costs has been calculated by taking the present value of all project cashflows including the land purchase, construction costs, capital renewal costs and ongoing operational costs excluding depreciation and interest costs, and the residual value of the building at the end of the NPV period. As the costs are inflated, a discount factor of 8% has been used.

This calculates an NPV of $46.7 million from construction to 25 years of operations.

Benefits:
The NPV of economic benefits for Wellington has been calculated by taking the first 12 years of from the BERL economic benefits model, inflating these benefits and extrapolating to year 25 of operations to achieve the GDP benefit cashflow. As the costs are inflated, a discount factor of 8% has been used. The benefits have been calculated both with and without the benefits achieved from protection the

existing market in wellington, and including and excluding the construction benefits of the project in the first three years of the project. NPV's across these four combinations of GDP benefit have been calculated as follows:

Table 30: NPV of Economic Returns over 25 years

	$m
Economic Returns Inflated NPV (Excl Construction Benefit)	
NPV GDP Growth Only Benefits	188.1
NPV GDP Growth + Market Protection Benefits	258.7
Economic Returns Inflated NPV (Incl Construction Benefit)	
NPV GDP Growth Only Benefits	199.7
NPV GDP Growth + Market Protection Benefits	270.2

Benefits Cost Ratio (BCR)
The benefit cost ratio is calculated as the economic returns divided by the costs. The BCR across the range of benefits are outlined in the following table:

Table 31: BCR of stand alone convention centre over 25 years

	Excluding Construction Benefits	Including Construction Benefits
NPV of Project Costs	$46.7 m	$46.7 m
Economic Returns:		
NPV GDP Benefits Growth Only	$188.1 m	$199.7 m
NPV GDP Benefits Growth + Market Protection	$258.7 m	$270.2 m
Investment Returns:		
BCR Growth Benefits Only	4.0 : 1	4.3 : 1
BCR Growth + Market Protection Benefits	5.5 : 1	5.8 : 1

This shows a BCR ranging from 4.0 to 5.8 for each dollar invested in the project over 25 years. This is a very good rate of return for a capital infrastructure project.

The economic benefits of the project are discussed in detail in section 5.

6.4. Capital Costs incurred by Council

Section 4.1 noted that the WCC will build and own the facility. As such Council will be responsible for its share of rates and insurance (as was the case for all considered lease alternatives). Other building operating costs such as air conditioning/lift maintenance will be allocated to the operating company and be operational expenses of the convention centre. A full list of these costs that are built into the operating costs of the convention centre is included in the appendices. The capital costs to complete the convention center only are outlined in the table below.

Table 32: Summary of capital costs for stand alone convention centre:

Cost Component	$	$
Land Cost		
[redacted]	[redacted]	
[redacted]	[redacted]	
Total Land Cost		21.5

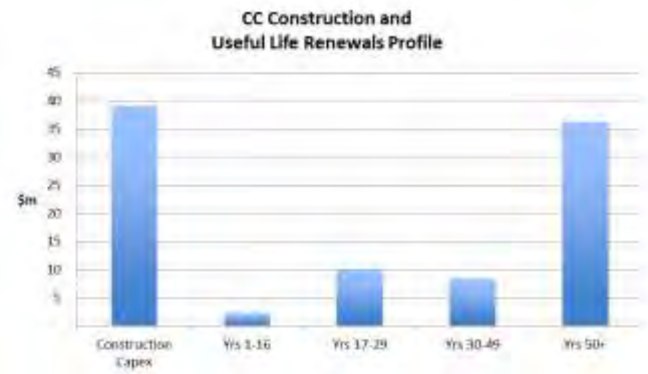
Cost Component		$	$
Construction Costs			
[redacted]		[redacted]	
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	
[redacted]		[redacted]	
[redacted]			[redacted]
[redacted]			
[redacted]	[redacted]	[redacted]	
[redacted]			[redacted]
Total Project Cost			**60.6**

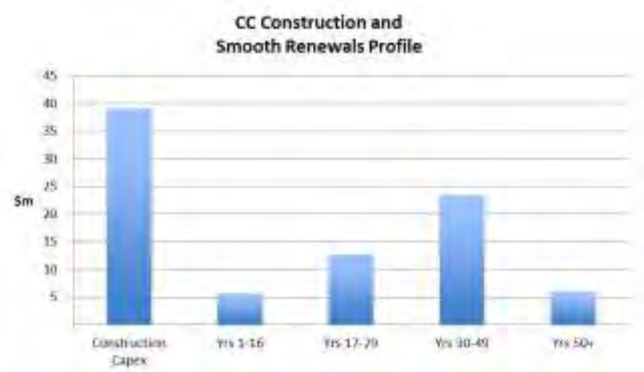
It is assumed that Council will fund this cost through increased borrowings. The interest rates applied are detailed in the following table, however funding is currently able to be secured at rates better than these assumptions for the first 10 years of the project and these rates are able to be hedged to protect against adverse interest rate movements during this period:

	Base Case	
	Construction Phase (Yr -2 – Yr 0)	Operating Phase (Yr 1 on)
Interest Rates per annum	3.25%	5.25%

6.5. Capital Renewals

Under the proposal, Council will be responsible for the capital renewals of the building. There are two ways to approach modelling the capital renewals – either by renewal at the end of the useful life of each component, or a more smoothed or averaged approach. A summary of the propotion of spend under each approach is shown in the graph below:





As can be seen from the tables above, the smoothed renewal profile renews most of the building asset in years 30-49, while under a useful life renewal profile the majority of the building is assumed to last for more than 50 years without need for renewal.

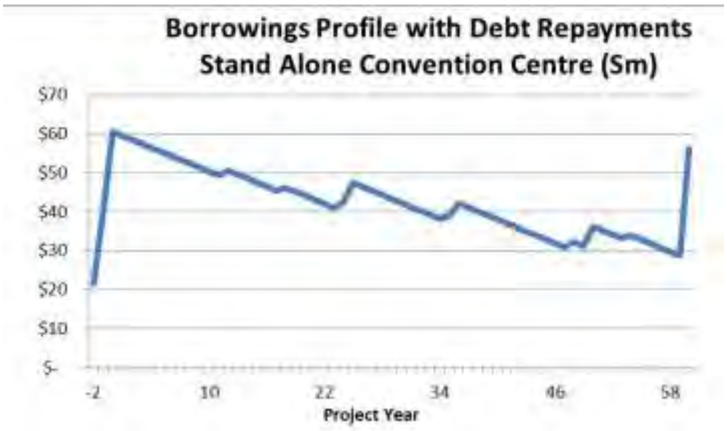
Capital renewal profiles are heavily influenced by the standard of the maintenance regime maintained during the life of the asset. In addition it is important that the convention centre is maintained at a high standard given its use and need to remain attractive as a venue. The operational budgets of the convention centre include a $500,000 annual maintenance budget for both building maintnance, building service costs and

FF&E maintenance/breakage (FF&E renewals is funded through through a separate renewals fund as described in section 5.8 below).

Given the building will be adequately maintained, it can be assumed that the useful life renewals profile will be the more realistic additional capital outlay than the smoothed renewals profile. This is the profile that has been modelled for the purposes of capital costs, on-going renewal spend, borrowings and interest calculations.

6.6. Borrowings Impact

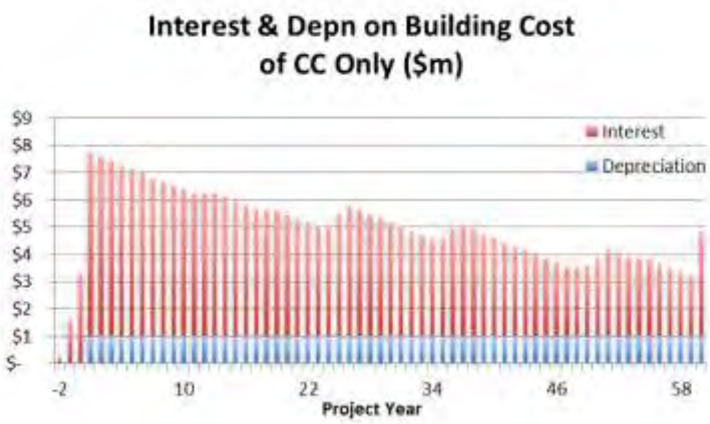
The capital costs incurred both on construction and renewals have an impact on Council borrowings. Depreciation on the building will be charged to ratepayers and used to repay these borrowings/fund the capital renewals over it's life. The impact on borrowings can best be shown on the graph below:



6.7. Opex impact of Capital Costs

The opex impact of the capital expenditure is predominantly depreciation and interest. Interest has been modelled using the interest rates noted in section 6.4 above and fluctuates depending the level of borrowings in each year. In a normal construction contract, interest charges during the construction phase would be capitalised, however Council policy is not to capitalise interest during construction, and this is the approach modelled.

Depreciation has been based on the useful life modelling, assuming as each asset componet ends its useful life it is renewed, creating a consistent depreciation charge throughout the life of the asset.



The opex costs of asset ownership reduce over the life of the asset as borrowings reduce.

These costs differs significantly to the costs of a lease where CPI is applied to the cost at year one and then compounds therefore creating a significant increase in lease costs over time. The other major factor to consider in the cost comparison to a lease is that Council will own the land and building.

In addition, rates and insurance on the building will be paid by Council along with all building compliance costs.

6.8. Furniture Fittings & Equipment (FF&E)

It is also expected FF&E of $5 million will be requried to fit out the convention centre. This includes the BOH fit out (kitchen, shelving, staff spaces, offices etc) and the front of house fit out (chairs, tables, stages, reception desks, all furniture etc). The key assumptions made in the model are as follows:

- FF&E is owned by PWV as operator of the facility
- Council lends PWV the $5m to purchase the FF&E
- Council will on-charge the interest on this loan at cost, to be funded out of operations of the Convention Centre. Models have interest rates being charged as noted in section 5.4
- PWV will create a FF&E renewals fund equal to 3% of revenue and fund all renewals from this fund.
- The fund will be deducted from the operating surpluses before they are paid to Council at the end of each financial year
- For the purposes of the financial models, the actual renewals profile is assumed to match the creation of the fund. In reality a cash surplus will be generated in early years to be spent in later years.
- Small breakages and repairs of FF&E will be funded though maintenance budgets of the operating company
- Depreciation of FF&E has not been modelled, but will be incurred in the operating company, due to the non-cash nature of this

The technical services that are critical to the delivery of the convention centre operations are assumed to be funded by a private sector partner. This AV partner will own and install state of the art technical services to the convention centre, and deliver onsite technical and theming services tailored to each customer and event. These services are on charged to the customer as part of their cost of hiring the convention centre venue. This is the same as our existing PWV technical services provision.

6.9. Surpluses for Wellington City Council

Under the assumed operating model of PWV as operators of the facility, WCC will receive all cash operating surpluses for the convention centre (after the FF&E Renewals Reserve, interest on FF&E loan, naming right sponsorship and the deduction of a management fee from PWV to cover their additional costs), which will offset the building ownership costs noted above.

The table below shows the projected Net Operating Surplus WCC will be entitled to ranges from a pre-opening loss of $0.5 million to a surplus in year 10 of $2.9 million:

Table 33: Operating Surplus after other operating costs/income (Horwath base GOP)

($m) – inflated *Year*	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*Avg*
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Other costs/(income):												
FF & E Renewal Reserve	-	0.3	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7	**0.6**
Interest of FF&E Loan	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	**0.3**
Naming Rights Sponsorship	-	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	**-0.4**
PWV Shared Costs Fee	-	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	**0.2**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: Horwath, WCC

6.10. Sensitivity analysis on financial projections

The financial projections presented above are based on assumptions provided by Horwath HTL for the Base Case around event projections, pricing and operating costs for the facility. The building ownership cost assumptions (interest, depreciation, rates, insurance, maintenance and building service costs) were based on estimates prepared by Council.

Convention Centre Operations Sensitivity:
Sensitivity analysis has been performed on the event projections and the operational financial performance of the facility, compared to the Horwath HTL base case. Testing to establish how much revenues needed to drop or costs increase to make the convention centre not make operating surpluses was completed with the following results:

- If the fixed costs of the facility remain as projected in the base case, the revenue (and variable expenses) need to drop by 36% before the facility does not generate a cumulative operating surplus (before building ownership costs) over 25 years.

- If fixed costs of the facility are 15% higher than projected in the base case, the revenues (and variable expenses) need to drop by 26% before the facility does not generate an cumulative operating surplus over 25 years.

Both of these scenarios have been modelled, together with scenarios where revenues drop by 10% and 20% respectively and are shown in the following graph:

Convention Centre Operations Sensitivity to the Average Net Cost to the City

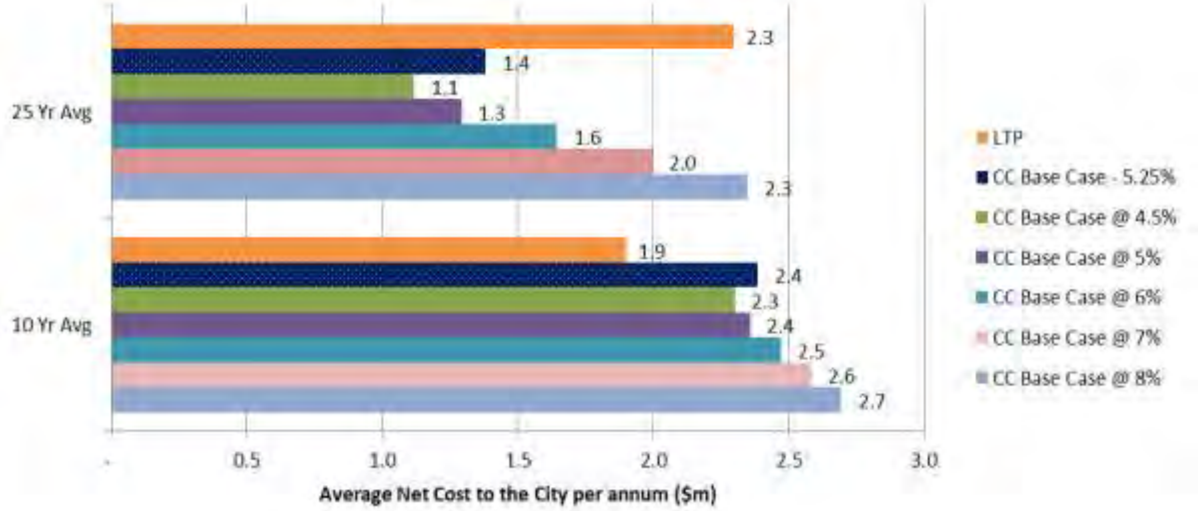
Should the convention centre run at a cumulative "break even" point over the 25 years, the average net cost to the city per annum would increase from $1.4 million per annum to around $4.2 million per annum for 25 years. This would require a revenue reduction of 36% annually across the 25 years, a fixed cost increase annually across the 25 years or a combination of these factors.

Building Ownership Costs Sensitivity:
The main area of risk in the building ownership costs relates to the interest expense on the borrowings incurrent to develop the facility. Other costs of rates and insurance whilst subject to change, have been based on quotes by our providers, inflated by normal inflation rates and the risk around this is low. Rates is something WCC incurs, and has a cyclical nature in that increases in rates expense also increase the rates benefits to Council given they are paid to ourselves.

For these reasons, the only area where sensitivity analysis has been performed is on the interest projections compared to those used in the base case. The current financial climate and ability to hedge against interest rate risk for ten years or until 2026 (year 8 of operations) gives us comfort that our interest rate risk is low until that time. Beyond 2026 the risk that interest rates may increase to higher levels than assumed in our base case grows.

In the below interest rate sensitivity analysis the interest rates have been held to the same levels as our base case until 2026 or year 8 of operations, and increased to the rates indicated from 2017 or year 9 of operations.

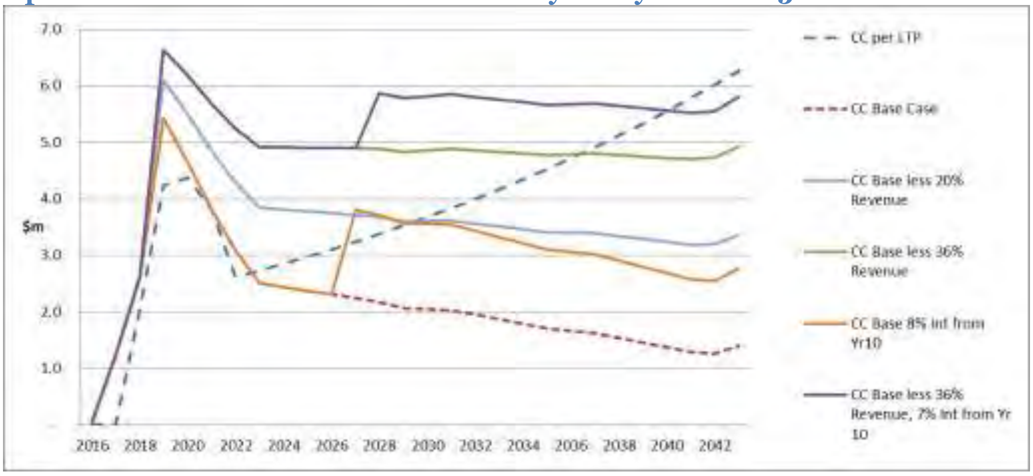
Interest Rate sensitivity to the average net cost to the city



As expected, the impacts are more significant over a 25 year analysis period. Should interest rates rise to, and remain at, 8% without Council having any interest rate hedge protection from 2026, the average net cost of the proposal increases from $1.4m per annum to $2.3m per annum over 25 years. This would stay within the average costs of the LTP over the same timeframe assuming all other factors are delivered. This would imply an OCR of around 7% which implies a reversion to a high inflation environment.

To give some context to the sensitivities over time, the following graph shows the net impact on the rates requirement compared to the base case projections, and the LTP budgets for several scenarios (separate and combined) from above.

Operational and Interest Rate Sensitivity Analysis over 25 Years



The scenarios above show a range of mostly downside sensitivities and their separate and combined impact on the annual rates requirement (budgets) of Council of the proposal should they eventuate.

These are sensitivities to adverse changes in the market place and assume that change exists for entire terms (ie revenue sensitivies of 10% less assume that change exists for 25 years).

There is a reasonably high degree of sensitivity to the average net costs to the city relating to the operational performance of the convention centre. Interest rates are also sensitive, but to the lesser degree of significance when compared with the operations of the convention centre.

Risk as it pertains to financial outcomes is discussed further in the Section 7.

6.11. Comparison to Previous Hilton Scheme

The previous Hilton scheme included a PPP lease arrangement where Council leased the convention centre from a developer for a period of 20 years, with two rights of renewal for five years each (5yrs+5yrs), paying a lease fee, a share of rates, insurance and all building services costs. The convention centre was operated by Hilton as part of their hotel with operating surpluses flowing to Council after deduction by the operator of their fees (incorporating a group services fee, incentive fee and management fee) and developer their fees (a FF&E rental fee, a developer underwrite incentive fee and a recover of all accumulated losses).

The lease included a [redacted] CPI adjustment per annum over the life of the lease, which was 20 years with two rights of renewal of five years each renewal.

A brief summary of the current proposal to the previous scheme is outlined below:

	Current Proposal	Previous Hilton Scheme	Change	Change %	Change Indicator
Floor Area of Convention Centre (m²)	5,969	4,833	1,136	24%	
Capital Costs	$60.6m	-	($60.6m)	n/a	
FF&E Requirement	$5m	$0.35m p.a.[33]	n/a	n/a	
Total Capital Cost	$65.6m	-	($65.6m)	n/a	
Average Rates Requirement over 10 yrs	$3.1m	$3.2m	$0.1m	3%	
Average Rates Requirement over 20 yrs	$2.5m	$3.7m	$1.2m	32%	
Average Rates Requirement over 25 yrs	$2.2m	$4.1m	$1.9m	46%	
Average Net Cost to Council over 10 yrs	$2.4m	$1.8m	($0.6m)	(33%)	
Average Net Cost to Council over 20 yrs	$1.6m	$2.0m	$0.4m	20%	
Average Net Cost to Council over 25 yrs	$1.4m	$2.2m	$0.8m	36%	
NPV of total project cashflows (20 yrs)	$44.6m	$32.5m	($12.1m)	(37%)	
NPV of total project cashflows (25 yrs)	$46.7m	$36.7m	($10.0m)	(27%)	
Residual Asset Value after 25 years	$64.1m	-	$64.1m	n/a	
Operating Risk	Council	Council exposure limited			

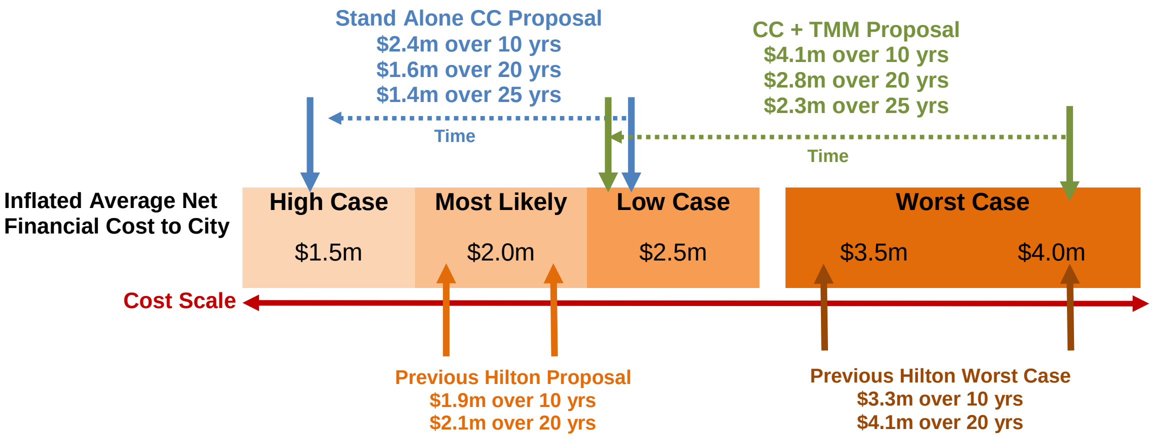
The analysis above shows how costs change over time under each proposal. Under the previous scheme there was a high cost exposure to the lease due to annual [redacted] CPI adjustments on the base lease cost. This was payable regardless of the profitability of the convention centre. This means that

[33] In the previous Hilton scheme, FF&E of $2m was to be funded by the developer, with the operating company renting the FF&E off the developer for a cost of $350k per annum.

over time the costs of the Hilton proposal grew (an average annual rates requirement growth of $0.9m per annum over the last 15 years of the lease terms).

Under the current proposal, asset ownership costs do not increase significantly over time as depreciation is based on the initial capital expenditure and interest is not subject to CPI, but to interest rate risk. This means that over time the average annual costs reduce over time (an average annual rates requirement reduction of $600k per annum over the last 15 years of the lease terms).

The following image takes summarises the change in average costs over time when compared to the previous Hilton proposal:



There are three other key differences between the proposals:

- the **private growth in the ratepayer base** from the hotel component under the Hilton proposal was immediate, and provided a signficant offsetting rates benefit to existing ratepayers. This will be a secondary benefit under the current proposal as the demand created on the hotel beds will undoubtedly stimulate further investment in this sector.

- the **capital cost component** in the current proposal – this is reflected in the higher NPV for the current proposal over 25 years compared to the previous Hilton lease arrangement. The flip side of this is that if Council wants to continue providing convention centre services to the city beyond 25 years, the additional costs of doing so when we own the facility is considerably less than the cost to extend a lease. If the NPV's were run over a 50 year period the lease proposal would have a higher cost than the current proposal.

- the **risk transfer to Council** – under the previous Hilton scheme Council was paying a percentage of revenue to the developer to underwrite the operations of the facility. This meant that Council was not exposed to operating loss risk, only the risk that operating surpluses did not eventuate but we would continue with the lease cost. The developer was able to claw back all operating losses funded from future surpluses, and only when there was a surplus on a cumulative bases did any funds flow to Council. Under the current proposal Council will be funding any losses generated in the new facility. Council also takes on the construction and funding risks for the project under the current proposal, which in the previous Hilton scheme was being borne by the developer. For more disucssion on this see sections 5.10 on operating sensitivities and section 7 on risk.

6.12. Funding options

6.12.1. Capital funding of the proposed development

All land purchase and capital construction costs of the proposed convention centre development in this proposal are funded by a Council. Council will take all construction risk on the project.

Indicative capital costs involved in this development are as follows:

Capital Item	Estimated Value
Land	$21.5 million
Convention Centre Development Cost	$39.1 million
Fixtures & Fittings Capital Cost (loan to PWV)	$5.0 million
Total Project Cost	**$65.6 million**

The $65.6 million of project costs will be funded by Council borrowings as noted in section 5.10 above.

Council will have the option of selling and leasing back the development to a commercial property investor at any point in the future.

6.12.2. Operational funding of the proposed development

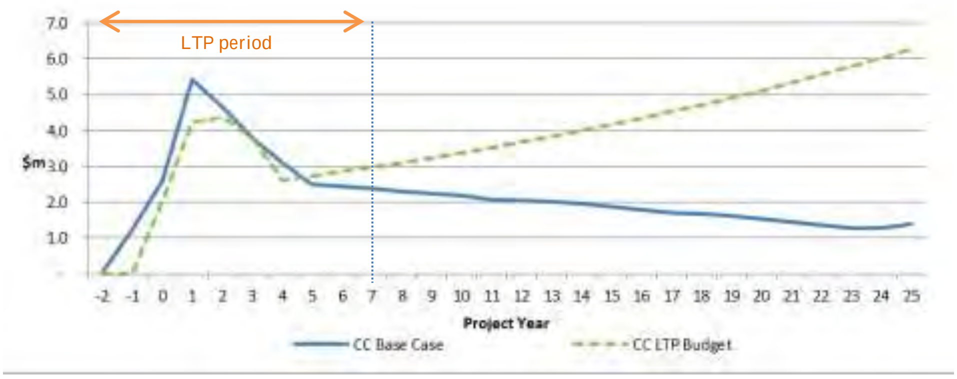
In the 2015-25 LTP, through its Revenue and Financing Policy, Council agreed to fund the convention centre operating costs 100% from rates to be split 60% from the General Rate and 40% from the Downtown Levy.

Table 34: Existing funding policy for convention centre

Activity	Activity Name	User Fees	Rates	General Rate (GR)	Downtown Levy (DTL)	Commercial Targeted Rate (CR)
3.1.2	Wellington Convention Centre	0%	100%	60%	40%	0%

This funding policy for the new Convention Centre considered who benefits from the proposal and the best way for these beneficiaries to fund the service.

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 an average of $0.6 million per annum over the first 10 years. This effectively means that the first $0.6 million of cost would not impact current ratepayers. The rates requirement for the current proposal is compared to the 2015-25 LTP budget in the following diagram:



This graph shows the costs in the first five years are higher than the costs in the 2015-25 LTP budgets. However as there no CPI adjustments on our interest and depreciation costs, over time costs reduce (as debt levels reduce and revenues grow) compared to the budget which is based on a PPP lease scheme subject to CPI increases per annum.

6.12.3. Other external funding options considered

As noted earlier, PPP arrangements where partnering with the private sector to fund the capital costs of the project and WCC taking on a lease were explored extensively.

Central Government Support:
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 may be beter sought on other projects. This proposal has the potential 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 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.

6.12.4. Impact of growth on our ratepayer base

Direct impact
The development of the Cable Street site will add approximately $39 million to our commercial and downtown levy rating base (the land value is already in the rating base). The rates collected from a $39 million downtown development are approximately $0.6m per annum (excluding water usage rates). This represents a saving to other ratepayers as the growth in the ratepayer base from this new development takes the $0.6 million share of rates that have previously been spread across the existing ratepayer base.

Flow on impact
It is also likely that further to the immediate capital value increase from the 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.

6.12.5. Wellington Economic Initiatives Development Fund contribution

As can be seen from the graph in 6.12.2, the current proposal costs Council and ratepayers more in the earlier years (due to interest costs on the Council borrowings commencing during construction) than the 2015-25 LTP budgets. It also creates percentage rates increases which are not within the financial parameters set out in the Council's Financial Strategy which are an average 4.5% rates increase over the first three years, and a 3.8% average over the full ten years of the LTP.

The alignment of the purpose of the WEID Fund and this project is strong with the objective of both to deliver increased GDP and jobs to the city. For this reason, it is recommend that any funding required to ensure our rates increases and/or levels remain within the Council's Financial Strategy parameters is balanced and funded from the WEID Fund.

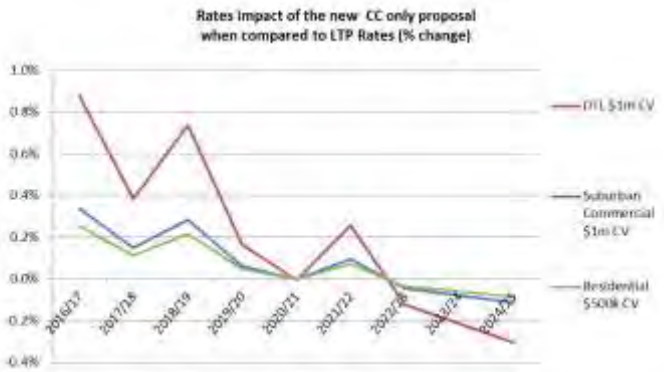
For the stand alone convention centre proposal, this would be $600,000 in 2017/18, and for the combined convention centre and movie museum proposal, this would be $2.1 million in 2017/18 at a minimum. This would not balance the full rates requirement impact, however any other contributions from the WEID Fund can be assessed as necessary through each year's Annual Planning process.

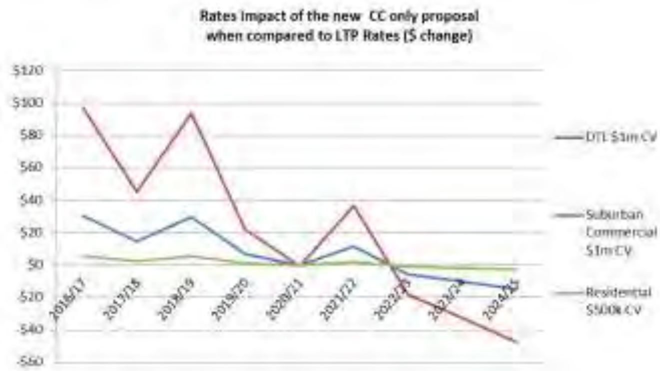
6.12.6. Debt Repayment Options

As this proposal includes a debt component that was not anticipated under the previous Hilton scheme some debt repayment options have been considered to reduce Council borrowings sooner than the project would otherwise allow. This would go against the intergenerational equity that underpins Council's Financial Strategy, however and needs thorough consideration before implementing.

6.12.7. Indicative impact on current rates

In WCC's 2015-22 LTP the Revenue and Financing Policy the convention centre has a 60% GR / 40% DTL funding policy. Under this funding policy and assuming a $39m growth in the downtown commercial sector valuation base, the following graphs outline the dollar and percentage increase on rates compared to the rates propsed in the 2015-22 LTP for the different sectors of ratepayer, for the property capital value (CV) indicated.





7. *Impact on Other Facilities*

Key points:

- The Town Hall is not envisaged as a future conference centre and will become a Music Hub incorporating the NZSO and the School of Music.
- Other facilities beind used for conventions are not built for this purpose (with the exception of Shed 6) and are utilised for their other purposes so will not become redundant.
- This will likely have a positive impact on the Town Hall earthquake strengthening costs.
- The recently announced proposed performing arts and creative campus will link well with Council's performing arts venues and arts entities utilising the facilities.

The Council owns most of the other facilities in Wellington that are used for medium-large convention business, with the exception of Te Papa, Westpac Stadium and the Amora Ballroom.

Previously the Town Hall / Michael Fowler Centre combination was used as the main convention centre for Wellington, but since the Town Hall was found to be earthquake prone in 2012 it has been closed. Council has decided the future use of the Town Hall will be a Music Hub accommodating the NZSO and School of Music therefore this creates an opportunity for the proposed facility.

The TSB Arena/Shed 6 combination is now the largest convention offering in Wellington and is simply not of a standard able to compete with market expectations and new facilities being built. Too many compromises are involved and Wellington is losing business that would like to be in Wellington because of this.

A key assumption of the financial case for the proposed convention centre is that generally no other facilities in Wellington are suitable to host full format multi-day convention business of greater than 500 delegates. This situation will only get worse as the NZICC comes on stream followed by new modern and purpose built facilities in other centres.

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 our current venues are able to. 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.

Council is regularly approached to provide space for community events, and business events needing support of a venue provider to make their events happen. Council will be in a position to better meet these needs if space is freed up in other facilities as a result of the new Convention Centre.

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. Where business that could have been held in the TSB/Shed 6 is displaced to the new convention centre, the important factor to focus on is the rentention and growth of this business and its importance for the Wellington economy. Facilities of a suitable scale and standard are required to compete with other centres for business events and not competing across city venues.

8. Risk analysis

This section focusses on the key risks associated with the development and operation of the proposed convention centre only. Risk assessment for the movie museum are covered in a separate business case for that component.

Risks related to the economic impacts and the financial analysis are discussed in Sections 5 and 6 respectively.

8.1. Contractual Risks

The main contractual risks identified are the risks around the project delivery by Willis Bond (on time and on budget[redacted].

There will be appropriate clauses and incentive fees in the contracts to ensure that Council risk is either minimised or mitigated as far as possible.

Council has engaged property and commercial lawyers to ensure the terms within these contracts protect us from the contractual risks identified in the risk register. Costs have and will continute to be interrogated throughout the process through independent QS validation.

8.2. Operating Risks

Operating risks largely link back to our ability to meet the event and revenue targets which will have a financial impact on operating surpluses, or on economic impacts if surpluses are achieved through delivering high volume single day local events which do not bring the economic benefits that larger multi-day events bring. These risks will be mitigated by:

- With PWV as the operator they are part of WREDA's wider focus and with a larger marketing arm to focus on delivering new events to Wellington, especially from Australia. It is envisaged that cross-functional teams will be set up to focus on this delivery within WREDA.
- The operating budgets for the new convention centre include a generous allowance of $500k per annum for marketing which is more than all of PWV currently invest in marketing. This provides the resource to ensure the new facility is properly promoted and positioned to attract high value conferences and business events.
- The operator will be charged to size their overhead cost structure to mirror the business levels and ensure minimum exposure to fluctuations in revenue.
- The requirement for regular event reporting, including event type, size, duration and delegate origins to assist with performance monitoring, and event target setting.
- WREDA will have a focus to ensure the success of the convention centre through their role in marketing Wellington nationally and internationally as a business events destination.
- The WEID fund could be used by Council to mitigate the impact of any operating risks on ratepayers.

Overall we know now that the demand for larger convention and banquet space for Wellington is at capacity or simply is unavailable. The strategic case suggests the demand will be there for Wellington, and alongside this project is the need to also proactively manage the potential constraints like hotel beds. By encouraging secondary investment in this area we will ensure the capacity exists to adequately support the demand. The private sector market and hotel investors will respond to this demand.

8.3. Construction and Capital Cost Risks

Council will carry all construction risk on this project. This risk will be mitigated through the following:

- Extensive work to date done through the master planning process with independent QS validation on the construction costs by Rider Levett Bucknell

- Willis Bond will be appointed as development manager. This is a large construction project and Willis Bond are among the very best development managers to deliver the design and construction phases of the project. A quarter of their fees [redacted] is incentive based on delivering on time and on budget.

- A 20% contingency has been built into the construction costs to allow for design changes, scope creep, any changes in materials, and cost increases. This is considered to be a considerable contingency which limits the risks of the project costs exceeding those presented in this business case.

- The site and ground conditions are well known and have been factored into the construction costs.

- Site due diligence has been carried out by Bell Gully.

In addition, the renewals on the building may be higher than, or have a different profile to, the base case modelled. This will have an impact on the borrowings levels and resulting interest costs. This has been mitigated by:

- Any costs required in the early years are likely to be under a construction warranty and will not come at a cost to Council.

- Modelling the depreciation and renewals by building component and its relative useful life provides the most likely scenario of renewal investment to ensure value is driven out of the asset investment. Averages have not been used in the models therefore useful life renewals are likely to more closely mimic the renewals used in the base case models.

8.4. Funding Risk

The proposed development will be funded by an increase in Council borrowings. This introduces a risk over time from adverse interest rate movements. To give context to this a +/- movement of 0.5% in interest rates based on borrowings of $60m would result in a +/- movement in funding costs of $300k.

This risk would be mitigated and managed through the following:

- A full interest rate hedging strategy would be implemented which would eliminate the risk of adverse interest rate movements during the first 10 years of the project. This has been developed by Council's independent treasury advisors.

- The tenure of the hedging strategy would be continually extended over time.

- A programme of debt reduction could be implemented which over time would reduce the level of associated borrowings and consequently the level of exposure to interest rate movements.

8.5. Other Risks

Land Ownership Risk

There is a risk that Council purchases the land at Cable and Wakefield Streets and that no development proceeds. This risk is mitigated by the following:

- The holding costs of the land are minimal (revenue from leasehold interests on the site offset most of the costs)

- There are three viable schemes for development of a conveniotn centre on the site. So if the preferred combined convention centre and movie museum scheme is not progressed, either a stand alone convention centre or a convention centre and other hotel/apartment development are still viable.

- The land is valuable and in a strategic location in the heart of Wellington. Council would have the following other options:

  - Sell and recover the investment
  - Foster another development opportunity
  - Foster another development opportunity and maintain the ground lease

Failure of the Convention Centre for whatever reason

There is a risk that the convention centre fails for reasons not considered in this risk assessment. In this event, the following options would be available to Council for the space:

- Offer to Te Papa for additional exhibition space
- Extension of the Movie Museum
- Repurposing the layout and finding an alternative use for the space.

Appendix A.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. Assumed rental revenue ranges from $20,000 per day for large conferences (increasing by 1% per annum), down to $6,000 per day for smaller events (increasing by 2% per annum) which may occur concurrently.
- 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, ranging from $20,000 per day for large conferences to $7,500 per day for smaller events (increasing by 4% per annum).

Revenue has been allocated on a per event day basis; Table 35 below shows a breakdown of total revenue across revenue area and event type. When the centre is operating at full capacity, the centre is expected to generate more than $20 million per year in revenue.

Table 35: Total venue revenue projections ($000)

Event type	*Yr 1*	*Yr 2*	*Yr 3*	*Yr 4*	*Yr 5*	*Yr 6*	*Yr 7*	*Yr 8*	*Yr 9*	*Yr 10*
Events / year	297	319	341	359	373	373	373	373	373	373
Event days / year	418	459	500	533	556	556	556	556	556	556
By revenue type										
Space rental	$2,406	$2,900	$3,409	$3,810	$4,098	$4,174	$4,251	$4,330	$4,410	$4,492
Catering revenue	$5,559	$7,118	$8,716	$10,145	$11,244	$11,559	$11,884	$12,217	$12,560	$12,913
Labour & general	$384	$467	$553	$625	$680	$697	$714	$732	$751	$769
Technical services	$2,706	$3,256	$3,843	$4,343	$4,742	$4,920	$5,105	$5,297	$5,496	$5,703
Total Revenue	**$11,055**	**$13,740**	**$16,566**	**$18,923**	**$20,763**	**$21,350**	**$21,954**	**$22,576**	**$23,217**	**$23,877**
By event type										
Conferences	$7,009	$8,868	$10,828	$12,365	$13,439	$13,831	$14,235	$14,652	$15,082	$15,525
Day meetings	$1,088	$1,119	$1,151	$1,185	$1,219	$1,254	$1,291	$1,328	$1,367	$1,407
Banquets	$1,784	$2,428	$3,105	$3,728	$4,290	$4,403	$4,520	$4,640	$4,764	$4,890
Sundry events	$1,175	$1,325	$1,482	$1,645	$1,816	$1,861	$1,908	$1,956	$2,005	$2,055
Total revenue	**$11,055**	**$13,740**	**$16,566**	**$18,923**	**$20,763**	**$21,350**	**$21,954**	**$22,576**	**$23,217**	**$23,877**
Revenue / attendee	*$102*	*$107*	*$112*	*$116*	*$120*	*$123*	*$126*	*$130*	*$134*	*$137*

Source: Horwath HTL

Variable operating costs

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

- 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, including the costs of technical services provided by a third party provider, and also rentals of technical equipment.

Table 36 below shows the expected profile of variable costs of the convention centre over the ten year period.

Table 36: Variable operating costs

$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Catering costs	4,447	5,623	6,834	7,812	8,545	8,785	9,032	9,285	9,546	9,814
Direct staff costs	326	392	459	512	551	564	579	593	608	623
Technical services costs	2,435	2,897	3,382	3,778	4,078	4,231	4,390	4,555	4,727	4,904
Total variable costs	**7,209**	**8,913**	**10,675**	**12,102**	**13,174**	**13,581**	**14,000**	**14,433**	**14,880**	**15,341**
% of total revenue	*67%*	*66%*	*66%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*

Source: Horwath HTL

Fixed operating costs

Fixed operating costs are allocated over 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.
- Cleaning and energy; contracted cleaning services, and utilities.
- Repairs and maintenance; routine maintenance of leased assets (does not include capital asset replacements).
- Contingency

Table 37 below shows the total estimated fixed operating costs of the convention centre over the ten year period.

Table 37: Fixed operating costs

$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Overhead salaries & wages	900	923	946	969	993	1,018	1,044	1,070	1,097	1,124
Staff costs & training	75	78	80	83	86	88	90	91	93	95
Administration & general	750	765	780	796	812	828	845	862	879	896
Sales & marketing	500	518	536	554	574	591	609	627	646	665
Cleaning	350	368	386	405	425	438	451	465	479	493
Energy	500	525	551	579	608	626	645	664	684	705
Repairs and maintenance	500	510	520	531	541	552	563	574	586	598
Contingency	150	155	159	164	169	172	176	179	183	186
Total fixed operating costs	3,725	3,840	3,959	4,081	4,209	4,314	4,422	4,532	4,646	4,762

Source: Horwath HTL

Management fees

Management fees are not payable under the proposed operator of PWV. Should a private operator be appointed management of the centre, management fees compriseing the following should be expected:

- A base fee of 2% of total revenue (not including technical services)
- An incentive fee of 8% of gross operating cashflow (after deduction of base fee) from year 2 onwards.

Table 38 below shows the cost of these indicative management fees over the ten year operating period:

Table 38: Management fee estimates

$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Base fee	172	217	264	303	334	342	351	360	370	379
Incentive fee	-	62	134	195	244	249	254	260	266	272
Total management fees	**172**	**279**	**397**	**498**	**578**	**591**	**606**	**620**	**635**	**651**

Source: Horwath HTL

By PWV operating the venue, in effect there are savings of $651,000 by the tenth year of operation. Note these management fees are not included in any of the financial summary projections included in section 5 and purely noted to outline the cost of an alternative operating structure.

Property costs

Property costs for the new venue comprise rates and insurance costs, estimated at $995,000 in year one, growing at between 1.8% and 3.5% per year. Table 39 below shows the profile of the estimated property costs for the venue.

Table 39: Property costs

$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Rates	940	973	1,007	1,042	1,079	1,116	1,155	1,196	1,237	1,281
Insurance	55	56	57	58	50	61	62	63	64	66
Total property costs	**995**	**1,029**	**1,064**	**1,100**	**1,138**	**1,177**	**1,217**	**1,259**	**1,302**	**1,346**

Source: WCC

Other Operating Company Costs & Income

Also deducted from the Gross Operating Surplus of the centre is the FF&E renewal reserve, the interest charges on the loan to WCC for the FF&E purchase and a shared cost fee to PWV to account for any increased shared cost of their operations or structure that may result from managing new facility (calculated as 1.5% of revenue). Offsetting these partly is the sponsorship income anticiapted from taking the naming rights of the centre to the market. This was based on the naming rights revenue achieved at the TSB Arena.

Table 40: Other Operating Company Costs & Income

$'000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
FF&E Renewal Reserve	332	412	497	568	623	640	659	677	696	716
FF&E Loan Interest	263	263	263	263	263	263	263	263	263	263
PWV shared cost fee	129	163	198	227	250	257	263	270	277	285
Naming Rights Sponsorship	-350	-350	-350	-350	-350	-350	-350	-350	-350	-350
Net other property costs	**373**	**487**	**607**	**707**	**786**	**810**	**835**	**860**	**886**	**913**

Source: WCC

Pre-opening costs

The centre will incur costs prior to opening in relation to marketing, staff recruitment, training, operating process development, menu creation. It is estimated that these costs will be $0.5 million.

Appendix B. Building Opex Costs

As building owners, Council will be responsible the following building ownership costs:

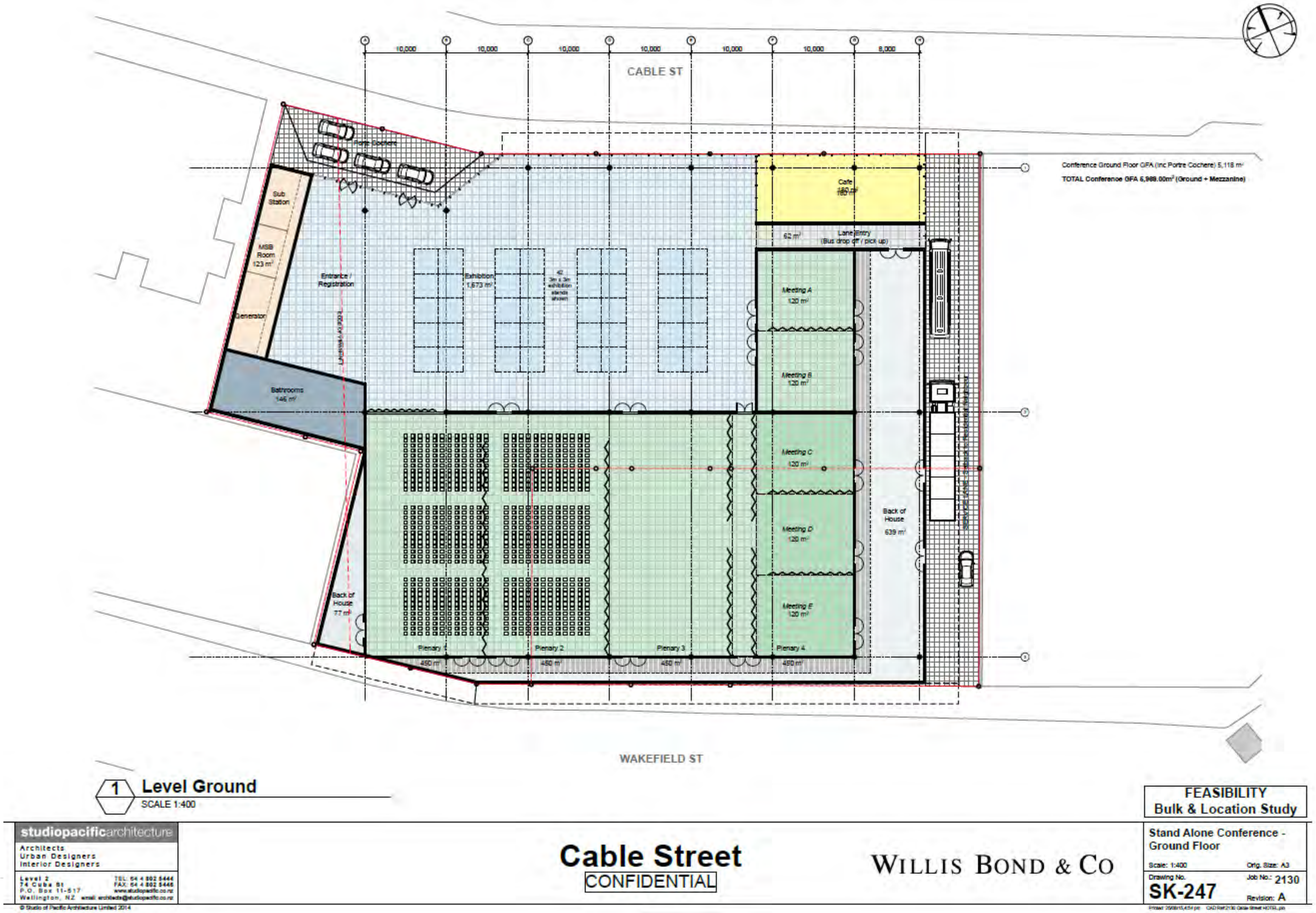
- rates
- insurance

These costs are budgeted as separate items in the financial models.

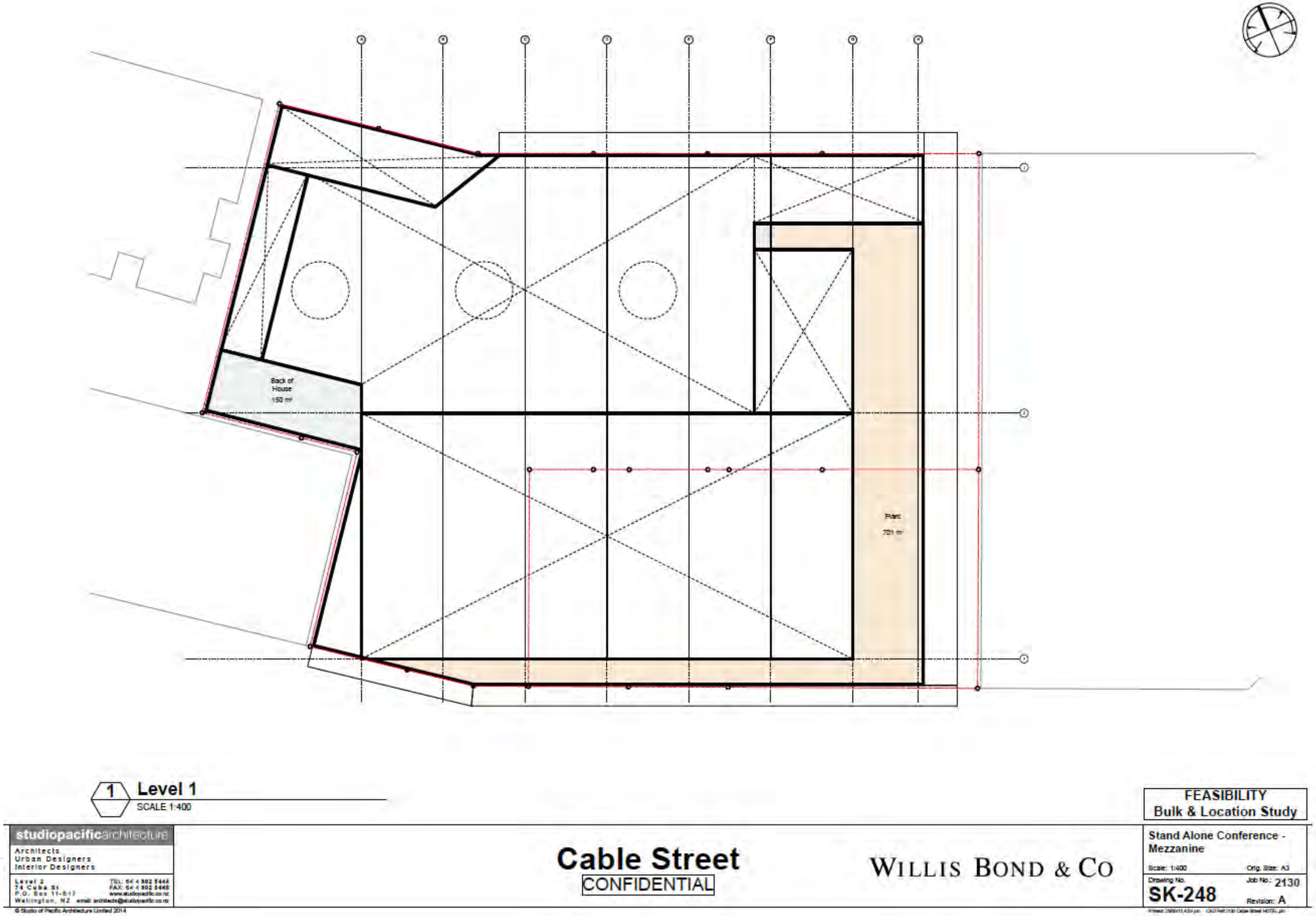
Other costs Council is responsible for will be funded from the operating company surplus:

- general maintenance
- WCC fees and levies
- building WOF
- fire service levies
- generator testing and operating cost/maintenance
- base building security
- exterior cleaning
- any central plant air conditioning
- common area energy charges
- and any other common operating expense.

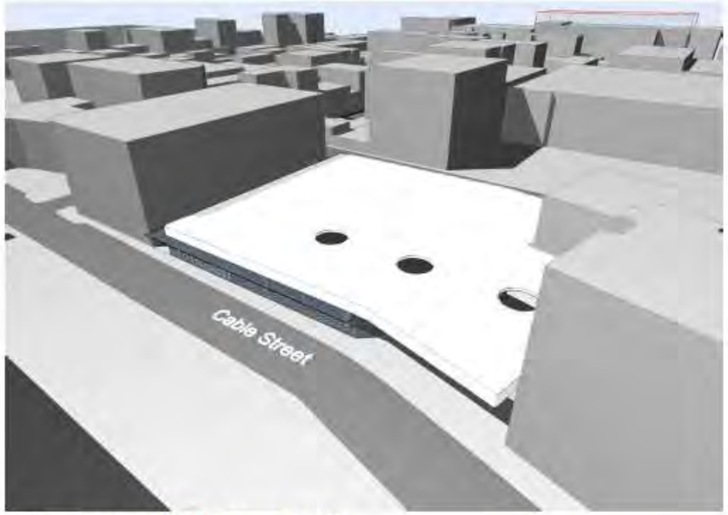
Appendix C – Building Plans



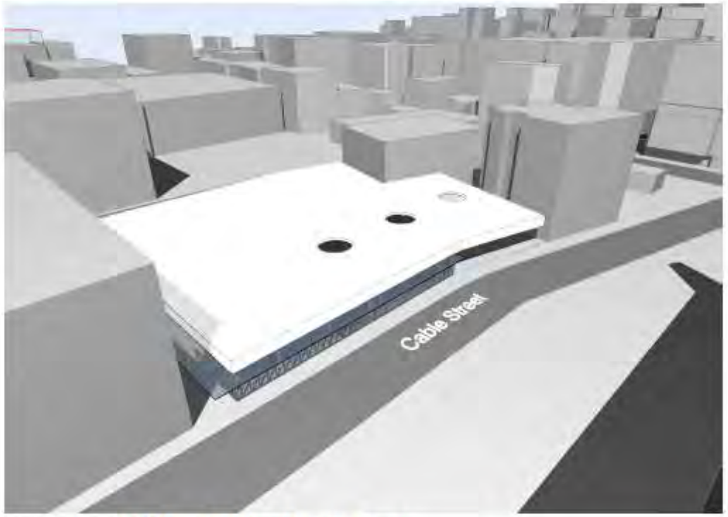
Appendix C – Building Plans



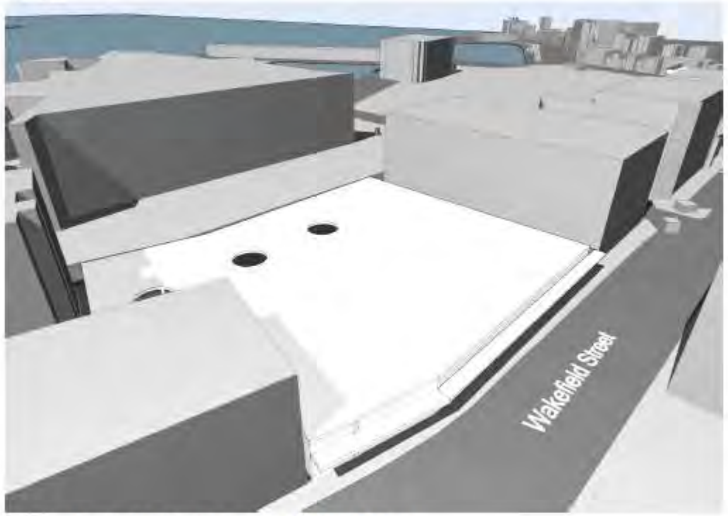
Appendix C – Building Plans



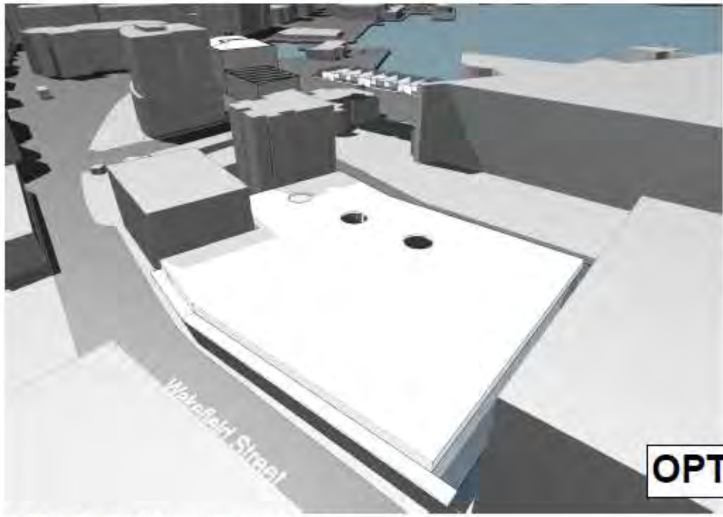
1 Aerial View From North
N.T.S



2 Aerial View From North East
N.T.S



3 Aerial View From South West
N.T.S



4 Aerial View From South
N.T.S

OPTION A

FEASIBILITY
Bulk & Location Study

studiopacificarchitecture
Architects
Urban Designers
Interior Designers

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Cable Street
CONFIDENTIAL

WILLIS BOND & CO

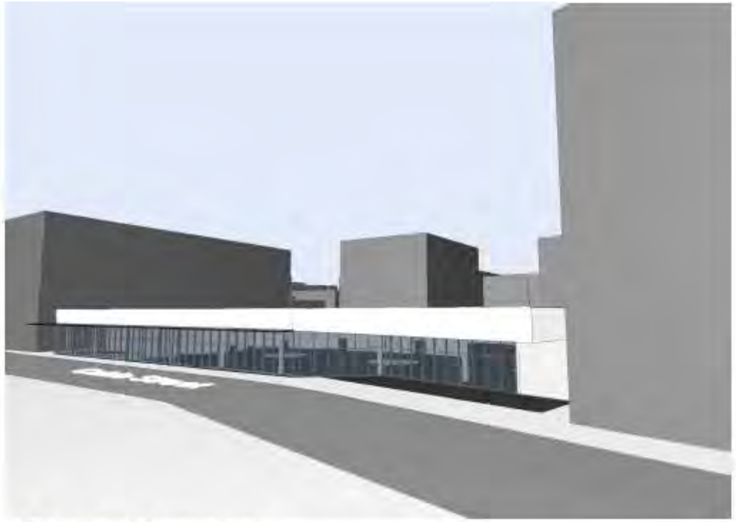
OPTION A - Massing (As per Plans SK-247 to 248)

Scale: 1:400 | Orig. Size: A3

Drawing No. SK-332 | Job No.: 2130 | Revision: A

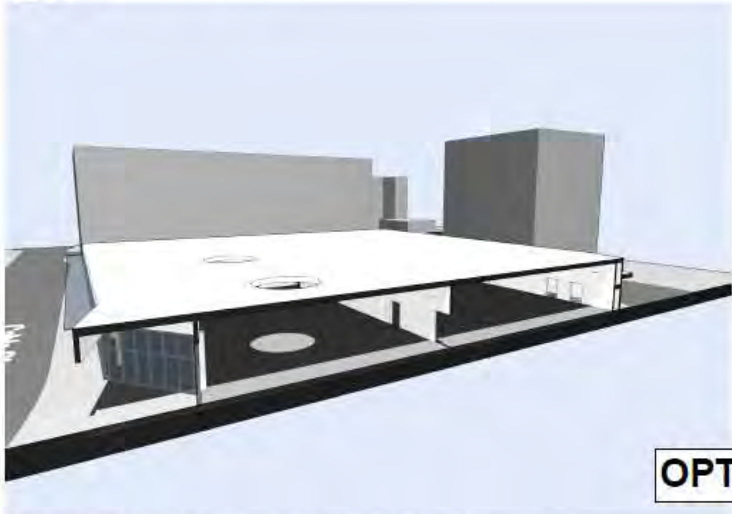
Appendix C – Building Plans

1 View of Conference Entry
N.T.S



2 View From North
N.T.S

3 View From North East
N.T.S



4 Sectional Cutaway Through Conference
N.T.S

OPTION A

FEASIBILITY
Bulk & Location Study

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OPTION A - Massing (As per Plans SK-247 to 248)

Scale: 1:400 | Orig. Size: A3

Drawing No. SK-333 | Job No.: 2130 | Revision: A

Appendix C – Building Plans