
TEMPORARY REPLACEMENT VENUE FOR POSITIVELY WELLINGTON VENUES LIMITED

1. Purpose of report

The purpose of this report is to consider the impact on Positively Wellington Venues (PWV) and the City as a result of the closure of the Town Hall for an extended period to carry out earthquake strengthening work and the available options to mitigate the impact

2. Executive summary

The Positively Wellington Venues business will undoubtedly be affected by the loss of the Town Hall while it is being earthquake strengthened. PWV has presented a business case which proposes the modification of the TSB Arena and Shed 6 on the waterfront at a cost of \$4m as a suitable replacement venue for the Town Hall. PWV considered a range of other options and recommends that the TSB/Shed 6 option provides the best solution to mitigate the impact on the operations and profitability of PWV and preserve the economic value that the City derives from the events currently dependent on the Town Hall as a venue.

The MFC and Town Hall in combination form the only space in Wellington that can currently host medium to large-scale multi-day conferences of 350 to 1000 delegates with an exhibition space. Such events have a direct impact on Wellington's economy with the unmitigated economic loss to Wellington City through closing the Town Hall estimated at \$24.7 million¹.

Following detailed analysis of the range of practical options and having sought expert independent advice it is Officers view that the TSB/Shed 6 option provides the best economic outcome for the City. All of the options considered deliver broadly similar financial outcomes for Council, however only the TSB/Shed 6 option fully mitigates the potential economic loss to the City's GDP.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

1. *Receive the information.*

¹ Source – Horwath HTL Cost Benefit Analysis; This represents the NPV over 3 years of the economic impact on the Wellington GDP.

2.
 - (a) *Note that Positively Wellington Venues submitted a business case as part of the 2012/22 Long Term Plan to modify the TSB Arena and Shed 6 to provide an alternative venue while the Town Hall is closed for earthquake strengthening. Council included capital expenditure of \$4m in the draft 2012/22 Long Term Plan for this proposal.*
 - (b) *Note that Positively Wellington Venues confirmed that they will be able to deliver the proposal within the \$4 million budget. Subject to engineering confirmation that no earthquake related issues arise within the TSB and Shed 6 from the proposed works.*
 - (c) *Note that Council agreed that the Revenue and Financing Policy for Convention Centres in the draft Long Term Plan was changed with 40% of the funding moving from General Rates to the Downtown Levy.*
3. *Note that the PWV business case and a range of options, have been subjected to an independent cost/benefit analysis by Horwath HTL.*
4. *Recommend to Council that \$4 million of capital expenditure for the modification of TSB/Shed 6 be included in the Long Term Plan in 2012/13 and that this funding be contingent on formal confirmation that no earthquake issues arise with respect to TSB and Shed 6 from the proposed works.*

4. Background

Positively Wellington Venues is the city's major provider of venue space to host medium to large-scale conference activity. The PWV's core commercial activity includes conferences, events, performances and community-based programmes across six spaces: the Michael Fowler Centre (MFC), the Town Hall, the St James Theatre, the Opera House, and the TSB Arena and Shed 6.

The Council is undertaking significant earthquake strengthening work on the Wellington Town Hall beginning in May 2013 that will see it closed to all conferences and events. The project is expected to run for 2 years to mid 2015.

The loss of the Town Hall will have a significant impact on PWV's core business through the loss capacity and in particular suitable capacity to host medium to large-size conferences. The MFC and Town Hall in combination is the only suitable venue in Wellington that is able to hold medium to large multi-day conferences with trade exhibitions for greater than 350 delegates. The primary driver of this type of business is the flat floor space capable of accommodating the trade exhibitions.

To address the impact to the PWV business and the economic loss to the City, PWV has identified and assessed a full range of options to maintain the business or mitigate the loss of the Town Hall as a venue. In February 2012, PWV presented a business case as part of the Council Long Term Plan to modify the TSB arena and Shed 6 at a cost of \$5 million to provide a suitable alternative

venue during the period that the Town Hall is closed for strengthening. This would enable the City to maintain its capacity and ability to hold larger conferences and events and would also maintain the economic contribution these conferences and events make to the Wellington economy.

This alternative venue will result in all conference related activity currently undertaken across the Town Hall /MFC campus being transferred to the new location over the closure period. As a consequence the prime activity of MFC will change to a performing arts venue rather than its current mixed use. This will have an impact on the event days that MFC is available for. By way of example, in 2012/13 year there are 82 performing arts event days scheduled in the Town Hall. Under the proposed scenario, these would be transferred to MFC, resulting in an increase in occupancy of MFC from 210 events days to 292. Whilst a number of performing art programmes for 2013/14 and 2014/15 years are still to be finalised, it is anticipated that the numbers of affected event days will be similar, resulting in increased occupancy across all other performing arts venues in the portfolio.

PWV has assessed that the impact of the loss of the Town Hall capacity on their business would result in them moving from a projected break-even financial position to a deficit of \$1.3m. This operational deficit would require funding from Council in the event that suitable alternative capacity is not secured.

In identifying and assessing suitable alternative venues PWV used a criteria whereby:

- The venue must provide 4 minimum functional elements: a small plenary space; trade/exhibition and catering (large plenary and performance) space; flexible breakout space; and commercial kitchen facilities.
- The spaces must be contained within the same location in order to accommodate a 'typical' conference of 350+ delegates.

The PWV business case included the following:

- An independent report commissioned by PWV on the economic impact of closing the Town Hall without a suitable alternative venue.² The report indicates a loss of revenue to PWV of approximately \$5 million per annum, and losses to the Wellington economy of around \$12 million per annum.
- An independent property report was commissioned to review the range of possible options that had been identified (including 'do nothing') and to conduct a detailed review of the three options identified as the most suitable.³
- The Wareham Cameron recommendation was that with modifications the TSB Arena and Shed 6 option provided the best operational and economic option for an alternative venue to replace the Town Hall.

² The economic report was produced by COVEC

³ The property report was produced by Wareham Cameron

- A ‘proof of concept’ and design was commissioned to establish whether the required floor space, breakout rooms, theatre and commercial kitchen could be accommodated within a refitted TSB/Shed 6 facility.⁴
- The preliminary cost for the TSB/Shed 6 option was estimated at \$5m.

The proposal was considered at SPC in March 2012, and \$4m of capital expenditure was included in the draft LTP for the project. PWV confirmed that they would be able to deliver the project within this cost. It is likely that the project would be managed through the Council PMO and WWL with clear accountability back to Venues to ensure the project is delivered within budget.

Council also agreed to amend the Revenue and Financing Policy in the draft LTP for the Convention Centre to move 40% of the funding from General Rates to the Downtown Levy. This change was to reflect the fact that the primary beneficiary of the \$4m investment would be the businesses in the CBD as they would directly benefit from the economic activity that the medium to large conferences/exhibitions generate for the City.

The Forum

On 6 June 2012, the Mayor hosted a forum to discuss the proposal in the draft LTP to allocate \$4m to fund the TSB/Shed 6 refit. Attendees at the forum included the Mayor and Councillors, PWV, Port Nicholson Block Settlement Trust, Te Wharewaka, Mac’s Ale House, Te Papa, the Boat Shed, Positively Wellington Tourism, Wellington Museums Trust, Wellington Waterfront Limited, Restaurant Associates, Multi-Media, and the New Zealand Retailers Association. There were also representatives from Wellington’s major performing arts organisations.

Questions were raised around the possibility of utilising existing venue spaces alongside the Michael Fowler Centre and working with local providers to minimise the potential loss of business to the city. Performing arts organisations noted concerns around the limited availability of suitable concert venues if the use of the MFC is increased.

Following the meeting, Council officers met with representatives from a number of venues located on the waterfront to discuss in more detail the possibility of using existing spaces in conjunction with the MFC during the period that the Town Hall is closed. These discussions helped to assess the viability of alternative options and in assessing the PWV proposal.

Feedback from consultation on the Long Term Plan

95 submissions were received on the LTP in relation to the PWV proposal to modify the TSB Arena and Shed 6 to provide a replacement venue for the Town Hall.

33 respondents (31%) were in favour of the proposal. The majority of these favourable submissions were from downtown businesses such as hotels, the Chamber of Commerce and the Hospitality Association, who cited that the loss

⁴ The proof of concept work was carried out by Shand Shelton.

of commercial revenues to the City would be significant if a suitable replacement venue was not found.

There were 62 respondents not in favour of the proposal, the majority were submissions by individuals. Of these submissions, most asked the Council to investigate looking at re-locating Town Hall conferences and events to other venues around the city.

Officers have considered the feedback from submissions, including the possibility of relocating PWV business to other venues in the city. In assessing the potential for utilising alternative space, Officers engaged Stephen Hamilton of Horwath HTL, who are regarded as experts in this field, to assess the suitability of alternative sites or combinations of alternative sites and whether these would provide the necessary capacity to retain the medium to large conferences/exhibitions in the City. Horwath's analysis and views are covered in the report.

5. The loss of the Town Hall

The loss of the Town Hall as a conference and exhibition venue will have two impacts;

1. The impact on the operations of PWV

The loss of the Town Hall as a venue will reduce the capacity of PWV to hold the same number of events as normal. The reduction in venue capacity will mainly affect PWV's ability to hold medium and large conferences and exhibitions as there are currently no suitable venues or combination of venues within PWV capable of meeting the requirements of the medium to large conferences.

The table below shows the number of conference type events held by PWV in 2011/12. The events at risk from the loss of the Town Hall are those in the 350+ people ranges.

	<350 people	350-500 people	500+ people
PWV Conferences and events per annum	179	33	14

PWV estimate that the revenue impact from the loss of these conferences to PWV is around \$5.5m per annum which represents around 35% of their total revenue. The loss of this revenue would result in an operating deficit of up to \$1.3m. In arriving at the estimated operating deficit PWV has removed all of the direct costs associated with this revenue stream and reduced it's overheads by \$930k or around 15% of total overheads. The estimated operating deficit will require Council funding.

PWV note in their SOI that they have already lost \$700k of bookings that have been lost to other centres and that they have \$1.3m of unconfirmed bookings that are dependent on having an alternative venue.

2. The impact on economic activity in the City

The second impact from the loss of the Town Hall as a venue will be the economic impact on the City from the potential loss of the medium and large conference and exhibitions. These conferences generate significant economic activity in the City and in particular within the CBD.

PWV has sought an independent economic assessment of the impact on the Wellington GDP from the loss of these medium to large conference and exhibitions. The GDP loss is estimated at \$9m per annum through the period when the Town Hall is unavailable.

This loss of GDP to the Wellington economy is separate from the direct impact on PWV from the loss of business and does not directly impact Council's finances. The reduced GDP in the City primarily impacts on the commercial ratepayers in the CBD and on employment within the City and is considerably greater in magnitude than the direct impact on Council/PWV.

The economic contribution of these type of conferences is derived through the spend on goods and services by the event organiser, the delegates and participants with spend typically on hotel accommodation, food & beverage, transport, entertainment and shopping.

A number of options have been considered in response to the Town Hall closure. In developing their business case PWV considered 10 options, including a partnership with local hotels, and using existing spaces within Te Papa, Te Wharewaka and Mac's Brew Bar.

In order to test the robustness of the PWV business case Council engaged an independent consultant, Stephen Hamilton of Horwath HTL⁵, to undertake a comprehensive cost/benefit analysis of the three most likely scenarios. The scenarios considered were:

- Do not replace the capacity;
- Working partnership with a combination of other spaces in the city including Te Wharewaka, Macs Brew bar and Te Papa;
- Modify TSB/Shed 6 to provide a replacement venue for 3 years;

⁵ Stephen Hamilton is the Director of Horwath HTL (Hotel, Tourism and Leisure), the New Zealand branch of the world's leading consultation agency for the hospitality industry.

To assess these options, Stephen Hamilton reviewed all of the relevant reports prepared to date and met with key representatives of the following organisations to view the different event spaces and discuss the options under consideration:

- Wellington City Council
 - Positively Wellington Venues;
 - Positively Wellington Tourism;
 - Te Wharewaka;
 - Te Papa; and
 - Mac's Ale House Function Centre.

The options and findings are broadly described as follows:

Option 1: Do not replace the capacity

As noted earlier by not replacing the lost capacity there are potentially 47 medium and large conferences and events with exhibitions that would be at risk if there are no suitable alternate venues with the required exhibition space capable of staging conferences and events of this size. PWV would actively engage with other venue spaces, including the Amora, Te Wharewaka, Te Papa and Mac's Ale House to retain as much commercial activity as possible, however PWV do not believe that this would be significant as the combined alternatives would be unlikely to meet the requirements of a competitive market.

Economic impact:⁶

Horwath's have assessed the economic impact on PWV and the Council and the Wellington economy as follows:

	3 years
On Council/PWV	(\$3.3m)
On Wellington GDP	(\$24.7m)

The impact is shown over 3 years which represents the main period of impact. Under this scenario there is no capital expenditure cost for Council, however there is an operating deficit at PWV that will require funding.

The view of PWV that there are no venues in the vicinity of the MFC that are a suitable replacement for the combined MFC and Town Hall in accommodating the exhibition needs of a 350+ conferences is supported by the independent reports of Covec and Horwaths and there is therefore a high risk of loss of most of PWV's larger conference business to other centres.

Option 2: No venue replacement, but cooperative arrangement with other venues

Under this option PWV would work with the other localised venues to retain as much of the conference business at risk from the closure of the Town Hall. This would require conferences and exhibitions to be hosted across a range of

⁶ The economic impact is the Net Present Value of the associated cashflows

different venues. For example the conference may be held and catered for at the Amora Hotel with break outs held at the Amora and Michael Fowler Centre and exhibitions held at the Michael Fowler Centre. Horwath's believe that there is some potential to do this at the margins and for certain client types. Additionally it is noted that the capacity of the MFC to be part of any collaboration is limited as it will be required to absorb the performing arts business that will be displaced at the Town Hall.

Economic impact:

Horwath's have assessed the economic impact on PWV and the Council and the Wellington economy as follows:

	3 years
On Council/PWV	(\$5.0m)
On Wellington GDP	(\$20.6m)

This analysis estimates that around \$1 million of additional business would be attracted to Wellington utilising a mix of other venues in the City through cooperative arrangements. This is reflected in the impact on the Wellington economy being reduced compared to option 1. This option would limit PWV and the City to contracting smaller-scale (under 350 people) events that could otherwise be held in the MFC. The transfer of business from PWV to other venues would potentially result in a greater deficit to PWV as a result of sharing event and catering revenues with cooperative partners, and potentially increases the requirements of funding their deficit. So whilst a more favourable outcome for the City may be achieved the operating deficit at PWV would be greater under this option.

Under this scenario there is no capital expenditure cost for Council, however there is an operating deficit at PWV that will require funding.

Horwath have reviewed the alternative sites in the vicinity of the MFC and do not believe that any mix of venues offers a suitable venue for holding medium and large conferences in the City. In a competitive market, even if a suitable configuration of multi sites could somehow be arranged, this would be an inferior option and unlikely to attract conferences to the City except where there was no other available capacity at other centres. In addition it is observed that each of the other venues will have existing bookings, so even if it was feasible to piece together an offering that the market would accept there is an added unknown complication that the alternative venues would all need to be available at the same time as the customer demand.

Option 3: TSB/Shed 6 temporary venue short-term (3 year) availability

In this scenario the TSB arena and shed 6 would be modified at a capital cost of \$4m to provide the exhibition and flat-floor space to deliver all conferences and events that would have been accommodated in the Town Hall and MFC. Final

confirmation is required that there are no earthquake strengthening issues with respect to the proposed modifications to TSB and Shed 6.

Economic impact:

Horwath's have assessed the economic impact as follows:

	3 years
On Council/PWV	(\$3.8m)
On Wellington GDP	\$0.7m

This option assumes that all existing business can be retained in Wellington with PWV able to transition relatively easily back into the Town Hall when it is reopened. This option is the only option that satisfactorily addresses the impact on the Wellington economy, the current economic value derived by the Wellington economy from this conference business is retained. The value of this business to the Wellington GDP is significant and at a time when the Wellington economy is stagnant the timing of the potential loss of this business is not ideal.

The refurbishment of TSB Arena and Shed 6 is the only option that provides a high degree of certainty in terms of being able to maintain the medium and large conferences.

With respect to the potential impacts on Wellington Waterfront Limited, Shed 6 is currently available for commercial development and \$5m of commercial proceeds were included in the draft Waterfront Development Plan in year 3. To accommodate the PWV proposal the WDP presented to SPC on 13 June had the commercial proceeds deferred for 1 year into year 4 of the WDP.

This option received support from the business sector in the City as they would be directly affected by the loss of this business to the City. This was recognised in the draft LTP with the funding policy for the Convention Centres changed to move 40% of the funding from General Rates to be funded through the Downtown Levy. This recognises the benefits will accrue largely to the Downtown Levy ratepayers and therefore the costs of the investment are borne by them.

5.2 The cost/benefit analysis at a glance

Based on the cost/benefit analysis carried out by Horwaths, the table below summarises the Net Present Value (NPV) of the estimated impact of each of the options discussed above.

	1. Do not replace capacity	2. Increased cooperation with other venues	3. Modify TSB/Shed 6
Council/PWV cashflow impact			
3 years	(\$3.3m)	(\$5.0m)	(\$3.8m)
Impact on Wellington GDP			
3 years	(\$24.7m)	(\$20.6m)	\$0.7m

Under all of the options there is an expected cost to Council/PWV, under options 1 and 2 the cost is based on the expected operating deficits incurred at PWV as a result of the reduced capacity to hold conferences. Under option 3 the cost is based on the capital expenditure required.

Under options 1 and 2 there is a significant negative impact on the Wellington economy as measured by the reduction in GDP. This is the direct impact of the loss of conference business as a result of the reduced overall venue capacity in the City and the lack of a suitable venue(s) to competitively retain the medium to large conferences.

These outcomes are consistent with the views expressed by the management and board of PWV and the supporting independent economic analysis they commissioned from Covec.

Given the high negative economic impact on Wellington, as well as the loss of conference and events business to the City in the short and medium terms, Officers conclude that options 1 and 2 are not preferred. Across all of the options there is a cost to Council which is not materially different relative to the impact on the GDP of Wellington.

Officers recommend that \$4 million of capital expenditure be included in the Long Term Plan to modify the TSB Arena and Shed 6 to provide a replacement venue while the Town Hall is out of commission. The funding of the capital works would only be available on receipt of confirmation that there are not earthquake related issues with respect to the TSB Arena and Shed 6, engineering assessments have been sought and the results may have an impact on any decision.

5.3 The future for large conferences and events in Wellington

Over the next four years, Wellington will face increasing competition from new conference and events facilities opening around the country, especially in Christchurch, Queenstown and Auckland. These facilities will also cater to large (1000+ people) events and will put considerable pressure on Wellington to retain its share of the medium-large (350-800 people) event market.

With its central location, connections to government agencies and excellent public transport facilities, Wellington is well placed to maintain and grow its current level of conference and events business. However, there is a high risk that if Wellington is not able to host these events in the immediate term then this business will be lost to other centres and it may prove difficult to return to the City.

The Wellington Convention Bureau, Te Papa and PWV have undertaken an initiative in the Australian market to target and attract conference business to the City. To date there has been some significant progress with a large association confirming a booking for late 2015 involving over 1,000 attendees. There is a pipeline of business demand being developed and this will be stalled in the 350+ market.

6. Conclusion

It is clear that the loss of the Town Hall as a venue will reduce the capacity of PWV and the City to hold medium and large conferences. This will have an impact on the operating position of PWV and they are projecting that the impact will result in them making a \$1.3m operating deficit which will require funding by Council.

A range of expert advice has been sought and concludes that a mix of alternative venues would not be sufficient to retain the medium and large conference business and that there would be a significant negative impact on the Wellington economy from the reduction in this business.

By providing a viable replacement venue PWV and the City will be in a competitive position to maintain its conference business and strong reputation in the national conference and events market.

Officers recommend supporting the modification of the TSB Arena and Shed 6 with a view to having it available to PWV in order to maintain their share of the national medium-large conference and events business and minimise the loss of economic benefits to the City. This option will require an up-front capital investment of \$4 million from the Council, and PWV has confirmed that they will be able to deliver the necessary results within this budget.

There are opportunities for PWV and other venue providers to work cooperatively to better utilise existing facilities in the City, however it is noted that this is only at the margins given the suitability of the venues and existing business through these venues. PWV will work with these other venue providers in any case.

The analysis of various options shows that the TSB/Shed 6 option has the best chance of minimising the loss of economic benefit to the city during the closure of the Town Hall and in the following few years once the Hall is reopened. The Council could consider a review prior to the Town Hall re-opening to determine the merits of continuing with the TSB/Shed 6 venue for a further period, this would include whether WWL had progressed any commercial development opportunity for the shed 6 site.

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The paper supports Council's overall vision of Towards 2040 – Smart Capital. In particular, the report highlights the contribution that the proposed options for a temporary venue will have on our goals for the city, particularly People-Centred City and Dynamic Central City. The economic impact on Wellington's GDP is also assessed.

2) LTP/Annual Plan reference and long term financial impact

This project is contained in the Council's 2012/22 Long Term Plan.

3) Treaty of Waitangi considerations

This report raises no new treaty considerations.

4) Decision-making

This is not a significant decision.

5) Consultation

a) General consultation

The proposal has been consulted on as part of the draft Long Term Plan. Individual stake holders have also been engaged directly to seek their views and discussion options.

b) Consultation with Maori

See section 3 above.

6) Legal implications

There are no new legal issues raised in this report.

7) Consistency with existing policy

This report is consistent with WCC policy.