

## Background

1. In August 2011, QLDC established a Working Group (which included membership from the Queenstown Chamber, Destination Queenstown, the arts and the accommodation sector) to establish criteria with which to evaluate various options for a QCC. A feasibility study (by Horwath HTL) was commissioned by the group in March 2012.
2. In August 2012, a Request for Proposal was publicly issued seeking potential partners with the Council to develop a convention centre. In February 2013, a consortium including Ngai Tahu Property, Morrison & Co, and Sky City Entertainment Group were selected as the preferred party to enter into negotiations for a convention centre development. These negotiations have not progressed while Council have been undergoing the public consultation process.
3. In the interim, QLDC has commissioned a number of specialist reports to assess the merits of a convention centre which could be funded or partially funded by Council. The reports commissioned, in addition to the earlier Horwath feasibility study, comprise:
  - a. **Overview:** CBRE Structured Transaction & Advisory Services have provided an overview of the project including operating costs and revenue, development models, and funding options.
  - b. **Economic impact:** BERL Economics have forecast the likely economic impact of both the construction and post-construction periods of the project to both the District and New Zealand.
  - c. **Construction cost:** WT Partnership have provided revised estimates on the construction cost for the three sites under consideration.
  - d. **Site location:**
    - i. Conference managers, The Conference Company, and convention centre architects, Populous, have reviewed the respective merits of the three sites; and
    - ii. McDermott Miller (economic advisers to the Council on the District Plan) have provided analysis of the merits of the respective sites in terms of economic impact.
4. On 26 July the Council adopted a recommendation to undertake consultation in accordance with s.87(1)(b) based on Council's Statement of Proposal that QLDC lead the development of a convention centre with approximately 750 person capacity and at an estimated construction cost of \$50M.
5. During the month-long public consultation period (1-31 August 2013), Council also undertook an independent telephone survey of 400 residents and ratepayers.

## Consultation and survey results

6. Council received 748 submissions, with 32 persons choosing to address the public hearing held on 3 September. A full analysis of the responses to questions asked is attached as Appendix 1.

7. Of the submissions received on the main proposal – QLDC should lead the development of a convention centre in Queenstown – just under 55% supported or strongly supported the proposal, while 31% opposed or strongly opposed.
8. The survey of the District polled 400 persons with a margin of error of  $\pm 4.9\%$ . The data was weighted proportionately to relative ward populations (Wanaka 31%; Arrowtown 7% and Wakatipu 62%). A full analysis of the responses is attached as Appendix 2.
9. The main findings of the survey were:
  - a. **Council role:** QLDC should lead the development of a convention centre in Queenstown:
    - i. 25% Strongly support
    - ii. 23% Support
    - iii. 23% Neutral/no opinion
    - iv. 13% Oppose
    - v. 16% Strongly oppose.
    - vi. A ratio of (strongly) support : (strongly) oppose of 62:38
  - b. **Site location:** Lakeview is the best site for a convention centre
    - i. 29% Strongly support
    - ii. 25% Support
    - iii. 27% Neutral/no opinion
    - iv. 7% Oppose
    - v. 12% Strongly oppose
    - vi. A ratio of (strongly) support : (strongly) oppose of 74:26
  - c. **Development model:** The development model should have additional commercial activities to reduce Council's contribution.
    - i. 36% Strongly support
    - ii. 30% Support
    - iii. 20% Neutral/no opinion
    - iv. 4% Oppose
    - v. 10% Strongly oppose.
    - vi. A ratio of (strongly) support : (strongly) oppose of 82:18

#### **Additional expert comments on the project**

10. Following the submissions and survey, further advice has been sought from Jan Tonkin, Managing Director of The Conference Company, who has also had some advisory involvement with both the Auckland and Christchurch convention centres. Comments offered by Ms Tonkin include:
  - a. Queenstown has unique appeal as a conference destination;
  - b. The current conference facilities, both in Queenstown and New Zealand as a whole, lack capacity and quality to meet the demands on international conferences;

- c. Queenstown would need to consider marketing a new facility 2-3 years prior to opening to ensure initial financial success given the long lead times to booking conferences;
- d. Co-location of a 5-6 star hotel would open the facility up to the lucrative incentives market;
- e. Good functionality, high standards, site location, and destination appeal are more important considerations for conference selection than price;
- f. The additional funding for business tourism by Tourism NZ reflects the confidence that central government has in the business tourism market for New Zealand as a whole;
- g. The estimates for international conferences at Queenstown in the feasibility report by Horwath's generally appear to be realistic, provided adequate marketing is undertaken;
- h. The distance of Lakeview from the CBD is less important than the appeal and functionality of that site, and its capacity for growth.

### **Comments on issues arising**

#### *Convention centre capacity*

11. There have been numerous reports and studies on capacity for local and national convention centres. Although there was a submission suggesting the QCC needs greater capacity, none of the reports have proposed a 1,200 person convention centre in Queenstown. The Horwath report recommended a 5,300m<sup>2</sup> building with capacity for 750-800 delegates. This was based on:
- Cost (a larger facility will cost more);
  - Airport capacity (the airport's capacity may be strained by larger numbers);
  - Accommodation capacity (again current capacity may be strained by larger numbers);
  - Location (Queenstown has no direct international links other than eastern Australia);
  - Synergies with a larger convention centre (as a complement to Auckland).
12. However, it should also be noted that "future-proofing" is critical to a facility of this kind. Therefore if there is a strong and sustained business case for expansion, capacity could be increased at some point in the future provided the master-planning ensures the site can accommodate this.

#### *Rating options*

13. Very little detailed work has been done on rating options. In very simple terms, the worst-case cost estimate would amount to an average cost of approximately \$145 (i.e. \$3.2M divided by the number of ratepayers). A similar approach was taken for the commercial assessment of impact. If this cost was halved (as part of a wider commercial development) then the rate would also decrease proportionately.
14. It is contemplated that one of the next steps would be to undertake a more sophisticated analysis which would include options for apportioning rates differentially to CBD businesses; Wakatipu residents and Wanaka residents on a more equitable basis.

*Budget impact*

15. It appears to have been assumed by many submissions that Council funding of the QCC will necessarily require a rates increase. To date, a budget impact analysis has not been undertaken, but, depending on the level of contribution, it is conceivable that the contribution could be off-set from efficiency savings within existing Council operations. It is recommended that any ratings impact analysis also include preliminary analysis of possible changes to budget forecasts.

*Status of the Lakeview cabins*

16. There are approximately 150 cabins around the Lakeview site, of which approximately half are Council owned and the remainder are privately owned. All of the cabins occupy the land on bare licences (i.e. they have no interest in the land). The licences terminate on 30 September 2015 with no right of renewal. The Council's tenants are aware of this obligation and could not reasonably have any expectation of accommodation in these cabins beyond the termination date.
17. The private owners are required to remove the cabins on this date at their cost. In practice, where licences have terminated to date, many have refused or have been untraceable and Council has had to carry this out. Attempts have been made to recoup some costs by selling the cabins. However they are of such poor quality and in a state of disrepair that they have attracted limited interest for parts (window frames, doors etc).

*Funding costs: worst-case estimates*

18. Given that there is currently no specific proposal capable of being accepted or rejected by Council, we are unable to quantify possible costs to Council with absolute certainty. However the upper estimate which has been publicly stated assumes:
- a. QLDC has to fund \$39M of the \$54M construction costs and initial working capital;
  - b. That the return on capital required by the private investor is 8.25% (which is on the high side).
19. Accordingly, if QLDC were to guarantee lease payments (and in the event that an operator did not make sufficient operating surpluses to meet the lease payments, or provide any offset to these payments), then that sum would amount to:  $8.25\% \times \$39M = \$3.21M$  p.a.

*Adequacy of facility for performing arts*

20. The suggestion that a performing arts centre could readily accommodate a convention centre but not vice versa is not correct. Both are functionally specific buildings with particular purposes and needs. However, it would be possible to develop a convention centre with concerts in mind that would improve its acoustic performance.
21. Initial comments from Populous suggest that to achieve an "entertainment standard" of acoustics (i.e. pop music, but not orchestral/opera standard), the cost would be approximately \$500k. We are seeking further comments from them on the scope and cost of different acoustic improvements.

*Gorge Road site option*

22. The Gorge Road site is 0.6ha. Given that 0.53ha was the stipulated area for just the convention centre building (i.e. it does not include the car parking requirements of up to 1.0ha) and given also the irregular shape of the site, it is inadequate in terms of area. The site was rejected on the recommendation of Populous and Jan Tonkin on the basis that it "*compromised functionality and appeal*" as a location.
23. In his public submission, Mr Todd suggested taking some, or all, of the Recreation Ground site in addition to the original car parking site. This option has never been considered as it was assumed that Council would wish to retain use of the ground. However if there were to be a desire to consider this option, it could be assessed.

*Inclusion of a casino in a conference centre development*

24. Over 42% of submitters were opposed or strongly opposed to a casino being part of an integrated conference centre development (24% supported or strongly supported). No steps have been taken to establish a casino at the Lakeview site. The revenue implications have been estimated, and it is likely that an operating casino would generate significant revenue which would off-set any operating losses from a convention centre. In other words, a casino is one of the most attractive development options in terms of financial returns, but it is not critical to development.

*Horwath feasibility report*

25. While there have been a number of comments on the forecasts and assumptions within the Horwath feasibility report, forecasts are exactly that. They are best estimates based on the best available information and with assumptions that endeavour to be realistic and achievable. The assumptions on which Horwath's figures are based were set out in Appendix C of their feasibility report. Factors included in their assessment are:
- a. Queenstown's potential future competitive fit in the national market place, (which included taking into account the proposed NZICC in Auckland and likely replacement conference centre in Christchurch);
  - b. Horwath's knowledge of the popularity of Queenstown in the national market (which reviewed national and international conference rotations);
  - c. Queenstown's competitive advantages and disadvantages relative to other national facilities;
  - d. Identifying current constraints in terms of hosting conferences of the size of the projected large and medium conferences;
  - e. Their knowledge of the popularity of Queenstown in the Australian market both as a leisure destination and as a conference location;
  - f. The capacity of the existing hotel industry and other commercial accommodation in Queenstown;
  - g. The capacity of the airport, its development and growth track, and likely future capability.

26. Their study has not been formally reviewed or subject to a sensitivity analysis. However Jan Tonkin was asked to review them based on her intimate knowledge of the NZ and Australian convention market, and she did not consider there were any obvious, significant anomalies in them. She has questioned a small number of the assumptions but these are not material to the overall report. She also cautioned that the Year 1 forecasts would be optimistic without there being significant lead in time to promote a new venue.
27. On balance, and in absence of there being factual evidence which unequivocally contradicts the feasibility report, Council can reasonably consider that it is acting on the best available information when assessing the strength of the business case for a convention centre. Horwath's have been asked to update their view on the report and stated that *"...the projections are realistically achievable, not conservative, although not necessarily without some challenges (which are noted in the report) and are subject to achievement of the Critical Success Factors ..."*

*Previous Council plans and reviews of Lakeview*

28. In April 2004, Council considered possible future development of Lakeview. It was noted that the freehold land had been signalled as suitable for development back in 1999, and the paper noted that the study prepared for the report had *"...identified that there is no current shortage of reserves in the Queenstown area and that the only category of reserve required through to 2021 is additional neighbourhood reserves."*
29. In September 2007, which appears to have been the next substantive report to Council on Lakeview, it was proposed to Council that a potential developer be identified to progress development of the site. The scope of the proposed development was high-density, high value residential accommodation.
30. At a Council meeting on 14 August 2012 (at which the public were excluded for reasons of commercial confidentiality), the Council adopted the following resolution:
1. *Adopt the following objectives for the Lakeview site:*
    - a) *A high quality, predominantly residential community, consistent with Council strategies:*
      - i. *A development that is both physically and socially integrated into the existing and future built and natural environments;*
      - ii. *A safe public environment (both public streets and parks) that encourages residents to interact socially and take pride in their community;*
      - iii. *High quality development that 'positively' addresses the public environment and delivers high levels of private amenity;*
      - iv. *A natural and built form outcome that enhances Queenstown's unique "local identity";*
      - v. *A development that is high-quality, high-density residential, including community housing, with the option for visitor-serving uses.*
    - b) *A substantial long-term financial return to the community to be used for other community projects, achieved through Council's on-going ownership of the site.*

31. The report considered confidential proposals for the development of parts of the Lakeview site following an earlier public EOI. These proposals have not been advanced as the convention centre project (which at the time was not contemplated as being at Lakeview) has subsequently overtaken events.
32. The earlier reviews, plans and resolutions do not materially conflict with the current recommendation for an integrated development at Lakeview which contemplates a convention centre, but also other development options. The only material considerations which Council will need to have regard to are: (a) the types of developments (residential, commercial, retail or other) it wishes to promote and (b) whether, and to what extent, the Council wishes to develop options that do not produce the optimal financial return to Council. Such an option may increase the overall contribution by Council to a convention centre development, but it may be considered that there are countervailing considerations to warrant this.

#### *Economic Impact*

33. Numerous submissions have questioned the accuracy of estimates in the BERL report regarding the scale of economic benefits and the number of jobs that will arise from a convention centre development. It should be noted that the Auckland convention centre has been forecast to add 800 jobs to the sector. Accordingly, the Queenstown estimate of an additional 466 jobs may be a little high, although this needs to be balanced by the extent to which tourism is part of our economy (unlike Auckland) and therefore a convention centre in a tourism district may have a disproportionately positive impact.
34. It should be noted that there are diverging views on the merits of adopting multiplier analysis with this kind of assessment, and the BERL report accepts this, stating:

*“Multiplier analysis is only a “partial equilibrium” analysis, assessing the direct and indirect effects of the development being considered, without analysing the effects of the resources used on the wider national and regional economy. In particular, it assumes that the supply of capital, productive inputs and labour can expand to meet the additional demand called forth by the initial injection and the flow on multiplier effects, without leading to resource constraints in other industries. These constraints would lead to price rises and resulting changes in overall patterns of production between industries. To assess inter-industry impacts in full would require economic modelling within a “general equilibrium” framework. Applying such models becomes more relevant where the particular development is considered significant within the overall economy.”*

35. However, it should be noted that the scale of impact of the project on an economy as relatively small as Queenstown Lakes, is broadly consistent with the analysis undertaken by McDermott Miller of the sites and their earlier work on an economic model for the District. A 750 delegate conference centre in a region with a permanent population of less than 30,000 people is unique by any measure and it is not unreasonable to consider that it will have an impact proportionate to that scale.

## Options for Council

36. Having undertaken a significant range of assessments of the merits of the QCC, and engaged in special public consultation on the matter, three main options are available to Council:
- a. Cessation of the project;
  - b. A decision to commit to the project, but with caveats and “exit” options;
  - c. An unconditional commitment to the development.

### *Cessation of the project*

37. Although a legitimate option, having given conditional support for the project by virtue of commencing a RFP process last year, there are no obvious reasons for now reversing that position given that:
- a. The expert advice and feasibility reports identify economic merit in the project;
  - b. There appears to be a majority of qualified public support for the project; and
  - c. Further work to refine the business case and identify a suitable development agreement and partners does not require an unconditional commitment from the Council.

### *Unconditional commitment to the project*

38. There is neither a need nor a basis to give unconditional support to the project as:
- a. Not all development costs are currently known;
  - b. A detailed development model and potential partners have not been agreed or identified;
  - c. Funding options have not been satisfactorily analysed; and
  - d. A Government contribution has not been confirmed.

### *Commitment to the project, subject to key conditions being met*

39. Advice received from Jan Tonkin of The Conference Company notes that continued prevarication by New Zealand on the future of its convention centre projects is doing significant damage to our reputation as a convention destination. She suggests that until such time as there is a firm commitment to these projects, we will remain “off their radar” for bookings in the short to medium term.
40. Noting the reasons given above for not ceasing support for the project, it is therefore recommended that Council makes a firm commitment to the project but make it subject to:
- a. Confirmation of a contribution from Government;
  - b. Approval of an overall development master-plan for Lakeview;
  - c. Negotiation of an acceptable project development agreement with identified partner(s);
  - d. Quantification of the maximum Council contribution;
  - e. Approval of a rating or other funding option.

## Next Steps

### *Role of Council*

41. Public submissions and the District survey indicate a strong level of support for Council “leading” the QCC project. In this regard, it needs to be noted that:



- a. In absence of Council involvement and funding contribution, there is little likelihood of private developers progressing the project due to the lack of adequate financial return on the capital required to be invested;
  - b. The recommended site for development, Lakeview, is Council-owned land, and therefore Council have a direct financial interest in a successful development of the QCC; and
  - c. The fundamental rationale for development of the QCC lies in the indirect economic benefit to the District which will be derived from the operation of it and, in this respect, QLDC is the organisation which can best represent and advance those public interests.
42. Accordingly, until such time as a formal development agreement (including proposed parties, funding and operating models) is established, it is recommended that Council “leads” the QCC project in terms of commissioning and managing the necessary project resources for:
- a. master-planning;
  - b. assessment of funding options;
  - c. securing Government and other contributions;
  - d. promoting development of Lakeview by private investment interests; and
  - e. negotiating a project development agreement with prospective parties;
43. If the point is reached where a project development agreement is entered into, it is not contemplated that Council “leadership” will extend to: (a) actively managing the development of the Lakeview site; or (b) operating the QCC. These risks are typically better managed by, and consequently passed over to, the private sector.

*Site selection, master planning and development staging*

44. In addition to a strong recommendation to select the Lakeview site as the preferred location, the public submissions and the public survey endorse this view. In absence of a strong desire to re-assess existing options, or to consider new options, it is recommended that Council undertake a more detailed assessment of the Lakeview site. A copy of the master-plan area to be considered is attached as Appendix 3.
45. This assessment would include development of a master plan that:
- 1. Proposes specific location options for the QCC infrastructure and buildings, noting the desirability of establishing strong links between the QCC and the CBD, and maximising development opportunities (hotel, retail and residential, for example) for the balance of the Lakeview site;
  - 2. Evaluates underlying property issues that need to be assessed (e.g. any legal constraints or hurdles on developing the freehold or reserve land in question);
  - 3. Considers likely resource consenting issues;
  - 4. Considers the scale, scope and functionality of a convention centre;
  - 5. Provides options (including locations) for complementary development to be considered; and
  - 6. Assesses and provides visual images of a convention centre (and any associated developments) so that the development is better understood by the public.
46. An additional feature of the master planning exercise which could be considered is the possible staging of different developments. This would not only provide a timeline for possible capex/opex investment and financial returns, but also

alleviate the concerns of CBD businesses as to the scale and timing of any additional commercial development in the wider CBD area.

#### *Development model*

47. CBRE have recommended an integrated development model as the best option for maximising the financial return from Lakeview, and consequently the best means for minimising direct Council contribution by way of rates. This was generally supported by public submissions and the public survey endorsed this view. It is therefore recommended that Council adopt this as the preferred development model for the time being.

#### *Funding sources*

48. As noted above, detailed analysis of rating options has not been undertaken. The Minister of Finance has publicly rejected a bed tax as a funding option. Work on the development model is necessary to assess the scale of financial contribution from the development of other Council assets. Accordingly, in the interim, it is recommended that Council officers develop various options for rating contributions for Council to consider.

#### *Government contribution*

49. The Prime Minister has publicly stated that, “*We wouldn't fund the bulk of the [Queenstown] convention centre, nor is it likely that we would need to because there are quite a number of interested parties, but we're not ruling out putting in some cash.*” A formal request has not been put to central Government for funding. However, given the analysis which has now been undertaken to support the business case for development, it is now timely for a formal request, along with a request for the information required to support the request, to be made to the Government.

#### *Consenting options*

50. Preliminary work has been undertaken on the means for securing resource consent for the development. Of the main options – a Plan change; having the matter called in; or a standard resource consent application – the initial view is that the last of these options is preferable. Before confirming this approach, it is proposed that formal advice on the options is received and provided to Council.

#### *Transport implications*

51. Development of Lakeview is necessarily connected to the Inner Links Strategy for enabling improved traffic flows around CBD Queenstown. A scheme assessment of the first two stages of the Inner Links Project is currently being commissioned. It is proposed that the implications for a development of the QCC at Lakeview will be factored into this assessment.

#### *Council expenditure implications*

52. The estimated development costs of the QCC at Lakeview are \$52.5M. This includes external works, consent costs, professional fees, and contingency. It excludes land costs and development cost external to the site (e.g. any required upgrades to roads or water/wastewater services). As part of the next project phase it is proposed that a two part budget is developed – one which details

possible Council capital costs within the QCC precinct and one which outlines costs which may be created or brought forward as a result of the development.

### **Financial Implications**

53. If Council adopts the proposed recommendations, the only immediate costs associated with the QCC project will be the master-planning and associated analysis work to be undertaken. These costs have yet to be determined. Although they are not anticipated as being significant, and will be within the Chief Executives financial delegations, it is proposed that they are submitted to Council at its next full meeting.

### **Council Policies**

54. The following policies have been considered in the preparation of this report:

#### *Community Consultation Policy*

- a) The report follows adoption of the special consultative procedures under the Local Government Act, and is consistent with the principles outlined in the Council's Consultation Policy.

#### *Significance Policy*

- b) Not applicable

### **Publicity**

55. It is proposed that the Mayor is authorised to issue a media release following the Council's deliberation on this report.

### **Local Government Act (LGA) purpose provisions**

56. Consideration needs to be given as to the extent to which Council funding (to whatever extent it is made) is consistent with the new purposes of local government as set out in the LGA. It is material that there has been both public consultation and a public survey on the matter, and both indicate support for the proposal, albeit that it is qualified.

57. Section 11A of the LGA provides that:

*"In performing its role, a local authority must have particular regard to the contribution that the following core services make to its communities:*

*(e) libraries, museums, reserves, recreational facilities, and other community infrastructure."*

58. Justification for the commitment appears to rest largely on s.11A(e) above in that the inherently non-commercial nature of convention centres, while capable of providing an operating surplus, they are unlikely to make a significant return on capital, and therefore will not be initiated by the private sector. This fact, coupled with the large indirect economic benefit they can make to a local economy, suggests that they can reasonably be regarded as "community infrastructure" from which greater economic opportunities can be created. Before any formal commitment is made a development agreement, however, it is recommended that external legal advice is received on this position.

**Attachments**

- Appendix 1: Summary response analysis of submissions
- Appendix 2: Convention Centre Research – Main Findings, August 2013
- Appendix 3: Lakeview Site – Masterplan