



FINAL REPORT: 27 November 2014

Queenstown Convention Centre Funding Analysis

PREPARED FOR

QUEENSTOWN LAKES DISTRICT COUNCIL

Authorship

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Contents

1	Introduction	1
1.1	Context, Scope and Purpose of this Report	1
1.2	Structure of this Report	1
2	Methodology	2
2.1	Scope of Benefits Covered	2
2.2	Ratepayer Groups	2
2.3	Translating Expenditure to Benefits	2
2.4	Steps in the Analysis	3
2.5	Areas of Benefit	3
2.6	Introduction to Input-Output Analysis	4
3	Annual Centre and Delegate Expenditures	5
3.1	Annual Operating Expenditures	5
3.2	Annual Delegate Expenditures	5
4	Results	6
4.1	Overall Allocation to Ratepayer Groups	6
4.2	Allocation by Ratepayer Group and Area	7

1 Introduction

1.1 Context, Scope and Purpose of this Report

Queenstown Lakes District Council (QLDC) is promoting the development of an international Convention Centre on its Lakeview site adjacent the CBD. While full project funding is yet to be secured, work is already underway to consider how the Council might recover any future contributions that it makes from its ratepayers.

According to section 101(3) of the Local Government Act 2002, the Council must consider a range of factors when deciding how to fund activities, including “*the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals.*” To that end, this report analyses the likely distribution of benefits associated with the ongoing operations of the proposed convention centre to help inform any future funding decisions.

1.2 Structure of this Report

The remainder of this report is structured as follows:

- **Section 2** briefly describes the methodology used to allocate benefits
- **Section 3** identifies the specific expenditures used to derive benefits
- **Section 4** summarises the key results of the analysis

2 Methodology

This section briefly describes our methodology.

2.1 Scope of Benefits Covered

While the proposed convention centre is likely to deliver a wide range of enduring benefits, many of these will be intangible and/or difficult to quantify. Since the purpose of this analysis is to empirically examine the distribution of benefits across ratepayers, it necessarily focusses only on those benefits that are tangible and easy to quantify. There are two types of such benefits. They are the ongoing economic impacts of:

- The operational expenditures of the convention centre itself, and
- Spending by delegates

Accordingly, this report only considers the distribution of these two sources of benefits and ignores all others. Please note that this does not imply that other benefits are unimportant, merely that they cannot be reliably attributed to different sections of the community within this framework. The Council, however, may wish to have regard to those other benefits when devising its final rating structure (if any).

2.2 Ratepayer Groups

This analysis assigns benefits to the three following ratepayer groups, which were agreed with the Council:

1. Accommodation businesses,
2. Commercial businesses, and
3. Households

Please note that “commercial businesses” includes every business in the district except accommodation providers. According to the latest official employment data, this means that commercial businesses accounted for 88% of district employment, and accommodation only 12%. This should be kept in mind when assessing the quantum of benefits assigned to each group later in this report.

2.3 Translating Expenditure to Benefits

The overarching objective of this analysis is to translate future expenditures into measures of benefit, which can then be attributed to different ratepayer groups and different parts of the district. While GDP is often used to measure the economic impacts of projects like this, it cannot be easily attributed to the different ratepayer groups. Instead, GDP needs to be broken down into its constituent parts, and then allocated to groups. By far, the two biggest components of GDP are profits and wages. For the purpose of this analysis therefore, we attributed benefits as follows:

1. Accommodation business benefits = increased net profits after tax for that sector
2. Commercial business benefits = increased net profits after tax for all other sectors
3. Households = increased household incomes after tax

2.4 Steps in the Analysis

Following are the key steps in the analysis:

1. Identify annual expenditures associated with delegates and centre operations.
2. Map each expenditure to a sector of the district/regional economy
3. Overlay a regional input-output table to translate expenditures into region-wide changes in profits and household incomes by sector.
4. Attribute the increases in profits and incomes by sector to ratepayer groups.
5. Spread the benefits for each group across different parts of the district based on:
 - a. The number of businesses and households in each area, and
 - b. Their distance from the proposed convention centre.

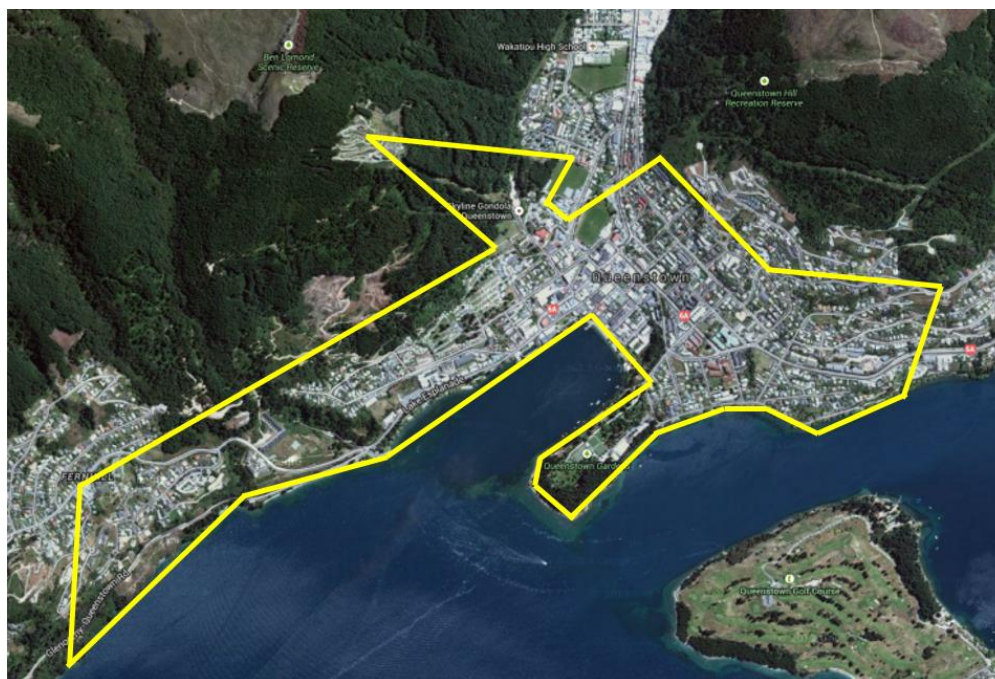
2.5 Areas of Benefit

Our analysis revealed that some types of benefit will be highly localised. For instance, the impacts of delegate expenditures will be tightly focussed around the convention centre and the CBD. Accordingly, we allocated benefits to the three following areas:

1. Queenstown CBD
2. Rest of the Wakatipu/Arrowtown wards, and
3. Wanaka ward

The following map shows the suggested extent of the CBD catchment. This has been loosely modelled on meshblocks, and is designed to capture the bulk of CBD tourism businesses plus likely direct suppliers to the convention centre itself.

Figure 1: Suggested Boundary for the CBD Catchment



¹ This approach reflects the fact that, all other things being equal, benefits will tend to be greatest for areas that have large numbers of businesses and households, and/or are located near the centre.

2.6 Introduction to Input-Output Analysis

As noted above, the expenditure profiles for delegates and the centre itself were overlaid with an input output table to determine the region-wide changes in profits and incomes by sector. While some readers may be familiar with this broad approach, we briefly take this opportunity to explain what an input output table is and how it was are used here.

Input output tables are large matrices that show both the:

- particular set of inputs that each sector purchases to produce its output, and
- markets that each sector ultimately sells that output to

In other words, an input output table identifies the various supply chains that comprise the regional economy. In doing so, it reveals how an increase in one sector (or group of sectors) ripples through the economy via supply chain effects so that the overall effects of any changes can be assessed.

Consider the following hypothetical example. Suppose a local furniture manufacturer has just won a large, new export order. In addition to extra staff, the company will need to source a range of additional materials from its suppliers to complete the job. These suppliers, in turn, will need to source various inputs from their own suppliers, and so on. Input output analysis traces all these interdependencies so that the wider economic impact of the export order can be estimated. In addition, it translates the associated increases in supply chain employment into new household spending, which give rise to even further economic impacts.

The overall economic impact is the sum of the direct effects and flow-on effects, which are usually measured in terms of incomes, GDP and employment.

3 Annual Centre and Delegate Expenditures

The following tables show the annual expenditures used to derive benefits. These have been sourced from background documents provided by the Council, and relate to operations from year five onward (at which point convention activity was assumed to have reached maturity).

3.1 Annual Operating Expenditures

Table 1 shows the annual operating expenditures of the convention centre. Catering accounts for the largest share by far (40%), followed by technical services (18%), then overhead services (9%) and administration (8%).

Table 1: Annual Operating Expenditures

Operating Expenses	\$000s	Shares
Catering Direct Costs	\$3,630	40%
Technical Services	\$1,630	18%
Overhead Salaries & Wages	\$830	9%
Administration & General	\$700	8%
Energy and Utilities	\$540	6%
Staff Costs - Direct	\$400	4%
Sales & Marketing	\$390	4%
Other Property Operations / R&M	\$320	3%
Rates	\$230	3%
Insurance	\$170	2%
Cleaning	\$120	1%
Staff Costs & Training	\$110	1%
Contingency	\$110	1%
Total	\$9,180	100%

3.2 Annual Delegate Expenditures

Table 2 shows annual delegate expenditure in the district. Accommodation accounts for the largest share (33%) followed by registration fees (26%) and food/beverages (18%).

Table 2: Annual Delegate Expenditures

Delegate Expenditures	\$000s	Shares
Accommodation	\$19,510	33%
Registration fees	\$15,250	26%
Food & beverage	\$10,750	18%
Retail purchases	\$5,070	9%
Entertainment & activities	\$4,330	7%
Ground transport	\$3,080	5%
Other spend	\$440	1%
Total	\$58,430	100%

4 Results

This section summarises the results of our analysis.

4.1 Overall Allocation to Ratepayer Groups

The following table shows the overall allocation to ratepayer groups. Commercial picks up the lion's share of benefits with 56%, followed by households (23%) and accommodation (21%).

Table 3: Benefit Shares by Ratepayer Group

Ratepayer Group	Benefit Share
Accommodation	21%
Commercial	56%
Households	23%

Next, Table 4 shows the increased net profits after tax for the top 20 industries to explain why the commercial share is higher than accommodation. Basically, accommodation is the biggest winner, but it is only one of more than 100 different industries. As a result, its overall share is lower than some might expect.

Table 4: 20 Industries with the Highest Increases in Profits as a Result of the Convention Centre

Ratepayer Group	Industry	Increased Profit (\$000s)
Accommodation	Accommodation	\$47,420
Commercial	Retail trade	\$22,230
	Bars, clubs, cafes and restaurants	\$16,950
	Road passenger transport	\$11,530
	Other sport and recreational services	\$11,070
	Wholesale trade	\$5,190
	Beer, wine, spirit and tobacco manufacturing	\$5,030
	Property ownership and Mgt and Real Estate	\$4,320
	Sheep and beef cattle farming	\$3,150
	Finance	\$2,420
	Other Horticulture	\$2,280
	Meat processing	\$1,840
	Publishing, recorded media manufacturing	\$1,390
	Communication services	\$1,340
	Accounting services	\$1,270
	Electricity supply	\$1,260
	Dairy cattle farming	\$1,190
	Bakery, sugar and confectionery manufacturing	\$1,160
	Road freight transport	\$1,150
	Air transport, services to transport and storage	\$1,090

4.2 Allocation by Ratepayer Group and Area

Finally, the following table shows our overall benefit allocation across ratepayer groups and areas.

Table 5: Final Allocation of Benefits across Ratepayer Groups and Areas

Areas/Groups	Commercial	Accommodation	Households
CBD	35%	15%	20%
Wakatipu/Arrowtown Ward	15%	5%	
Wanaka Ward	6%	1%	3%
Total	56%	21%	23%