

QLDC Council**26 June 2014****Report for Agenda Item 3****Department:****CEO Office****3. Queenstown Convention Centre and Lakeview Development: Outcome of Annual Plan consultation and next steps****Purpose**

The purpose of this paper is to:

- a) Update Council on discussions with Ngai Tahu Tourism ("NTT") for the development of hot pools at the Lakeview site ("Lakeview");
- b) Summarise the outcome of public submissions from the draft Annual Plan
- c) Recommend options for next steps to progress the development of Lakeview and the Queenstown Convention Centre ("QCC").

Recommendation***It is recommended that the Council:******a. Notes the contents of this report, and in particular that:***

- i. Discussions with NTT for the development of hot pools at Lakeview continue to progress;*
- ii. The outcome of public consultation in the draft Annual Plan was a majority of public support, albeit it narrow, for the three propositions relating to the QCC;*
- iii. Council officers have provided comment on the most significant issues and risks raised during the consultation process; and*
- iv. Three main options are open to Council to consider on progressing the QCC proposal.*

b. Resolves to:

- i. **Approve** the development of a Convention Centre for Queenstown by Council, subject to:*
 - 1. Securing the capital funding required to construct the Convention Centre, in addition to \$32.5m proposed by way of Council contribution;*
 - 2. Amending the Long Term Plan to incorporate proposed costs associated with the Convention Centre development; and*
 - 3. Council considering alternative ratings models which include options for an expanded CBD business zone and reduced residential contributions, and approving a final ratings funding model;*

4. *Council approving a preferred operating model.*

b. Direct officers to report back to Council by 30 July with:

- i. a draft plan change for the establishment of a Lakeview sub-zone for Council consideration;*
- ii. a proposed master-plan for the Lakeview site for the purpose of the proposed plan change for Council approval;*
- iii. alternative design options for staged or reduced construction costs for Council consideration; and*

c. Direct officers to report back to Council by 30 September with:

- i. alternative rating options for a reduced contribution from residential ratepayers.*

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16/06/14

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Background

- 4. A Working Group to establish criteria for a Convention Centre was established in August 2011. This was followed by a feasibility study in March 2012 by Horwath HTL Ltd of the likely operating costs and revenue. A Request for Proposal in August 2012 resulted in Council entering into discussions with a consortium including Ngai Tahu Property, Morrison and Co and Sky City Entertainment Group as preferred parties. These discussions have not progressed.
- 5. Since then, QLDC has commissioned a number of specialist reports to assess the merits of a Convention Centre including:
 - i. An overview of the project including operating costs and revenue; development models; and funding options by CBRE.
 - ii. An economic impact assessment by BERL Economics.
 - iii. An analysis of the merits of the respective sites in terms of economic impact by McDermott Miller.
 - iv. An assessment of preferred site options by Populous and The Conference Company.
 - v. An estimate of construction cost by WT Partnership.
 - vi. A master-plan for the wider development of the Lakeview site by Populous/Fearon Hay.
 - vii. A review of infrastructure; land title and planning issues prepared by Council officers.
 - viii. A revised set of operating forecasts by Horwath HTL with five possible scenarios ranging from “best case” to “worst case” assumptions.
 - ix. A report from Council officers on funding requirements and an analysis of the possible financial impact on different categories of ratepayers.

6. At a meeting of 27 March 2014 (COU 140305 refers), Council resolved to:
1. Approve in principle option three as the preferred rating basis for funding any capital contribution to a Convention Centre project;
 2. Approve for inclusion in the draft 2014/15 Annual Plan a proposal for the development of a Convention Centre which is based on the funding levels and ratings impacts contained in this report;
 3. Direct officers to report back to Council regarding;
 - i. Progress with the negotiations with Ngai Tahu Tourism no later than 30 June 2014;
 - ii. A final proposal for the development of a Convention Centre for Council decision, which incorporates the public submissions from the draft Annual Plan, by 30 June 2014.

Comment

Outcome of public consultation

Stage One – Special Consultative procedure

7. In August 2013 Council undertook public consultation in accordance with the “special consultative procedure” of s.87 of the Local Government Act (LGA). A number of statements of proposal were put to the public for comment. The options for response to each proposition range from strongly support; support; oppose; strongly oppose; and neutral. The results were:

(%)	Strongly support	Support	Neutral	Oppose	Strongly Oppose	Left blank
QLDC should lead the development of a Convention Centre in Queenstown”	37.83	16.98	7.49	7.09	23.66	6.95
Lakeview is the best site for a Convention Centre development	43.18	16.04	11.36	2.81	13.24	13.37
The financial contribution of the Council to a Convention Centre project should not exceed \$3.2m p.a.	35.16	17.51	15.64	2.41	13.24	16.04
The Council financial contribution to any development should be by way of:						
1. A general rate on the community	8.56	16.31	10.83	10.70	35.03	18.58
2. A targeted rate on the business community	25.94	22.06	10.29	7.49	14.71	19.52
3. Sale of Council assets	17.25	21.52	14.44	7.75	20.05	18.98
4. A bed tax [<i>noting there was no current legal basis</i>]	17.51	15.78	12.43	7.75	18.58	27.94

8. At the same time an independently conducted survey of residents of the District in relation to the Convention Centre proposal showed that:
- a) 48% supported or strongly supported;
 - b) 29% opposed or strongly opposed;
 - c) 23% were neutral or had no opinion.

Stage Two – Draft Annual Plan consultation

9. Three propositions were put to the public for comment in the draft Annual Plan 2014/15 summary. The results from these questions were:

	Yes (%)	No (%)
Q1: The Council should proceed with the proposed Convention Centre	59.3	40.7
Q2: The Lakeview site should be developed to accommodate the Convention Centre; hot pools; and other developments	62.7	37.3
Q3: The Council's contribution should be \$32.5m towards construction costs; working capital and associated infrastructure development; and should be funded from rates allocated: 35% commercial Queenstown CBD; 30% Wakatipu commercial; 20% Wakatipu residential; 10% Wanaka commercial; and 5% Wanaka residential.	51.7	48.3

10. The strongest support for the proposed ratings model was from persons living outside the District (77 answered "Yes" and 20 answered "No") and commercial property owners (64:17). The strongest opposition to the proposed rating model was from Wanaka/Upper Clutha and Arrowtown residents (29:68 and 22:68 respectively). A full breakdown of submissions is appended to this report.

Negotiations with Ngai Tahu Tourism

11. The negotiations with NTT are proceeding with a draft Heads of Agreement under discussion, with the key issues being the lease period (and renewal); rental; and design.
12. Council and NTT require some detailed master plan design work to define the lease area boundaries. Once the lease area is defined NTT will be in a position to progress design and consenting requirements for approval. Any intention of Council to exchange and/or grant a lease on reserve land will require public notification under the Reserves Act and approval by the Minister of Conservation (or his delegate). Preliminary discussions with officers from the Department of Conservation have been initiated.

A Summary of the Business Case for a Convention Centre

Will the Convention Centre be a financial success?

13. The initial feasibility report prepared by Horwath HTL considered that a Convention Centre on the scale proposed would be likely to break even by Year 3 and make approximately \$420k surplus by Year 5. They consider that the projections were not "optimistic" but rather that they represented a challenging but achievable budget. However, it should be noted that their figures made no provision for depreciation; major capital replacement; debt repayment or interest payments on debt; or a ground rent.
14. Their subsequent sensitivity analysis of their initial projections factored in considerations such as the number and size of conferences likely to be secured; the reasonableness of the proposed expenditure; the state of the international and New Zealand economies generally; the conference market specifically; and possible competition from a Convention Centre at Remarkables Park. The possible scenarios produced Year 1 results ranging from +\$623k to -\$1.73m, and Year 5 results ranging from +\$2.6m to -\$845k.

15. There is inevitably a risk of on-going losses with any commercial enterprise. However, informal discussions with suitably qualified persons, such as Jan Tonkin (Managing Director of The Conference Company); Harvey Lister (CEO of AEG Ogden); Brett O'Riley (CEO of ATEED), indicate that Queenstown is regarded as being well-placed to host a successful international convention venue.
16. Steps which can be taken to mitigate financial and operational risk include:
- a. Ensuring the venue is managed by an appropriately experienced Convention Centre operator;
 - b. Ensuring that the venue design meets minimum standards and functionality for international conferences;
 - c. Ensuring that the venue is well-marketed early from any decision to proceed;
 - d. Leveraging Queenstown's existing high international tourism profile with the likes of Tourism NZ, Air NZ, Auckland International Airport, ATEED and Destination Queenstown;
 - e. Developing a complementary operating strategy with the NZ Convention Centre;
 - f. Ensuring that Queenstown Airport has the capacity to meet flight demand (particularly from Australia) through increased flights and establishment of night flights.
17. It should also be noted that the costs associated with the Convention Centre development and operation would be off-set by significant return (by way of land payments over time that share in the value upside) from the development of the Lakeview balance land. A portion of this return would be derived regardless of the Convention Centre proceeding. However, in the view of CBRE, development of a Convention Centre as part of a high-end mixed commercial/residential development, would add significant appeal to possible developers for Lakeview; strengthen the commercial viability of the site (e.g. for hotel and any retail development); and, in turn, generate greater return from the site than if a Convention Centre were not part of the overall development.

Can the QCC manage the impact of competition from elsewhere?

18. In addition to Auckland (2,500 capacity) and Christchurch (1,500 capacity), Convention Centres have been mooted for Wellington (1,000 capacity) and Remarkables Park (500 stage 1; 625 stage 2 capacity). 'Capacity' in this context is an estimated 'practical maximum capacity', that is, the number of persons who, based on proposed designs, could be hosted for a multi-day and multi-activity conference with uninterrupted movement of delegates between spaces (not purely the number of people who could be accommodated theatre-style).
19. The National Convention Centre, because of its scale and the links between Auckland and Queenstown, has already been identified by The Conference Company and Horwath HTL as being a complementary rather than competing operation. Full capacity conventions in Auckland are likely to see "subventions" being hosted in Queenstown.

20. With Government funding, it appears likely that the Christchurch project will also proceed. However there is a question mark over its medium-term viability due to lack of adequate accommodation and negative international perceptions arising from earthquakes and the on-going after-shocks. AEG Ogden have advised QLDC that they consider Auckland and Queenstown the only viable international Convention Centre destinations in New Zealand. Their lack of interest in bidding to operate the Christchurch venue reflects this concern.
21. Little at this stage is known about the Wellington Convention Centre. However, given its proposed scale and location; the newness of the proposal; and Wellington's relative lack of appeal as an international tourism destination, its impact on a Queenstown Convention Centre is at best speculative.
22. The proposal for a Convention Centre at Remarkables Park is difficult to assess. Concept design drawings for the RPL proposal were received in early June 2014 by Council's planning department for review at the Remarkables Park Design Review Board (RPDRB) meeting on 12 June 2014. Despite requests for information, RPL have declined or been unable to provide costing estimates and funding sources of any detail. RPL have stated that they intend to build a Convention Centre regardless of the QCC proposal, but to date there appears to be little tangible progress. In December 2013, RPL advised the Council, "...a resource consent [will] be filed in March/April 2014....to enable construction to start mid-2014." Council have since been advised by RPL that the date for consent filing is now likely to be the end of June 2104, with building to commence in autumn 2015.
23. Horwath HTL were asked to assess the impact of an additional Convention Centre in the Wakatipu Basin. In broad terms, they considered that it would help create critical mass for a Convention Centre market in the Basin due to the lack of capacity with current venues. While it would compete with QCC in the medium-sized market, they did not consider it would seriously compete with QCC for international conference activity. The primary reason for this was at a proposed budget of circa. \$30m it would not meet specifications for international conventions. The Conference Company also considered the RPL location would have significantly lesser appeal to international convention organisers because of its remoteness from their preferred destination of Queenstown CBD.

Can sufficient funding from other sources be identified?

24. The Prime Minister has been reported as stating that the Government is unlikely to agree to the \$20m contribution proposed in the Council funding strategy. However, it was reported that, in addition to a lesser capital contribution, the Government may consider a visitor levy.
25. Options for managing any shortfall could include:
- Finding alternative sources of capital;
 - The introduction of a visitor levy;
 - Establishing the QCC in stages; and/or
 - Reducing the cost of a construction by an amount proportionate with any Government reduction in contribution.

Is a Convention Centre "core business" under the LGA?

26. Council officers have sought external legal advice as to the lawfulness of a local authority to either operate or contribute to a Convention Centre. That advice is privileged and the detail of it should not be publicly disclosed. However, there is a high level of comfort that, whether by way of establishing a CCTO or making a financial contribution to an alternative operating model, the Council can lawfully pursue the establishment of the QCC.

What are the benefits to residents?

27. Of those submissions opposing the proposal, a significantly greater number were by persons with residential properties. They argued that there is insufficient benefit derived by householders, and the primary beneficiaries are business owners, particularly those within the Queenstown CBD and/or those most directly related to the tourism industry (accommodation; hospitality; recreational activities etc). The economic impact analysis conducted by Berl Economics noted that a Convention Centre would make a “significant impact” on the District’s economy including:
- a. 466 FTE additional jobs;
 - b. \$9.8m spent annually within the District by the QCC
 - c. Add \$30.9m annually to GDP
 - d. Attract approximately 29,000 visitors annually (excluding partners/family).
28. In assessing QLDC’s request for funding, central Government sought their own assessment of the possible economic impact of a QCC. A report by NZIER made the following conclusions:

“The overall regional impact of the construction and infrastructure development phase (from 2015-2016) is that Gross Regional Product (GRP) rises by \$36 million, regional consumption by \$46 million, while employment expands by 0.4%....Once QCC is fully operational, it attracts an additional \$25.4 million of international and domestic spending each year... The overall regional impact of the operations phase by 2017 is that, relative to the baseline, GRP cumulatively rises by \$65.8 million, consumption by \$70 million and employment by 0.7%, or around 120 jobs.”

29. While growth of this kind may not have a direct impact on residents outside the business sector, significant economic growth can have a wider positive impact on the community, including:
- a. Expanding the ratepayer base to fund critical new infrastructure needed in the District (e.g. wastewater systems)
 - b. Creating critical mass for new or additional social infrastructure (e.g. hospitals and schools);
 - c. Creating new business and employment opportunities.
30. In their preparations for a draft Economic Development Strategy to be considered by Council, Martin Jenkins has stated a Convention Centre:
- “...would be a major game-changer for securing high-value business visitors and reducing visitor seasonality in the District... [It] is also likely to mainly attract additional visitors and spend, rather than simply displacing existing visitor activity.”*

Can the Convention Centre secure resource consents?

31. Under the current District Plan, the QCC would be a non-complying activity. However, officers have proposed that re-zoning of the Lakeview site as part of an expanded Town Centre could better address existing latent demand for more commercial and mixed use/residential space within the wider downtown area. If a Lakeview sub-zone were to be created under the District Plan by way of a plan change, the Convention Centre would be a restricted discretionary activity in the Queenstown Town Centre zone.
32. External planning, transport, urban design and other appropriate consultants have been engaged to prepare a comprehensive plan change application for Council consideration. While litigation risk exists with this approach; the risk is mitigated by:
 - a. A comprehensive consultation strategy, particularly with immediately affected neighbours; and
 - b. Thorough planning analysis to mitigate possible adverse effects from any development.

Summary of current position

33. Council has now spent approximately three years and in excess of \$500k, and commissioned ten reports, assessing the merits of Council involvement in the development of a Convention Centre. There has been significant public consultation, as well as an extensive wider public debate through the media. The position can be summarised as follows:
 - a. **Expert opinion:** Professionally-qualified advice suggests that there is likely to be strong national and international demand for a Convention Centre in Queenstown, with Lakeview being seen as the clearly preferred option;
 - b. **Financial performance:** The forecasts indicate that, even with domestic competition, the Convention Centre could produce modest operating surpluses. These forecasts are subject to significant variation, and positive returns are dependent on effective management of the risks identified.
 - c. **Business case:** A business case based on return on equity is at best marginal, but one based on wider economic development is significantly stronger. It is difficult to think of a single alternative project or development in the District which could produce the same level of visitor, GDP or population growth.
 - d. **Risk:** The risk profile for the project is significant, particularly in the absence of a casino being incorporated into the project. Effective marketing and a well-qualified operator will materially reduce the most obvious risks associated with financial performance.
 - e. **Public opinion:** All forms of public consultation have demonstrated polarised views on the merits of the QCC. However, all questions related to the QCC have had a greater level of support than opposition, with the exception of funding sources. A predominance of residents prefer targeted business rates, while there appears to be a broad level of acceptance of higher rates by Queenstown businesses.

Options for next steps

34. The main options for developing a Convention Centre are:
- Option 1:** Resolving not to proceed with a Council-led Convention Centre;
 - Option 2:** Deferring any final decision until additional funding sources are found;
 - Option 3:** Committing to a Council-led development, subject to key considerations being concluded: (a) securing the required non-Council funding from additional sources and/or reducing current construction costs; (b) the Long Term Plan being amended through a special consultative procedure; (c) the ratings model and operating model being finalised.
35. The possible benefits from Option 1 are:
- It removes any financial risk to the Council;
 - It enables the proposed Convention Centre site to be used for alternative purposes;
 - It enables capital to be used for alternative projects, or have Council debt remain at current levels;
 - It frees up Council resources for alternative projects.
36. The possible risks with Option 1 are:
- It runs counter to the majority of public opinion, particularly that of Queenstown businesses, identified from public consultation and surveys;
 - In the opinion of CBRE, it is likely to lessen the commercial interest in, and financial return from, the development of the Lakeview site;
 - Queenstown is likely to continue to fail to attract convention visitors, particularly international conventions, to the District;
 - It is likely to eliminate the possibility of a CBD Convention Centre for the short to medium term, if not longer;
 - It eliminates a significant part of one of the key platforms for economic growth (Encouraging higher value tourism activity) identified by Martin Jenkins in their draft economic development strategy, and by Berl Economics and NZIER in their economic impact analyses.
37. The possible benefits from Option 2 are:
- It mitigates the construction-related financial risk to the Council;
 - It provides the community with an opportunity to reflect on the work done to date and more fully assess future options, including a Convention Centre at Remarkables Park.
38. The possible risks with Option 2 are:
- It may be seen as a negative step by possible Convention Centre operators/partners and developers for the Lakeview site, resulting in them withdrawing from participation in any discussion;
 - It is likely to hinder the successful development of the remaining Lakeview site due to high levels of uncertainty;
 - It does not reflect the majority of public opinion for continued momentum with the proposal.
 - In the event that Council subsequently made a decision to proceed, the wider risks previously identified would need to be managed or mitigated.

39. The possible benefits from Option 3 are:
- a. It delivers a significantly positive impact on the District's economy;
 - b. It reflects the majority of public opinion from submissions and surveys;
 - c. It ensures that momentum with the development is maintained, while still leaving an opportunity to ensure key issues around funding, rates and operation are resolved;
 - d. It will help revitalise the CBD;
 - e. It will increase the interest in, and financial return from, the development of Lakeview.
40. The possible risks with Option 3 are:
- a. It still requires significant commitment of staff time and expenditure to progress the proposal with no certainty of outcome;
 - b. It has some uncertainty on consenting issues;
 - c. In the event that Council subsequently made a decision to proceed, the wider risks previously identified would need to be managed or mitigated.

Financial Implications

41. This report has no direct financial implications until such time the Council resolves to amend the Long Term Plan.

Local Government Act 2002 Purpose

42. Council has been advised that Council involvement with the development of a Convention Centre is consistent with the LGA.

Council Policies

43. In preparing this report, the following Council policies were considered:
- a. Significance Policy
 - b. 2013/14 Annual Plan;
 - c. Draft 2014/15 Annual Plan;
 - d. 2012/22 Long Term Plan.

Consultation

44. The outcome of public consultation through the draft Annual Plan 2014/15 was taken into account as part of the preparation of this report.

Publicity

45. It is recommended that the Mayor is authorised to issue a media release summarising the action proposed by Council as next steps.

Attachments

- A. Analysis of public submissions