

QUEENSTOWN CONVENTION CENTRE – SUMMARY BUSINESS CASE

Overview

- The Queenstown Lakes District Council (QLDC) is proposing the development of an international standard convention centre with 750 person (seated) capacity at Lakeview. The centre will be part of a mixed used development with commercial and hotel operations and a hot pool facility alongside. Subject to funding and regulatory proposals, construction could commence in the 2015/16 financial year and be completed by 2017/18.
- The strategic case for the centre is strong. A convention centre will attract higher spending business visitors, consistent with the District's aspiration to develop a higher value economy, with central government's Business Growth Agenda aspiration to grow the value derived from tourism, and with the government's increased investment in Tourism NZ to enable the attraction of more international business events. The district is currently limited in its ability to host conferences with more than 250 persons and currently captures a small share of business events in New Zealand. The international convention market is growing and Queenstown is well placed to capture a share of this growth, given its premier visitor destination status. The proposal for a centre is well supported by local industry and the broader community. If the convention centre does not proceed, Queenstown will lose its market share of events to the centres planned in Auckland, Christchurch and Wellington, and Queenstown will likely increasingly follow a high visitor volume, low value trajectory.
- In terms of the financial case, the total cost of the centre over the first eight years is estimated at [REDACTED]. This includes:
 - Capital costs (including the value of land required), which are estimated to be [REDACTED] over the first eight years. The most significant component of these is design and construction costs, at \$52.2 million. \$1.9 million of the costs are for additional infrastructure requirements such as intersection and footpath improvements, sewerage systems, power supply and water supply.
 - Operating costs, which are estimated at \$37.5 million over the first eight years (assuming the convention centre begins operating from year four).

Revenues are estimated at \$34.3 million over the first eight years (all earned from year four). This leaves a short-fall of [REDACTED] in the first eight years, of which [REDACTED] is capital (including working capital) and \$3.2 million is operating.

QLDC has resolved to contribute:

- Up to \$30.9 million to design and construction costs (including additional infrastructure spending)
- \$1.5 million in working capital
- Land for the centre, valued at [REDACTED].

and will cover any short-fall in operating costs in the first five years of operation. The debt servicing impact of the capital contribution and funding required for any shortfall in operating costs will be funded through rates on businesses and residents.


QLDC is applying for [REDACTED] as a contribution towards capital costs from the Community Trust of Southland and the Central Lakes Trust, and [REDACTED] as a contribution from the Otago Regional Council.

QLDC is thus seeking [REDACTED] from central government to cover the remaining capital costs over 2016/17 and 2017/18. Pay-out of the funding would be subject to finalisation of QLDC, Trust and Regional Council contributions and the final master plan.

Any shortfall will mean that the project will not proceed, or a contribution will need to be found from the development of the surrounding Lakeview site. Prospective developers of the site have indicated that there is a possibility of an up-front capital contribution in order to secure development rights, but the potential amount is unknown.

- The economic case for local and central government funding support is also strong. Public sector contributions to the capital costs of convention centres is common in New Zealand and overseas as larger scale convention centres generally do not produce sufficient financial returns to cover cost of capital needed for construction. The economic case for support rests on the economic benefits that such centres provide.

At a local and regional level, that includes increased spending and employment in the construction and development phase of the centre and, once operational, increased visitor numbers and visitor expenditure and improved off-peak and shoulder season visitation. The centre has been identified as the main 'game changer' for the growth prospects for the district in Queenstown's economic development strategy. The regional economic impacts of the proposed centre have been estimated as

- An increase in regional GDP by \$36 million and an increase in regional employment by 0.4 percent during the two year construction phase
- An  annual increase in regional GDP by \$65.8 million and employment by 0.7 percent once the centre is operational.

At a national level, Queenstown has been an important driver of New Zealand's growth in international visitor numbers and the convention centre will enable the district to continue to play this role. The centre aligns well with the Government's Business Growth Agenda export goal and priorities (including growing the value derived from the Asian visitor market) and the national tourism industry's 2025 target of a six percent per annum increase in international visitor expenditure.

The national economic impacts of the proposed centre have been estimated as

- An increase in GDP of \$50 million and an increase in employment by 0.01 percent during the two year construction phase
- An annual increase in GDP by \$13 million and employment by 0.01 percent once the centre is operational.

There are also broader national benefits from the centre that are difficult to quantify including: return visits to New Zealand by delegates and their families, reputational benefits that enable New Zealand to attract more events, increased knowledge transfer between offshore experts and New

Zealand businesses, and the potential for increased international investment if delegates see opportunities in New Zealand.

There are existing precedents for central government support for large-scale convention centres in Auckland and Christchurch. Although the likely national impacts of the Queenstown centre will not be as significant as those proposals, the magnitude of the estimated impacts per annum relative to the initial central government contribution means that it will take a much longer period for the Auckland and Christchurch projects to achieve an equivalent national benefit return on investment.

The project will be abandoned in the absence of central government or alternative funding. The District already struggles to support infrastructure demands and use by a growing and significant visitor population from its small rateable base. There will be a material impact on ratepayers if the Council has to fill the remaining shortfall in funding. The Council has resolved that an additional sum of this scale would not represent a fair or reasonable apportionment of costs on ratepayers and would not proceed further. The expected regional and national benefits will be lost.

- The process followed to date has been robust. QLDC has commissioned a significant range of feasibility analysis, benefit assessment and site and funding options analysis to determine the best approach to develop and invest in a centre. Industry and community consultation has been undertaken. Although several risks have been identified that may impact on the ability of the centre to attract sufficient events to be viable, mitigation strategies have been identified and some are already being implemented.
- At this stage, QLDC has already resolved to:
 - Approve a master-plan for the development of the site at Lakeview
 - Develop the wider Lakeview site, subject to approved development principles, under a project development agreement with private interests (to be determined)
 - Authorise commercial negotiations for the development of hot pools and the wider Lakeview site.
- QLDC is in the process of:
 - Obtaining formal approval for the QLDC capital and operational contribution for the development of the convention centre, and the rating model to fund such costs, through the 2015-2025 Long Term Plan process (to be completed by June 2015).
 - Applying for funding contributions from the local Trusts and Otago Regional Council (first quarter of 2015).
 - Agreeing on a suitable party or parties to lead or participate in the operation of the convention centre, which will be determined through an RFP process following confirmation of local and central government funding (post June 2015).
 - Re-zoning the Lakeview site and undertake a plan change, to be undertaken during 2015.

The proposal

The proposal is that a 750 person (seated) convention centre would be constructed at Lakeview in Queenstown.

The convention centre facility would occupy one hectare on a 4.6 hectare development site. The centre would be flexible enough to accommodate smaller concurrent conferences and meetings in different auditoriums and rooms. It would be building of around 5,300m², with a plenary hall (around 900m²), exhibition hall (around 1500m²), breakout rooms (around 900m²), foyers and back of house, catering and service areas. The broader facility would include access ways, parking, service areas and landscaping (site and design drawings are attached in Appendix 1).

The larger site is also expected to include a hotel and commercial and retail uses (e.g., high end retail stores and a dining precinct). An additional 1.2 hectares of adjoining recreation reserve land would be developed in parallel, and would include amenities that would appeal to visitors, such as hot pools. QLDC has been in discussion with Ngai Tahu Tourism to develop the hot pools.

The design choices that have led to this proposal have been informed by an extensive range of analysis and a robust public engagement process. This included exploring international requirements and best practice and testing these requirements against various design options. For example, the facility's capacity was informed by market analysis and the Lakeview site was selected from three site options after being tested against a range proximity and capacity criteria. These criteria included: the ability to accommodate medium to large sized conferences, proximity to the CBD, proximity to the airport, proximity to sufficient hotel capacity to cope with peak utilisation during peak tourism seasons, proximity to tourism and leisure activities, ability to cater for multiple events at once and multiple uses.

In terms of events, the facility is expected to cater for:

- Single day and multi-day conferences and meetings with plenary space, break out rooms, exhibition and networking space and banqueting capacity.
- Functions of between 750 people seated and up to 1,200 people cocktail (standing).
- Concerts and entertainment events.
- Banquets and incentive type events.
- Public and trade exhibitions.
- Local community events.

Assuming funding and regulatory approval in 2015, construction could commence in the 2015/16 financial year and be completed by 2017/18. The convention centre could begin operations in 2018/19.

The process to date

Significant work has been undertaken and commissioned by QLDC on the feasibility, design and case for the centre over the last three years. The process has been robust and included:

- In 2012: a feasibility study and initial funding options analysis were commissioned. A request for proposals for potential partners in the centre was issued

- In 2013: an initial economic impact analysis and site analysis was undertaken; and a master plan developed for the preferred site.
- In 2014: a review of infrastructure, land title and planning issues was completed; an analysis of funding requirements and rating options was completed; a revised set of operating forecasts and rating options was produced; an updated economic impact analysis was commissioned; and a forum was held on design elements of the centre. QLDC adopted a master plan and set of principles to guide the project.

QLDC has commissioned an extensive number of specialist experts to assess the merits of the convention centre. The Council has also undertaken a comprehensive public consultation programme (discussed below).

Strategic case - rationale for a centre

Although Queenstown is experiencing strong economic growth, earnings in the District are low...

Queenstown Lakes has experienced very strong economic (real GDP) growth over the last decade at 4.5 percent per annum (over double the New Zealand average), with population and visitor growth providing the main stimulus. Real GDP per capita is below the New Zealand average and has grown relatively slowly. Estimated labour productivity in the District is well below the national level (\$69,400 GDP/FTE compared to \$91,200 GDP/FTE nationally), and median earnings from salaries and wages are relatively low.¹

And the District aspires to a higher value economy....

Queenstown's economic development strategy outlines the vision for the district to be a higher value economy with higher value jobs and higher quality urban and natural environments, as measured overall by GDP per capita and the quality of life of residents. This will require that the District achieve higher growth in productivity across key industries, while maintaining quality of life.

...which will depend on extracting higher value from visitor industries

Tourism and the visitor economy underpin Queenstown's economic performance. The accommodation and food services, construction and retail trade sectors represent 47 percent of employment in Queenstown (compared to around 24 percent of employment nationally). Accommodation and food services, arts and recreation services, transport services, retail and hiring services are highly concentrated in the District², indicating the underlying comparative advantages that the District has in industries that service visitors. Such industries will always remain the dominant part of the local economy, irrespective of any efforts to facilitate a degree of industry diversification.

The visitor economy appears to be performing well.....

Queenstown Lakes is a premier visitor location, with a high proportion of international visitors (65 percent compared to the New Zealand average of 36 percent in 2013). The District has achieved enviable long-term growth in measures of visitor attraction. Visitor nights have grown at rates well

¹ Queenstown Economic Development Strategy consultation document (2014), based on Infometrics database.

² Employment location quotients over 2.

above national levels over the last decade (3.2 percent compound annual growth, compared to 1.2 percent nationally) and the District has a high average length of visitor stays. This has translated into very high growth in visitor expenditure over the last decade (7.6 per annum over 2009-2013) with visitors spending around \$1.5 billion in the District in 2013.³

Queenstown Lakes also has less of a visitor seasonality issue than many other comparable territorial authorities in New Zealand, with two peak seasons in the year (summer and winter) instead of just the single peak for other major international destinations such as Auckland and Rotorua. The main trough occurs in the April (post Easter) to end of June period, with a second trough from September to November.

But the value currently derived from the visitor economy is relatively low

The estimated productivity level of several of Queenstown's major industries are low and well below New Zealand's average productivity levels (e.g., retail trade at \$45,500 GDP per FTE; accommodation and food services at \$44,000; arts and recreation services at \$51,300 in 2012), reflecting their labour intensive nature.⁴ This is consistent with national figures for these industries, and average wages for these sectors are well below the New Zealand average.⁵

This contributes to the district's overall low productivity level (in combination with its small scale and distance from markets). The gap between the District's estimated productivity and New Zealand's has been slowly growing over time and several visitor industries experienced declines in productivity over 2002-2012.

Moreover, nationally, there has been a decline in average spend per visitor⁶ since 2004.

Queenstown needs to attract greater numbers of higher spending visitors...

Consistent with the overall vision of a higher value economy, Queenstown is seeking to grow visitor expenditure, not just growing numbers. Although the District will always depend on a mix of visitors, including the large number of backpacker and budget tourists, achieving as high or higher growth in visitor expenditure through lower proportional growth in visitors will help to alleviate pressure on infrastructure use and the impact of visitors on the natural environment.

Despite the relative low level of seasonality, reducing the size of the troughs and attracting more visitors in the shoulder seasons would also clearly help to increase visitor expenditure annually.

But there are current limitations

Around three quarters of international visitor nights are from visitors travelling to the District for a holiday, with just over ten percent visiting friends and relatives in 2013, and only small proportions travelling for business and education purposes (3-4 percent).

³ All figures from the Evidence base report for the Queenstown Economic Development Strategy, based on MBIE tourism statistics.

⁴ Queenstown Economic Development Strategy, derived from Infometrics database.

⁵ MBIE (2014). Tourism Sector Report.

⁶ MBIE (2014). Tourism Sector report.

Estimates suggest that visitors travelling for a holiday or for business purposes spend more on average per night than visitors travelling for other purposes (for international visitors, this is around three times the average spend of those visiting friends and family⁷). Business travellers tend to travel for fewer days, although tend to remain in the same place (i.e., have concentrated spending). The timing of business travel is less related to seasonality, meaning they can be attracted throughout the year. This suggests that securing a higher proportion of business visitors would be beneficial for Queenstown.

The District holds a large variety of national, regional and community events, such as Warbirds over Wanaka, the Winter Festival, the New Zealand Golf Open and Winter Games New Zealand. However, the Queenstown RTO area currently captures a relatively small proportion of business events (conferences, exhibitions, meetings) in New Zealand (3 percent of delegate days, compared to 5 percent in Rotorua and Bay of Plenty, for example⁸). It has a low number of such events compared to other RTOs, although does get a better share of multi-day events (6 percent compared to 4 percent in Bay of Plenty and 9 percent in Rotorua). However, compared to other RTOs, Queenstown has a relatively high proportion of international delegates at these MICE (close to 8,000 over 2012/13), so is a clearly desirable location as an international conference destination.

The small share of conferences and exhibitions is partly due to accessibility and venue constraints. The absence of a conference venue capable of hosting mid-size to larger groups was identified by the business community as the most significant factor limiting Queenstown's share of the conference market⁹. More than 84 percent of respondents to one survey believed that Queenstown is losing potential visitors because current facilities are inadequate for existing and future conference, exhibition and incentive travel demand. 92% thought that existing conference facilities are inadequate.¹⁰

Although Queenstown Lakes can cater adequately for conferences up to 250 delegates there are constraints for larger conferences, with limited venues that can cater for larger numbers (due to low ceiling heights, lack of pillar free space, lack of supporting facilities such as exhibition space and break-out meeting spaces).¹¹ The largest venues are typically designed for other activities such as sporting and theatre style events. Many potential conferences have reportedly had to be turned away from Queenstown Lakes due to capacity constraints.¹²

The convention centre is the major 'game changer' for increasing the value from the visitor economy and is supported by the community

The convention centre has been identified in the economic development strategy as the key initiative for the District for securing higher value visitors, reducing visitor seasonality and to support economic growth.

⁷ Convention Activity Survey, Year to December 2013 report.

⁸ Convention Activity Survey, Year to December 2013 report.

⁹ Horwarth HTL and WHK (2012). *Proposed Queenstown Conference Centre – Feasibility Study*.

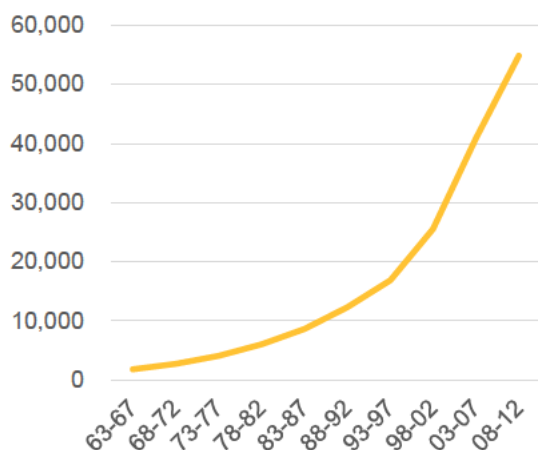
¹⁰ Horwarth HTL and WHK (2012).

¹¹ Horwarth HTL and WHK (2012).

¹² Tourism Industry Association of New Zealand (2013). *Submission of the Queenstown Lakes District Council on the Queenstown Convention Centre Proposal*

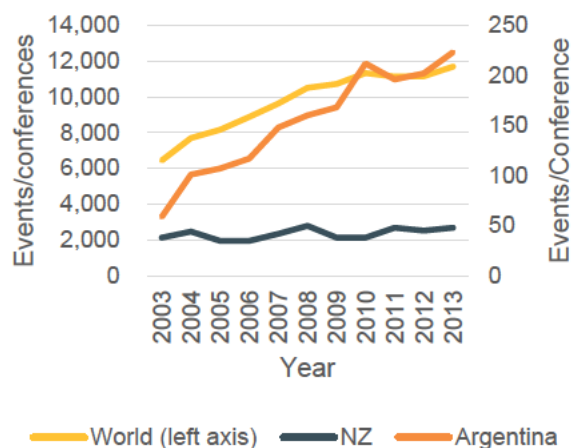
The international convention market is large and growing. The charts below show New Zealand's place in this market is underrepresented and flat and there is significant opportunity to capture a larger share of this growth.

Diagram: Growth pattern of ICCA conventions 1963-2012, 5-year aggregated data



Source: ICCA 50 year statistics

Diagram: ICCA conventions 2003-2013, showing New Zealand compared to the World and Argentina



Source: ICCA Statistics Report 2013

Expert opinion suggests that there is likely to be strong national and international demand for a Convention Centre in Queenstown because it is regarded as a premier tourism destination and has a wide range of supporting amenities and attractions for pre- and post-conference activities.¹³ Industry feedback indicates that conferences held in Queenstown tend to have better delegate numbers purely because of the destination appeal.

Research also demonstrates that convention centres attract visitors that are typically higher than average spenders and can help to improve off-peak visitor numbers.¹⁴ Many conference visitors are also likely to spend a few days holidaying prior to or after a conference or to return to the location for a holiday.¹⁵ A centre is also likely to mainly attract additional visitors and spend rather than simply displacing existing visitor activity, given that the District currently secures a relatively low proportion of business visitors and the focus is on larger scale conferences than the District has the current capacity to host.

The centre will also enable the District to better leverage its existing support for events attraction and facilitation. In 2013, the District developed an events strategy to attract more high value events, including conferences, established an events office to help facilitate the establishment of events and an events fund to help support the attraction of such events.

¹³ Horwarth HTL and WHK (2012). *Proposed Queenstown Conference Centre – Feasibility Study*.

¹⁴ Ministry of Economic Development, Ministry of Tourism and Auckland City Council (2009). *International Convention and Exhibition Centre – Summary of findings of a feasibility study and supplementary research*; Tourism Industry Association of New Zealand (2013). *Submission of the Queenstown Lakes District Council on the Queenstown Convention Centre Proposal*.

¹⁵ Tourism Industry Association of New Zealand (2013).

QLDC has undertaken an industry survey, public consultation and a public survey on the establishment of a convention centre in Queenstown. The vast majority of responses to the industry survey strongly supported a new purpose built conference facility. 84 percent considered that Queenstown needed to develop a dedicated conference and exhibition centre because the district was losing market share to other locations, and 87 percent thought that developing a new conference centre would significantly improve Queenstown's competitiveness in the incentive travel market.

The results of the public consultation were that around 55 percent supported or strongly supported the proposal, with less than a third (31 percent) opposing the proposal. The public survey results were that 48 percent supported or strongly supported, 29 percent opposed and 23 percent were neutral or had no opinion.

Implications of maintaining the status quo

Convention centres are planned for Auckland, Christchurch and Wellington over the next few years. In the absence of a purpose built convention centre, Queenstown will lose market share. There are already examples of conferences currently hosted in Queenstown that are expanding and are finding it difficult to find suitable locations in the CBD.

If Queenstown does not establish a larger-scale, internationally competitive convention centre and attract more business visitors, it is possible the District will attract increasing volumes of lower value visitors, typified by adventure-seeking backpackers arriving over the winter and summer months. The backpacking brand will undermine Queenstown's appeal to the higher value and business traveller market, which will have knock-on effects to the national tourism industry and economy. There have already been concerns expressed by landlords and retailers in Queenstown about the town centre becoming a servicing centre for backpackers. The centre does not have many of the high-end retailers that are commonly found in other international resort towns and an increasing number of lower end souvenir, discount and convenience stores have been established, which cater for the backpacker and lower spend visitors.

The financial case

A summary of the estimated costs to construct and operate the convention centre and the expected revenues are provided in Table 1 below. Note that the numbers in the table are based on low-revenue assumptions. It is also assumed the centre is operated by an independent operator or council-controlled organisation and that no other major convention centre is established in Queenstown Lakes.

Table 1. Estimated costs and revenues (\$000)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Value of land required	████								████
Capital costs									
Design & Construction costs	2,200	23,800	26,200						52,200
Working capital				800	700				1,500
Infrastructure upgrades	1,900								1,900
Total capital cost	████	████	████	████	████				████
Operating costs									
Variable				2,976	3,572	4,198	4,782	5,076	20,604
Fixed				3,200	3,292	3,386	3,484	3,585	16,947
Total operating cost				6,176	6,864	7,584	8,266	8,661	37,551
TOTAL COST (including value of land)	████	████	████	████	████	████	████	████	████
TOTAL REVENUE				4,889	5,896	6,974	8,003	8,563	34,325
VALUE OF SUPPORT REQUIRED	████	████	████	████	████	████	████	████	████

In summary:

- Capital costs (including the value of land required) are estimated at █████ over the first eight years. The most significant component of these are design and construction costs, at \$52.2 million. \$1.9 million of the costs are for additional infrastructure requirements such as parking facilities, footpath improvements, water supply and sewerage systems.
- Operating costs are estimated at \$37.5 million over the first eight years (assuming the convention centre begins operating from year four).
- Revenues are estimated at \$34.3 million over the first eight years (all earned from year four).

This leaves a short-fall of █████ in the first eight years, of which █████ is capital (including working capital) and \$3.2 million is operating.

The cost estimates are based on detailed work. In 2013, CBRE was commissioned to estimate construction costs for a Lakeview convention centre. The figure was estimated through quantity surveying work done by WT Partnerships and detailed designs by Populous, based on the site criteria related to building scale and requirements. WT Partnerships reviewed the costs again in 2014 and has not identified any material variation to construction and design costs.

Initially capital costs were also estimated for a small-scale (500 pax) and large-scale (1200 pax) facility. However, the small-scale facility was ruled out as not meeting international convention requirements and the large-scale facility was ruled out as unrealistic for Queenstown.

Sensitivity testing has been undertaken on estimated operating costs and revenues based on assumptions about the number and size of conferences likely to be secured, marketing costs, economic growth and conference market growth (positive and negative assumptions). In addition, scenarios have been developed based on whether:

- The convention centre trades as a stand-alone entity (as a Council Controlled Trading Organisation (CCTO) or private company), or whether it is operated by the same manager as the Auckland Convention Centre (SkyCity).
- A competing, but smaller, private sector convention centre is established at Remarkables Park.

Table 2 summarises the outcomes of the scenarios and sensitivity testing on operating profit.

Table 2. Estimated operating profit projections

Scenario	Assumptions	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
1. No Comp and stand alone	+	175	651	1,187	1,601	1,888	5,502
	-	(1,249)	(925)	(551)	(211)	(43)	(3,213)
2. No Comp and SkyCity	+	623	1,030	1,581	2,166	2,634	8,034
	-	(1,476)	(1,175)	(826)	(574)	(424)	(4,475)
3. Comp and stand alone	+	(-343)	64	505	857	1,082	2,508
	-	(1,558)	(1,279)	(968)	(670)	(537)	(5,012)
4. Comp and SkyCity	+	222	674	1,183	1,730	2,161	5,970
	-	(1,732)	(1,482)	(1,186)	(965)	(845)	(6,210)

Scenarios:

- No comp and stand-alone: The Remarkables Park convention centre is not established and the convention centre operates as a stand alone entity
- No comp and SkyCity: The Remarkables Park convention centre is not established and the convention centre is managed by SkyCity
- Comp and stand-alone: the Remarkables Park convention centre is established and the convention centre operates as a stand alone entity
- Comp and SkyCity: the Remarkables Park convention centre is established and the convention centre is managed by SkyCity

Assumptions:

- + assumes the general market outlook for conference activity in New Zealand is positive (e.g., as a result of a better domestic economy and increased central government commitment to funding the marketing of New Zealand as a destination for business events)
- assumes the general market outlook for conference activity in New Zealand negative as a result of a significant external economic "shock" (e.g., a major downturn in the Australian economy)

Over the first five years of operation, the financial projections for the operation of the convention centre range from a deficit of \$6.2 million to a surplus of \$8.0 million. The most likely outcome (as noted in Table 1) is considered to be modest operational cash surpluses beyond year five and an operating deficit of around \$3.2 million across the first five years (Scenario 1- in Table 2).

Proposed sources of funding (and status)

Queenstown Lakes District Council has determined that it will contribute:

- Up to \$30.9 million to design and construction costs (including additional infrastructure spending)
- \$1.5 million in working capital
- Land for the centre, valued at [REDACTED]

and will cover any short-fall in operating costs in the first five years of operation.

The Council intends that the debt servicing impact of the capital contribution (estimated at \$2.1 million per annum) and any shortfall in operating costs will be funded through rates on businesses and residents. Rates are to be applied in relation to an estimate of the benefit that different ratepayers will receive from the development.

The vast majority of ratepayers would face rate increases of 0.5% to 3% based on these assumptions. The lowest rates increases would be for those in residential dwellings and/or Wanaka-based. The highest increases would be for those with commercial premises and/or in Queenstown CBD.

The Council will make provision for this funding in its draft 2015/25 LTP, with it being adopted in June 2015.

Table 3 summarises the local government contribution over the first eight years and the shortfall in capital costs remaining.

Table 3. Local government contribution

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Support required	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Local government contribution (including the value of land)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SHORTFALL	-	\$12,000	\$11,200	-	-	-	-	-	\$23,200

This shows a shortfall of \$23.2 million for construction and design costs. QLDC intends to apply for:

- [REDACTED] each from the Community Trust of Southland and the Central Lakes Trust.
Applications will be made in the first quarter of 2015.
 - An expression of interest for a major grant from the Community Trust of Southland will be made by the end of September 2015. Applicants that are successful are invited to submit full grant applications by December 2015, with decisions made by April 2016.
 - An application for grant funding from the Central Lakes Trust will be made at the end of July 2015. Applications take up to three months to be approved.

Both Trusts have informally advised QLDC that they consider [REDACTED]

- [REDACTED] from the Otago Regional Council funding. An application has yet to be made. Informal discussions have been had with the [REDACTED]
[REDACTED]
[REDACTED]. The size of contribution being sought is not considered unreasonable, but the ORC have asked for a proposal that outlines the regional economic benefits from the convention centre. An application for contribution will be made as part of the Otago Regional Council Long Tem Plan process.

QLDC is thus seeking [REDACTED] from central government to cover this shortfall. Pay-out of the funding would be subject to finalisation of QLDC, Trust and Regional Council contributions and the final master plan.

Any shortfall would thus either mean the project would not proceed, or a contribution would need to be found from the development of the surrounding Lakeview site. Informal discussions with prospective developers of the site have indicated that there is no appetite for them to play a part in the operation of the convention centre. However, they have indicated that there is a possibility of an up-front capital contribution in order to secure development rights. No developer has been willing to name a sum given the early stages of discussions.

The case for local government funding support

Given the likely lack of financial returns, the case for local government support rests on the economic benefits that the centre will provide. Convention centres provide a number of benefits to the local and regional economy, including the benefits derived from spending and increased employment in the construction and development phase and, once operational, increased visitor (particularly international visitor) numbers and visitor expenditure, and improved off-peak and shoulder season visitation.

Construction and infrastructure development phase

During the construction and infrastructure development phase of QCC, the direct effects to Queenstown are the increase in expenditure in areas such as building materials and construction services and employment for builders, trades people, surveyors and designers. This additional spending also boosts activity in sectors that supply the construction sector, such as machines and equipment.

The economic impact assessment of the proposed centre (NZIER, 2014) estimated that the overall regional impact of the construction and infrastructure development phase is an increase in gross regional product (GRP) of \$36 million, an increase in regional consumption of \$46 million, and a 0.4 increase in regional employment

Operations phase

Once completed, there will be ongoing operational expenditure and increased visitor expenditure. Ongoing spending will be made to purchase inputs such as catering, market services, maintenance and administration, which will positively impact on those and downstream industries.

The impact assessment estimated that the centre would attract 60 events in its first year of operation, growing to 137 events in the second year and 149 events from the third year (representing around 250 event days and 90,000 attendee days). These events would attract a mix of domestic and international visitors (it was assumed that international conferences would account for 25 percent of conferences).

Based on assumptions of daily spend by international and domestic attendees and the location of that spending, the assessment estimated that the centre would attract an additional \$25.4 million of international and domestic spending each year when fully operational.

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.

The benefits of increased visitor numbers and visitor expenditure positively are captured by a range of local industries, so it is appropriate that local government and ratepayers contribute to the cost of the centre.

Broader regional benefits

Broader local and regional benefits that are difficult to quantify include:

- Encouraging future visitors – a proportion of delegates visiting conventions in Queenstown will return to the district and region as leisure visitors.
- Encouraging international links for local firms – conferences held in Queenstown will help bring local business representatives together with international expertise and provide an opportunity for businesses to showcase their products.
- Improved amenity and quality of life – increasing the number of conference visitors will enable the district to better support a range of recreational facilities and amenities.
- Increased investment – increased vibrancy resulting from conventions and visitor numbers may attract additional businesses to Queenstown.

The case for central government funding support

The case for central government funding is based on critical role that Queenstown plays in New Zealand's visitor economy, the consistency of the proposal with national priorities, broader national benefits that will arise from the centre, existing precedents and the counterfactual.

Importance of Queenstown to New Zealand's tourism performance

Queenstown is a major foundation of New Zealand's visitor economy. For the year ended June 2014, the District captured over 10 percent of all of New Zealand's commercial accommodation guest nights (compared to the 0.7 percent it represents of the national population). Visitor expenditure in Queenstown Lakes was estimated to be over \$1.5 billion in 2013, around 8.5 percent of nationwide visitor expenditure, and the second highest level of expenditure in any territorial authority. Growth in nominal visitor expenditure over 2009-2013 in the District has been higher than growth in most other districts in New Zealand (5th highest growth) and the Queenstown RTO area experienced the fastest growth in visitor expenditure over the period out of all RTOs at 7.6 percent per annum.¹⁶

Unlike most other areas of New Zealand, the majority of visitors to Queenstown Lakes are international (65 percent compared to the New Zealand average of 36 percent in 2013). Growth in international visitor nights has exceeded other areas of New Zealand. Similarly, the District achieved the highest growth in international visitor expenditure over 2009-2013 out of territorial authorities (7.7 percent per annum compared to 1.3 percent nationally).

In short, Queenstown has been an important driver of New Zealand's growth in international visitor numbers and spend and the convention centre will enable the district to continue to play this role. As noted earlier, although Queenstown has achieved high growth in visitor expenditure, there are concerns that increasingly growth will be driven by larger numbers of visitors rather than higher per visitor spend.

Consistency with national priorities

A convention centre in Queenstown aligns well with the government's Business Growth Agenda goals priorities and the national tourism industry's aspirations.

The Business Growth Agenda includes the goal of increasing the ratio of exports to GDP from around 30 percent currently to 40 percent by 2025. This recognises that internationalisation enables New Zealand to access larger markets, knowledge and ideas and hence boost innovation and productivity. One of the priorities to achieve this goal is to increase the value derived from tourism. This includes capturing greater value from the growing Asian visitor market, particularly China and increasing the number and quality of major events. The Government also signalled business events and high value visitors as priorities by allocating an additional \$34 million to Tourism NZ over four years in Budget 2013 to attract more international business events, and \$20 million over four years to target very high value visitors.

Clearly the Queenstown convention centre will help to achieve these priorities by hosting new events and increasing delegate visitor numbers, including from China.

¹⁶ All figures sourced from the Evidence base for the Queenstown Economic Development Strategy (2014).

Tourism 2025, the growth plan for New Zealand's tourism industry (TIANZ), has set an aspirational national growth target of a six percent per annum increase in international visitor expenditure and four percent per annum increase in domestic visitor expenditure. Some of this growth will be from increasing spend but a proportion will need to come from increasing visitor numbers. Queenstown, as a key international tourist destination is likely to factor heavily in achieving this target. Applying the six percent per annum growth target, Queenstown will need to double visitor expenditure by 2025. This will require attracting high value visitors, such as those attracted to conferences. Business event visitors are high value visitors (spending on average around \$318 per night compared to the average international visitor spend of \$208¹⁷).

Broader national benefits

In addition to the local and regional impacts noted above, NZIER has calculated the estimated national impact of the convention centre in terms of direct and indirect impacts on GDP using its dynamic Computable General Equilibrium model. There are national impacts because some materials and inputs purchased for construction and ongoing catering, sales, marketing and maintenance are derived from outside of Queenstown and suppliers to the centre in Queenstown also purchase inputs from outside of the district. Some visitors attracted to events in the centre will also travel to other parts of New Zealand.

During the construction phase and initial year of operation, it is estimated that national GDP will be higher by \$50 million and employment by 0.01 percent. Once it is operational, the impact of the Queenstown Convention Centre is an additional \$13 million of GDP and 0.01 percent of employment per annum to New Zealand.¹⁸

There are also broader national benefits from the centre that are difficult to quantify:

- Increased visitation to other parts of New Zealand due to some delegates and their families returning on private visits to see more of New Zealand
- The ability to attract more events to New Zealand, as the centre will raise awareness of New Zealand as having a wide range of good quality convention facilities available and its ability to stage events.
- Increased knowledge transfer beyond Queenstown – events hosted in the convention centre will attract experts from across New Zealand and overseas and provide the starting point for further exchange of ideas and knowledge
- The potential for increased investment in New Zealand as international delegates see opportunities when visiting wider New Zealand.

The estimated national impacts do not include increases in domestic visitor spending in Queenstown as a result of the centre as these represent transfers from other regions. Nationally, GDP impacts will be higher if the centre attracts higher numbers of international visitors. The feasibility study for the centre (Horwath, 2012) identified that there were few non-hotel conference venues in New Zealand that were capable of hosting larger conferences (over 500 delegates) with associated exhibition and

¹⁷ Tourism 2025 strategy.

¹⁸ NZIER (2014). *Economic Impacts of Queenstown Convention Centre – a dynamic CGE analysis*. NZIER final report for MBIE. Wellington: NZIER.

food service requirements. Hence the Queenstown centre is likely to attract new international conferences rather than just displacing international conferences from other regions.

Precedents

Central government has already agreed to provide support for both the Auckland and Christchurch Convention Centres.

In relation to the International Convention Centre in Auckland, although central government is not providing funding and SkyCity is funding the build, the government has provided for an extension of SkyCity's Auckland casino licence from 2021 to 2048 and is allowing an increase in gambling machines and tables as well as providing for the introduction of ticket and card based cashless gaming technology. These concessions have been valued at between \$393 million and \$528 million in NPV terms (KordaMentha). This compares to estimated national benefits of \$53 million additional GDP and 0.03 percent growth in employment during the construction phase and a \$49 million annual lift in GDP nationally during operations. The value of the concessions is between 24 times and 33 times the funding being sought for the Queenstown Convention Centre, while the estimated GDP benefits of the Centre in Auckland are only around three to four times the national impacts estimated for the Queenstown centre per annum (hence a much longer period for an equivalent national benefit return on investment).

Central government has also agreed to provide \$284 million of funding support for the Christchurch Convention Centre precinct (more than 17 times the funding sought by Queenstown). Although this is a broader development than the convention centre, includes the cost of land and is also part of the Canterbury recovery efforts, it is worth noting that international visitor expenditure to Queenstown-Lakes was similar to international visitor expenditure in Christchurch in the years prior to the earthquake (and, not surprisingly, higher post-earthquake). The proposed centre in Christchurch is for 2000 pax and has lower construction costs than the Auckland centre, and hence the national impact will presumably be less than the Auckland centre (the business case has not been released).

The counter-factual

In the absence of central government funding support or alternative funding (such private sector contributions), the convention centre will not go ahead. The District already struggles to support infrastructure demands and use by a growing and significant visitor population from its small rateable base. Estimates indicate that although the resident population is around 28,200, on an average day the population is more than 46,000 (visitors accounting for 39 percent) and at peak times around 89,000 (visitors accounting for 68 percent). The proportion of ratepayers to visitors in the District may also decline in future, based on current growth forecasts.¹⁹

Given existing and expected future funding pressures, if a lower contribution is received from other parties, for example, if the Council is required to contribute an additional \$10 million, then there will be material impact on ratepayers. The Council has resolved that an additional sum of this scale would not represent a fair or reasonable apportionment of costs on ratepayers. .

The impacts of maintaining the status quo were outlined earlier.

¹⁹ For example, there are forecasts that New Zealand will achieve 3 percent per annum visitor growth over the next 6 years, and visitor growth in Queenstown is likely to exceed national levels, compared to an estimated 2.2 percent growth in population over the long-term.

Possible alternative proposal

An alternative convention centre concept has been proposed by a private developer (Remarkables Park Limited) for the Remarkables Park site. [REDACTED]

- No costing estimates or funding sources have been provided in any detail.
- The developer has not filed a consent application and has not met any of their publicly announced dates for commencement

Even if the alternative concept proceeds, the proposed centre would not significantly compete with the Queenstown centre as it will not meet specifications for international conventions (expert advice suggests the following issues: distance from CBD; lack of integration of front of house facilities with wider areas; lack of functionality for multiple or multi-day conferences). However, it would compete for smaller and mid-range domestic conferences.

Despite the unlikelihood of the alternative centre becoming established, the possibility has been factored into the sensitivity analysis for the convention centre's revenue forecasts (as noted in in Table 2). They impact on QLDC's contribution to meet any operating short-fall.

Risks and management

Several risks have been identified, although strategies have been identified to mitigate these risks and some area already being implemented:

Risk	Mitigation approach
Failing to successfully attract sufficient conventions or other events to be financially viable	Ensuring the venue is managed by an appropriately experienced Convention Centre operator Ensuring that the venue is well-marketed early from any decision to proceed;
Failing to develop sufficient complementary infrastructure to service the convention centre (e.g. accommodation and hospitality facilities)	Attracting the majority of conferences during shoulder and off-peak season (to ensure accommodation and transport capacity). Continue discussions with developers and hotel companies about building additional capacity once the convention centre is confirmed. Ensuring that Queenstown Airport has the capacity to meet flight demand (particularly from Australia) through increased flights and establishment of night flights.
Competition from other convention centres in New Zealand results in fewer conferences than expected	Leveraging Queenstown's existing high international tourism profile with the likes of Tourism NZ, Air NZ, Auckland International Airport, ATEED and Destination Queenstown Developing a complementary operating strategy with the NZ Convention Centre (Auckland's convention centre)
Failing to develop a facility of a scale and functionality	Ensuring that the venue design meets minimum standards and

that is appropriate to the types of conventions that Queenstown will attract.	functionality for international conferences
Council not being able to get approvals for funding.	<p>The significant amount of work and consultation done to date suggests there is little risk in council funding not being approved.</p> <p>Maintaining regular communication with key commercial stakeholders and the wider public.</p> <p>Presenting a range of local funding (rating) options for public consideration.</p>

Next steps

QLDC is in the process of:

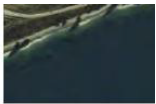
- Formally approving capital funding for the development of the convention centre, or the rating model to fund such costs.
- Formally approving Council involvement in, or operating budget for, the convention centre.
- Applying for funding support from the local Trusts and Otago Regional Council.
- Agreeing on a suitable party or parties to lead or participate in the operation of the convention centre.
- Re-zoning the Lakeview site and undertake a plan change.

As noted above, QLDC capital and operating funding is being approved through the 2015-2025 Long Term Plan process and ORC and local Trust funding will be determined through application processes over 2015. Identification of an organisation to operate the centre will be determined through an RFP process. There have been a number of discussions so far with several national and overseas parties who have expressed an interest in the centre. An RFP process will commence once Council and Central Government funding has been approved (post June 2015).

Discussions with Ngai Tahu Tourism to develop the hot pools project adjacent to the centre are at a preliminary stage but it is believed that agreement can be reached with 3-4 months. Once reached, a draft agreement will be brought back to the Council for approval.

Appendix 1: Site and proposed design

1. Lakeview Site

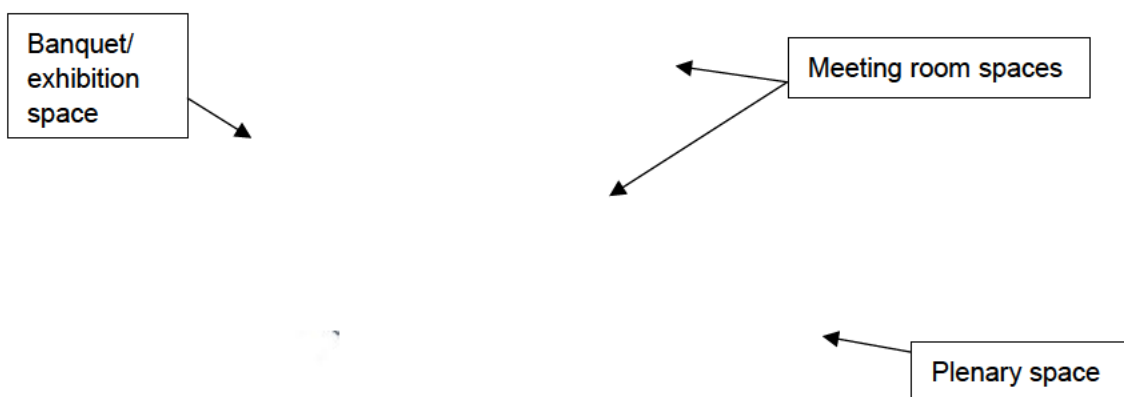


2. Masterplan



3. Situation of the Facility in the Masterplan

4. Proposed Design



5. Artists Impression

