

STAFF REPORT

TO: Mayor and Councillors

FROM: Chief Executive

DATE: 25 November 2009

SUBJECT: NCC 'Performing Arts and Conference Centre Consultation'

1 REASON FOR PAPER

- 1.1 The Nelson City Council has launched a public consultation process which proposes the construction of a stand alone Performing Arts Centre on a site in Rutherford Street in Nelson. This site is immediately adjacent to the Rutherford Hotel. The budgeted cost for the separate Performing Arts Centre building is \$28 million. The cost of the Rutherford Street site, selected for the Performing Arts Centre is \$4 million, giving a total budgeted cost of \$32 million. As part of the 'draft' sale and purchase agreement between the owner of the preferred site Rutherford Hotel Holdings Ltd (the hotel-owning company), will contribute to the 'Performing Arts and Conference Centre' by providing the separate Conference Centre as an extension to the existing Rutherford Hotel.
- 1.2 While the Nelson City Council is accepting responsibility for all costs associated with the separate Performing Arts Centre, Rutherford Hotel Holdings Ltd will build, own and operate the Conference Centre as an extension to the existing Rutherford Hotel.
- 1.3 The consultation submission form requests that submitters tick one of four option boxes and provide appropriate comments if they so desire. The four options are as follows:
- *I support the proposal*
 - *I support the proposal but have some reservations*
 - *I am not sure*
 - *I do not support the proposal*
- 1.4 The consultation document also includes a specific paragraph which reads as follows:

"Is Tasman Contributing? *The proposed facility will benefit and be used by the region. The Tasman District Council has not included a contribution as part of its current Long Term Community Plan. However the Nelson City Council will continue to encourage TDC to contribute to this important regional facility at both a capital and operational level."*

- 1.5 The purpose of this paper is to offer Councillors the opportunity to clarify what elements of the proposal the Tasman District Council supports, if any, and what elements of the proposal, if any, the Tasman District Council is prepared to subsidise by way of either capital contributions and /or a contribution to ongoing operational costs.
- 1.6 The Tasman District Council Ten Year Plan 2009/2019 (page 49) does not provide for any contribution to the form of Performing Arts Centre originally proposed. Should Council decide that the latest proposal should be supported then the Ten Year Plan may need amendments to include provision for any form of funding the Council deems appropriate.
- 1.7 A copy of the Nelson City Council Statement of Proposal consultation document is attached as **Appendix A**.

2 BACKGROUND

In the last decade or so there have been several proposals for some performing arts capacity within Nelson City.

- 2.1 In May 1996, Brian L Rhoades and Associates produced a sixty-page report entitled 'A New Theatre for Nelson'. This document was prepared following a fire which burnt down the Majestic Theatre, destroying the Nelson district's only large auditorium. At that time, a multipurpose auditorium was proposed. This would have included tiered-seat auditorium, seating up to 1500 people for a concert, but capable of being acoustically and visually altered to perform ideally as a 750 seat drama theatre. The auditorium was to be supported by a large reception area, seating up to 1000 people for a banquet, and this in turn would be able to be subdivided into several conference rooms, each capable of seating up to 200 people theatre-style. Effectively, this was a proposal for a single, combined performing arts and conference facility.

At that time, the capital cost was estimated by the report writers as being \$16 million.

- 2.2 In January 2002 a discussion draft entitled 'Nelson Millennium Centre Feasibility Study' was prepared for the both the Nelson City Council and Tasman District Council by the Nelson Millennium Centre Trust. The concept proposed in this report was that of a 1420 seat tiered proscenium theatre with a separate 900m² conference/function room, a 250 seat drama theatre, and retail and commercial space along Trafalgar Street, as the proposal recommended that the entire centre be built on Wakatu Square and lower Trafalgar Street.

The proposed construction cost was estimated at \$19 million.

- 2.3 In February 2003, a further report on the Nelson Millennium Centre Feasibility Study was prepared by Professor John Hunt, from the University of Auckland, on

behalf of the Millennium Centre Joint Working Party. This review reached the following conclusions.

- a. The usage projections on a performance basis for visiting theatre appear realistic, although higher levels of use for local productions and for meetings and other non-performance events could be expected.
- b. That the projected levels of conference activity, including the feasibility study for the Millennium Centre as an independent venue, are achievable in the short to medium term and probably conservative in the longer term.
- c. That few other provincial centres have had the opportunity to develop such a multipurpose facility and that comparisons with comparable facilities in other regional or main centres confirm the value of co-location of a range of performance and function spaces.
- d. That an auditorium of 1200 seats would be sufficient as a performance venue, although a larger capacity (up to 1500 seats) would be preferable to cope with a number of public and special-purpose meetings, events and could be a factor in attracting some touring productions. An auditorium of larger capacity offers the further advantage of being able to cope with future growth in audience sizes as the population of the city and the region increases. It was further concluded that the drama centre had been appropriately sized, taking into account its dual role as a performance venue and a multipurpose space.
- e. That the size and distribution of function spaces as indicated in the feasibility study design proposed are sufficient to serve the intended roles and projected use of the centre without being excessive.

The report concluded that revenue from a full range of activities in a well-designed and efficiently managed centre would achieve the projected overall income level.

Note that all these recommendations related to the Millennium Centre, including conference and retail facilities on a Wakatu Square site.

- 2.4 In October 2003, architects Warren and Marney, together with Boffa Miskell and Urban Perspectives, prepared a Site Selection and Evaluation Report for the “Nelson Performing Arts Centre”. While the title suggests a performance facility only, the report did allow for a conference/convention facility, and possibly some retail shops.

This report evaluated up to 20 possible sites, and the outcome of the ‘phase one’ evaluation of that report was that Buxton Square, Millers Acre, and the riverbank between Trafalgar Street and Parapara Road (named the Matai River Precinct), were the preferred site options that would be suitable for further evaluation.

A subsequent phase two evaluation concluded that the best site for the joint Performing Arts Centre and Conference Centre, as originally proposed by the Millennium Trust, be Millers Acre as a first choice, followed by the Matai River Precinct option, followed by the Buxton Square option.

- 2.5 On the 17th October 2003, MWH Ltd conducted a preliminary traffic assessment in respect to three sites. These were Buxton Square, Millers Acre and Rutherford Park (, which they referred to as the 'Trafalgar Centre site'. This report concluded that from a traffic engineering and road safety perspective, the proposed Trafalgar Centre site was the most favourable location for the Millennium Trust proposal i.e. a performance facility and conference/convention facility.
- 2.5 In May 2007, Shand Shelton provided a further report intended to provide the Performing Arts Centre working party with up to date information on the scope of the project and the Rutherford Park site. This report noted that previous reports had not considered the Theatre Royal as a significant element in the mix of performing arts infrastructure. The report supported the restoration and retention of the Theatre Royal, and recommended that the Performing Arts Centre be based on the construction of a flexible theatre with two basic operating modes. These were a concert auditorium of 1100 seats, and a proscenium arch 1000 seat theatre. It specifically did not support the construction of a drama theatre.

This report proposed the construction of a large, flexible conference/function space, and identified the additional theatre space as being available for break-out and plenary sessions (i.e. auditorium, stage, foyers and drama theatre). The review accepted the size of the main function space in the original feasibility study, but added purpose-built, flexible break-out spaces and highlighted the need to provide for dual-use of, what was then called the 'Nelson Tasman Performing Arts and Conference Centre'. It would seem that the conference capacity was either in terms of running concurrent small conferences or for a conference with productions in the theatre.

The study did not provide for cost of property acquisition, and concluded that the Councils would provide for this separately.

Revised construction costs were estimated at \$32.210 million, plus GST. These costs did not allow for escalation beyond May 2007, nor for any costs of increased carparking requirements. In terms of capital funding, the report concluded ***'to have a reasonable chance of success it is likely that the Councils will be asked to fund \$18-plus million, with the remainder to be shared between a comprehensive investment campaign and Government contribution'***.

The report's preferred option placed a stand-alone conference centre above Montgomery Square, with direct links to a new hotel. The Performing Arts Centre was to be established on a fenced site adjacent to, and integrated with, the Theatre Royal redevelopment.

- 2.6 In a meeting of the Performing Arts and Conference Centre Working Party, held on 26th June 2007, consideration was given to both the Army site, and the possibility of a new site adjacent to the Rutherford Hotel.

The report's recommendation to the working party was that it approve Nelson City Council engaging an architect to complete a preliminary bulk and location plan and footprint for a proposal for a facility on the Rutherford Street site.

- 2.7 On the 18th July 2008, Arthouse Architecture Ltd provided a brief concept estimate for the Nelson Tasman Performing Arts Centre, on the Rutherford site. This was described as being a 'ball-park' estimate, based on the site feasibility study prepared by Arthouse Architecture Ltd on the 3rd August 2007 and reported to the Nelson City Council, Tasman District Council and Millennium Trust during that year.

The estimate was based on:

- A 1400 seat performance theatre, complete with 24 metre fly tower, lighting, rigging, sound, drapes and associated circulation;
- Green/dressing rooms and service area;
- A 250 seat drama theatre;
- A flat conference floor area of at least 900m² and associated services (it was also assumed that the conference centre would use the existing or upgraded kitchen/layout areas located within the Rutherford Hotel);
- 300m² of retail space/offices;
- One level of underground carparking for approximately 140 cars;
- Site works including the construction of landscaped and paved outside space;
- Building research/BIA levies

The estimate did not include:

- GST
- Design/consultant fees
- Council fees/levies
- The cost of the land
- Financing and legal costs
- Upgrading of public footpaths/roading around the site

No allowance was made for any work to upgrade the Rutherford Hotel.

This 2008 estimate concluded that the final cost before exclusions would be \$38.92 million, for the separate Performing Arts Centre.

This estimate also suggested that with increasing costs a tentative 2012 cost would be \$48.506 million (see Arthouse Architects letter of 18/07/2008, **Appendix B**)

- 2.8 During this period, the Tasman District Council had been included as a member of the working party convened by Nelson City Council to consider the Performing Arts and Conference Centre proposal, as put forward in its various forms over the period. However, in its LTCCP for the period 2006-2016, the Tasman District Council included the following paragraph (page 183):

'Nelson Performing Arts Centre. *At its meeting of 20th June 2006, Council gave consideration to its level of involvement and the timing of this project. Following discussion, Council resolved that support for the Nelson Performing Centre be deferred beyond the ten year period covered by this plan.'*

- 2.9 In its revised LTCCP for the year 2009-2019, (page 49) Tasman District Council included the following narrative:

'We received about 20 submissions on the Nelson Performing Arts Centre. There were mixed views on whether Council should provide funding to this facility being proposed in Nelson City. Most of the submissions in favour of the Council providing funding came from Nelson City residents. Most of the submissions against Council funding the facility came from Tasman Residents. Council is not planning to provide funding for the Performing Arts Centre in the form currently proposed. While we acknowledge the need for a conference centre in Nelson, the Tasman District Council remains confident that this can, and will be provided by private enterprise.'

Council is of the view that when the conference centre comes into being, it, together with the renovated Theatre Royal (complete with fly tower capacity), the Nelson School of Music, the enlarged and enhanced Trafalgar Centre, plus outdoor facilities at Trafalgar Park, Saxton Field and the Motueka Sports Ground, will meet all reasonable needs for the region's relatively small population.'

3. THE CURRENT PROPOSAL

- 3.1. As a review of the history of this project reveals, the exact purpose, form and location of the facility has varied considerably over the years. In its latest variation, the statement of proposal provided by Nelson City Council proposes two separate facilities, co-located on the Rutherford Street site. One (the Performing Arts Centre) will be fully funded by ratepayers, and the other (the Conference Centre) will be funded by private enterprise.
- 3.2. The separate Performing Arts Centre will have the following features:
- A 1200 seat main auditorium, with continental styled tiered seating (approximately 900 seats in the main gallery and a further 300 seats in the circle)
 - An arched Roman style stage (proscenium) of width and depth suitable for orchestral performances, theatre and classical and modern dance
 - An appropriate fly tower
 - Backstage facilities
 - High quality, adjustable acoustics for opera, theatre and popular music performances
 - A foyer and entrance with associated ticket sales, administration, merchandise, food and beverage sales
 - Circulation space from the foyer
 - Provision for use by physically impaired patrons, including ramps and lifts to elevated spaces

- Urban landscaping to provide easy access to the venue from the CBD, including way finding from CBD car parking areas
- Sheltered entries and drop off areas for buses, coaches and cars.
- Physical links to the Conference Centre

3.3 The separate Conference Facility will have the following features:

- A 700 seat capacity (combined over two rooms)
- 500 seat dining capacity (combined over two rooms)
- Eight or more breakout rooms (some flexible with moveable walls to allow joining)
- Media facilities
- Physical links to the Performing Arts facility

3.4 It is important to note the differences between this proposal and the original Millennium Trust proposal. In the Millennium Centre proposal, stage facilities were specified as follows:

“The proposed stage facilities are of international size and standard. The 26 metre by 15 metre stage has a 13 metre-wide proscenium opening, with full fly tower facilities covering the whole stage area. An orchestra pit extending under the stage, a three metre wide section of which can be raised to the auditorium floor level, or a stage height to form a thrust-stage in front of the curtain. The stage is supported by dressing room facilities for 76 performers.” (page 9)

The report noted at that stage that *“it is evident when reviewing the floor plans of a modern auditorium that the floor area of the stage and supporting space is often larger than that of the auditorium itself, due to the level of technical facilities required, the stage is an expensive space compared to the rest of the building.”*

The report proposed the following for the main auditorium:

“The key design features of the main auditorium concept ... show a tiered seat auditorium with 1420 seats; 850 in stalls and 570 in the circle. Both circle and stalls have a continental seating layout, fared from the sides, with a wide spacing between rows to facilitate entry and exit. Generous foyer spaces exist at all levels, which double as conference exhibition spaces and which can be partially or fully enclosed for corporate or private functions.”

The Millennium Trust proposal also included a 250 seat small drama theatre which it believed could be built for an additional capital cost of less than \$1 million.

The Millennium Trust proposal also included retail spaces, totalling 400m² at ground level. The concept plan also included commercial space of 550m². Both these features were designed to generate prime rental income in the short term, with the possibility that they could revert to additional conference space, if demand should ever reach that point.

A copy of the key design features, as set out on page 25 of the January 2002 discussion document is attached, together with the floor plans shown on pages 12 to 19, and the specifications for costing purposes on pages 57 and 58 of that same report (see **Appendix C**).

- 3.5 It is apparent that the latest proposal is significantly reduced in scope and size from that original proposed by the Millennium Trust. The theatre is of a similar style, but seating has been reduced by 220 seats. Details of the stage size and fly tower size have not been provided and it is not possible to identify whether the staging and fly tower will be equivalent to the original proposal. References to an orchestra pit and self-raising stage extension (thrust-stage) would seem to have disappeared. The large foyer has disappeared, as has the underground carparking and the 250 seat drama theatre.
- 3.6 The proposal in its current form has been described as being 'gold plated'. However, no detailed evidence has been provided at any time to allow a detailed comparison by which to judge the merit of the use of the term 'gold plated', at least in comparison to the original Millennium Trust proposal. At the same time it has been made very clear in presentations that the all-up budget, excluding land, is absolutely capped at \$28 million. This leads to the conclusion that as detailed drawings and firmer costings are provided it is possible that, should there be any cost escalation, other features will also be downgraded to stay within the firm budget cap of \$28 million.
- 3.7 The consultation document wording in the current proposal also indicates that the Conference Centre has been slightly reduced in size from 800 seat capacity to 700 seat capacity. At the same time, the original proposal for 760 seat dining capacity, in the Conference Centre, has been reduced to 500.
- 3.8 The current proposal also reflects the understanding of the Tasman District Council that Rutherford Hotel Holdings Ltd will be fully responsible for the building, owning and operating the Conference facility as an entirely separate unit from the Performing Arts Centre, which will be built, owned and operated by the Nelson City Council.

4. POTENTIAL USAGE

- 4.1. The Nelson City Council Statement of Proposal opening page includes the following question '*...Council has found a site, done the sums (with some expert help) and worked out the type of facility we need and can afford...What do you think?*'. Part '2' of the proposal is headed '*Meeting the Need*'. Unfortunately, at no point in the document is this need quantified. With due respect to the authors, a "desire" is outlined in some detail, but the exact nature of the need is not specified at any point in the consultation.
- 4.2. The BERL economic study recognised the problem of defining and quantifying 'need'. The BERL report noted that no current reliable data was available for estimated usage of a Performing Arts Centre. As a default option, when assessing the need for the Performing Arts Centre, they relied on the information

provided in the original 2002 reports. On the other hand, BERL were able to rely on robust data sourced from the convention activities survey, when considering the economic benefit of the separate, privately owned, Conference/convention Centre.

- 4.3. Given that the latest proposal relates primarily to the feasibility of a separate Performing Arts Centre, it is important to identify the probable usage of this Performing Arts facility, separate from the usage of the conference facility. That usage then needs to be subdivided in 'new' or 'additional' usage, as distinct from existing usage that would simply transfer to the new facility. It should be noted that in the earlier Millennium Trust proposals, no such distinctions were made; conference attendance and performing arts attendance, and commercial rentals, all being treated as common income for a common entity. That scenario clearly does not apply to the latest proposal.
- 4.4. The original 1996 Brian Rhoades and Associates report (at page 4) estimated the total annual usage for the combined facility of 187 days per annum. A copy of this estimate is included (see **Appendix D**).
- 4.5. The subsequent Millennium Trust feasibility study significantly upgraded the usage estimates. A full breakdown is available at page 41 of that report (see **Appendix E**). Overall, the Millennium Trust's design for a combined auditorium/conference and drama centre would be used, in their view for 334 days per year, broken down into 186 for the Performing Arts Centre, 107 for the Conference Centre and 126 for the Drama Centre. The breakdown of the actual performance/auditorium events is somewhat illuminating. Included in the figure of 187 are 20 'rehearsal/load in' days, and 60 days for conference use, as well as 12 days for what are described as 'meetings'.

Figure 4.3 outlines the Millennium Trust's audience expectations. On the basis of this estimate, the separate Performing Arts Centre would have 83,650 'users' per annum. However, closer examination of these figures would indicate that these calculations could be regarded as somewhat optimistic, particularly given the recent track record for similar events within Nelson. For example, the recent Opera in the Park ran at a significant loss attributable in the main to a failure to sell a significant portion of the high-priced seats.

A recent amateur production of the musical 'Cats', which had proved to be extremely successful in other centres, flopped in Nelson with attendances well below expectations and resulted in the show being curtailed at significant cost to the local amateur group.

More recently an independent theatre has closed its doors after failing to attract sufficient patronage.

Projections that would see average audiences of 400 persons attend local theatre 23 times per year, and 850 people turn out for 25 nights for visiting professional theatre, while a further 850 per night would turn out for 20 nights for visiting musical performances and 700 per night would turn out 12 times a year

for political/educational or group meetings appear to be unsubstantiated and perhaps heroic assumptions.

These potential revenue and percentage figures were listed at a result of the telephone survey conducted in September 2001. The results of the survey are attached (see **Appendix F**). While there is no doubt that the twelve promoters contacted did indicate potential uses per annum, other facts should be taken into account. At the time the survey was taken, touring shows were moderately successful within New Zealand. The recent trend, as evidenced by the difficulty with Opera in the Park, and the Cats musical, and as confirmed by poor attendances at other theatres throughout New Zealand and even major sporting events, demonstrate that it is a far more difficult market in the current circumstances. However trends could change again in the future.

The survey at that time also failed to note that each of those twelve promoters is in effect 'in competition' with the other 11 contacted, and while all might desire to have that number of shows successfully pass through Nelson the practical reality would be that in Nelson's small market there would be a very small number of repetitive attendees at such shows. This would inevitably result in falling attendances and fewer shows.

- 4.6 Against that background, BERL was very careful in its assessment of performance events that would be likely to use the Performing Arts Centre. BERL noted that it was not within the scope of its report to comment on the likelihood of those previously predicted numbers in events being achieved. Instead it concentrated on how many **new or additional** performing arts events would be attracted to the region should a Performing Arts Centre be built. It can be argued that it is at this point that BERL attempted to identify the 'unmet need'. BERL therefore considered only 45 projected visiting professional theatre and musical performances. They noted that the total audience for those events was to be 38,250 and *'to provide some perspective' this figure would be "3.6 times the **total attendance** at ticketed shows at the 2008 Nelson Arts Festival"*.

BERL proposed two scenarios. In the first they assumed that there would be 22 shows featuring around 6 new touring groups that were attracted each year, and that this would provide ticket sales of 21,200, that is double that of the Nelson Arts Festival. In the second scenario, they used the higher Millennium figures based on 45 shows featuring around eleven new touring groups that were attracted each year, providing ticket sales of 38,250.

The first scenario would effectively mean that the region would need to fill 960 seats a night (approximate average for the recent Circus Oz) for four to five nights every second month, other than in October, the Arts Festival month.

The second, higher, scenario would mean that the region would need to fill 850 seats for four to five nights every month.

- 4.7 The earlier reports also draw on comparisons to the usage of other theatres around New Zealand. It is correct that, where theatres are available at low rates,

then they are used. If a 1200 seat theatre is built in Nelson it will be used if it is a good facility and the hire charges are acceptable to users. Usage numbers in those other theatres are automatically boosted by free or heavily subsidised usage that is justified as 'public good' (e.g. school concerts). Commercial hire charges do not apply and ratepayer subsidy meets the shortfall.

- 4.8 High usage is not helpful if that usage is 'cannibalised' from other Council owned and ratepayer subsidised facilities. In such circumstances the subsidy is simply shifted to a new site, while total overall costs increase.

There is also the risk to private venues. In recent weeks we have seen the Independent Theatre close. A further proliferation of ratepayer subsidised venues will not help the viability of private venues.

- 4.9 Over recent years the Theatre Royal has been renovated and extended to include a fly tower and modern stage facilities. With 350 seats, it is still a small theatre, but it will be an extremely attractive proposition for the bulk of small to medium sized productions.

The Trafalgar Centre has also been extended and renovated with a large stage and associated service, acoustic tiling, improved lighting, heating and ventilation, a loading dock and 460 additional mobile seats. A third phase of development has already been planned. The revamped Centre has already hosted large meetings and concerts successfully and this capacity will be further enhanced when the third phase is realised.

Nelson's climate is conducive to outdoor events and the considerable sums being spent on Trafalgar Park will allow it to fulfil that role during summer. The Saxton Field facilities are also increasingly recognised as providing a prime outdoor event environment, and in Motueka, the sportsground capacity continues to build.

- 4.10 Major performance events are usually expensive to mount as productions, and even more expensive to tour. When considering the possibility of bringing a production to a city such as Nelson, the promoter will assess the cost of getting the show and its props to Nelson, the cost of accommodation, and the cost of the venue, and compare that to the potential audience.

The usual 'rule of thumb' is to consider the number of people available within a two hour travelling time. In a city such as Palmerston North, there are close to 450,000 people within a two hour drive time.

Unfortunately, due to our geography, Nelson has only about 120,000 to 130,000 people available within that criteria.

A promoter considering bringing a major production to Nelson is likely to need a good season and/or high ticket prices to recover their costs. The reality is that even if the theatre was provided 'free', only a few promoters of major shows would consider the risk worthwhile. We are just too small to sustain regular major productions.

- 4.11 In the short space of time available for the preparation of this report it has not been possible to conduct any form of detailed Performing Arts Centre usage analysis to fill in this information shortfall. However, some conclusions can be reached.
- a. The potential audience within a 'two-hour' catchment is relatively very small.
 - b. The attendance figures previously suggested for performance are extremely optimistic.
 - c. As suggested by BERL, few new performance events will be attracted to Nelson.
 - d. Those attracted will have a range of facilities available to them
 - e. The overall **additional** usage will be minimal

5. ECONOMIC BENEFITS OF A PERFORMING ARTS AND CONFERENCE CENTRE (i.e. both a theatre and a conference centre)

- 5.1 The original Millennium Centre feasibility study dated 2002 included a brief benefit cost assessment prepared by Ernst and Young.

While the assessment was based on the multipurpose Wakatu Square proposal and the costing etc are outdated, the approach and conclusions have some relevance.

The Ernst and Young report focussed almost entirely on the economic benefits accruing from the Conference Centre. The report made only passing reference to the benefits from the Performing Arts Centre and rated these benefits as being at a very low level.

- 5.2 No other economic benefit analysis appears to have been carried out until the BERL report was completed in August 2009. This report was prepared on behalf of Nelson City Council and provided scenarios firstly as to the possible economic benefits to the region of a proposed Performing Arts Centre, and secondly the economic benefits for a proposal to increase the Conference Centre capacity in line with the current proposal to use the Rutherford site in conjunction with the Rutherford Hotel Holdings Ltd.
- 5.3 As a result of the 'two uses' scenario, produced by BERL in regard to the Performing Arts Centre by itself, there are two economic benefit estimates.
- a. Under the high scenario, the Performing Arts Centre could add \$1.1 million per year in annual GDP, and create 24 fulltime equivalent (FTE) jobs in the region.
 - b. Under the low scenario, the Performing Arts Centre would only produce \$690,000 in annual GDP and create 13 FTE jobs in the region.
- Under either scenario, the one-off construction costs economic benefits would be \$15 million in GDP and 230 one-year FTE jobs.

6. ECONOMIC BENEFIT OF A SEPARATE CONVENTION CENTRE

- 6.1 The conference/convention centre is expected to be built by Rutherford Hotel Holdings Ltd who own the Rutherford Hotel. The BERL report assumes that the extension and upgrade of existing conference facilities linked to the Rutherford Hotel to extend capacity to 800 conference delegates, 600 person dining capacity in banquet mode, plus break-out areas and trade display areas. Because this is simply an extension to the existing hotel, this is expected to cost only \$4 million (according to BERL).
- 6.2 It should be noted that the capacities quoted in the BERL report do not exactly match those quoted in the Nelson City Council consultation proposal. However, given that that consultation proposal is primarily related to the Performing Arts Centre, this is of no direct material concern.
- 6.3 In their report, BERL noted that for the Conference Centre to work in the region there would need to be a significant lift in quality hotel rooms to cater for the attendees. In BERL's view *'there are two options for improving hotel capacity in the region. The first would be to increase the capacity of the existing Rutherford Hotel by a further 150 rooms; the second would be to build a greenfields hotel of at least 150 rooms. The cost of the former is estimated at around \$57.2 million, and the later at \$55.9 million. The small differences in costs between these options make it sensible to present one number – an average of the two - \$56.6 million.'*
- 6.4 The economic viability of the Conference Centre is independent from that of the Performing Arts Centre. In BERL's view *'the Conference Centre, provided that there is sufficient hotel quality accommodation is in place, will be economically viable on its own, with or without the construction of a co-located Performing Arts Centre'.*
- 6.5 The ongoing economic benefit of additional large conferences would be 31 FTEs, and \$1.3 million in GDP. The additional \$2.1 million spent in the region, according to BERL's calculations, is a 50% increase in current conference spending.
- 6.6 The construction of the separate large conference extension, and the hotel facilities, would employ 495 one-year FTEs over the period of construction, generating \$32 million in GDP.
- 6.7 It is apparent from both original Ernst and Young report, and the recent BERL report, that the worthwhile economic benefits come from the separate Conference Centre. The hotel operators are committed to construction of this facility and no ratepayer funding is required.
- 6.8 To date, the Tasman District Council has been a strong and consistent supporter of the need for a Conference Centre. That support is well founded and the BERL report reinforces the merit of that stance, which was based on other reports that predated the BERL report.

- Earlier the Nelson Tasman Regional Tourism Strategy for 2007-2016 made the following recommendation

“Strategy/Actions

- 1.1 *Develop Nelson as NZ’s premier mid-scale regional conference destination.*
 - 1.1.1 *Accelerate development of a regional conference centre targeting 300-600 delegate association conferences.*
 - 1.1.2 *Step up intelligence gathering to revalidate precise market requirements for conference facility configuration.*
 - 1.1.3 *Develop a long term programme to market the conference facility as soon as a confident completion timeframe is established.*
 - 1.1.4 *Facilitate opportunities for service providers to prepare to meet the needs of larger conferences.”*

(Relevant pages of the Strategy are attached as **Appendix G**).

- In August 2007, the LED team from Otago University prepared a report titled ‘Local Economic Development in the Tasman Region’. At page 31 the report states:

“7.4.5 Convention Centre

Every informant felt that the development of a convention centre would have vast economic benefits for the region. The EDA’s stance was that a convention centre would facilitate economic growth as well as act to attract higher end accommodation services and more corporate business and professional job opportunities currently absent in the Nelson region. The NCC has secured land on which a convention centre combined with a performing arts centre is to be developed.”

- In December 2007, both councils received the Nelson Tasman Regional Economic Development Strategy (REDS) prepared by John Cook and Associates for the Nelson Regional Economic Development Agency. The report made the following recommendation:

Recommendation – 1.4

That priority be given to expediate construction of a conference centre to provide essential tourism infrastructure for the region.”

(Relevant pages of the paper are attached as **Appendix H**).

- 6.9 The economic benefit case for a conference/convention centre is overwhelming, with support from all quarters. Tasman District Council has consistently promoted it as a top priority, in its own right. The latest BERL report confirms that it will be economically viable *“with or without the construction of a co-located Performing Arts Centre”*.

Therefore there does not appear to be any reason why that priority should be changed.

7. PREVIOUS FINANCIAL FEASIBILITY ESTIMATES

- 7.1 BERL explicitly distanced themselves from the **financial** feasibility of the Performing Arts and Conference Centre.

*“The focus of the report is on the economic benefits to the Nelson-Tasman region rather than that **financial feasibility** of the Performing Arts or Conference Centre. It is important to bear in mind that this is an economic impact, not a financial feasibility study.”*

However, somebody has to pay and the issues of financial feasibility must be addressed.

- 7.2 The original Brian L Rhoades ‘New Theatre for Nelson’ initial feasibility study concluded that *“with widespread public support, coupled with substantial local body funding, the project should proceed”*.

The Rhoades report proposed that a considerable amount of financial support could be obtained from Trust bank community trust funds, commercial sponsorship and major private sponsors, as well as community fundraising. In terms of ongoing operating costs the authors provided an ongoing financial performance table which, in their view, demonstrated that revenue from the Centre should be able to at least cover operating costs in a typical year. **However, the authors noted that this model took no account of the cost of capital and that additional start-up costs would have to be absorbed in the first few years of operation.** This model is found at Table 5.3.1 of the Brian L Rhoades report (see **Appendix I**).

The subsequent January 2002 Nelson Millennium Centre feasibility study, prepared by the Nelson Millennium Centre Trust produced an indicative capital cost calculation of \$19.010 million (page 38) (see **Appendix J**). The Trust also produced in Figure 4.5 (page 47) (see **Appendix K**), a projected Centre operating cost which predicted an excess of income over operating expenditure of \$177,000 per annum. **However it should be noted again that these calculations did not include either depreciation or interest.**

At page 44, the Millennium Trust explained these omissions in the following words *“...no finance charges are included in the cost estimate. No venue of this type in New Zealand, or in most other countries, is capable of generating sufficient income to make a return on the capital cost”*.

- 7.3 The February 2003 report by Professor John Hunt of Auckland University subsequently concluded that the revenue estimates for the auditorium (i.e. the Performing Arts Centre) may have been overestimated by 10-15 percent. The Professor made no comment on costs, and appeared to accept the 2002 figures without query.

8. OTHER SOURCES OF FUNDING

- 8.1 The current consultation document is quite definite as to there being a maximum capital budget of \$28 million, which will include design and project management costs. The proposal also acknowledges that the Performing Arts Centre and its land will add \$32 million to Council debt. However the consultation document goes on to state that it will be seeking additional sources of funding to contribute towards the project and that it will *“...continue to encourage TDC to contribute to this important regional facility at both a capital and operational level”*. The Nelson City Council states that *“the businesses of our region have been generous in supplying donations in kind, and we would expect that this would be the case again for a performance facility that will be a source of great civic pride”*.
- 8.2 Unfortunately, at no point in the Statement of Proposal is the projected level of additional support mentioned or quantified. Given the firm statement in the Statement of Proposal that *“... the debt level in the Nelson Community Plan would be lowered by \$32 million in 2012/2013 without the development”*, there appears to be an implicit acceptance that the project is likely to be funded almost entirely by the ratepayer.
- 8.3 This is a significant step away from the previous position as set out in the 2007 Shand Shelton report to the working party which stated *“to have a reasonable chance of success it is likely that the Councils will be asked to fund \$18-plus million, with the remainder to be shared between a comprehensive investment campaign and Government contribution.”*

9. REQUESTS FOR FURTHER INFORMATION

- 9.1 While earlier reports did develop detailed estimates of capital and operating costs, and income, this information is not included in the current Nelson City Council Statement of Proposal'. Further information has been sought from the Nelson City Council in an endeavour to con?? Some form of ??.

A copy of the Tasman District Council email questions and NCC answers is attached as **Appendix L**.

- 9.2 Nelson City Council has now confirmed that the full capital costs of \$32 million will be funded by way of borrowings. The Nelson City Council Ten Year Community Plan at Volume Two, page 11 shows that the Council anticipates significant inward cash flows being provided by loans raised during the years 2010/11 to 2012/13.

A Nelson City Council 'Final Estimate' report for the ten years to 30th June 2019 (at pages 146 & 147) (see **Appendix M**) details the following capital expenditure as being specifically related to the Performing Arts Centre as follows:

Projection 2008/2009	100,000
Budget 2009/2010	5,000,000
Budget 2010/2011	6,177,000
Budget 2011/2012	21,197,400
	<u>\$32,374,400</u>

- 9.3 Some questions must be asked as to the adequacy of the capital budget to purchase the land and build and fit out a facility that contains all the features listed in the proposal, and that fulfils the public claim that it will be 'goldplated'.

As can be seen from the Arthouse Architects 2008 estimate, the expected cost for the separate Performing Arts Centre in 2012 dollars was \$48.508 million exclusive of land (and many other costs).

The present 2012 Nelson City Council budget for the Performing Arts Centre exclusive of land is \$28 million.

While many features have been removed from the original Arthouse design it is hard to see how the cost could be reduced by a minimum of \$20.5 million.

It is also important to remember that the \$28 million figure is 'all-inclusive' except for the land. In comparison the \$48.508 million had significant exclusions, such as design/consultants fees and no allowance for a 5 Star Green rating.

- 9.4 Design/consultancy fees for a specialist facility such as this are higher than for a run of the mill building (such as an office block). Given the range of consultants that will be needed for items such as "high quality, adjustable acoustics" the total design/ consultancy fees will add at least 10% to the construction and fit-out costs. As pointed out in the Arthouse estimates, there will be a need to upgrade footpaths and roading in the area and the Nelson City Council Statement of Proposal makes promises of ramps for the disabled, urban landscaping and improved access to CBD car parking, sheltered areas for drop-zones for buses and cars, and a physical link to the Conference Centre. Since then the additional costs associated with construction to a 5-Star Green rating have been introduced as part of the Statement of Proposal (see point 9.3.)
- 9.5 A crude 'guesstimate' at what the real total cost of the Statement of Proposal Performing Arts Centre could be calculated if some breakdown of costs was available. For example:

Original Arthouse Design	\$48.5 million
Less	
220 seats	?
Orchestra Pit	?
Thrust Stage	?
Large Foyer	?
Underground parking	?
250 seat drama theatre	?
Plus	
Design/Consultancy fees (10% plus)	?
Legal etc	?
Additional footpaths/roading and landscaping	?
Roading drop-off points	?
'Link' to CBD	?
5 Star Green rating	?
Total Cost	\$???

- 9.6 As the Statement of Proposal states that the Council has *“found the site, done the sums (with some expert help) and worked out the type of facility we need and can afford”* Tasman District Council requested a copy of the design brief and early design proposal mentioned in Part Two of the Nelson City Council Statement of Proposal, as having been developed by the Council and project management group, BECA.

In the absence of any capital cost breakdown, it has not been possible to complete any calculation as suggested in 9.5. It transpires that ‘design’ consists only of the two outlines shown in Part Three of the Nelson City Council Statement of Proposal. The full response from Nelson City Council was *“The design brief and early design proposal is effectively the same as that information provided in the Statement of Proposal. Further detailed design is subject to the decision reached at the conclusion of the Special Consultative Procedure (SCP).”*

- 9.7 Other attempts to confirm the veracity of the capital cost budget were not particularly successful. In response to the question,

“Can you confirm that this budget includes design/consultants fees, NCC levies/fees, legal fees, upgrading of surrounding footpaths and roading, upgrading of neighbouring parking, and the equipment fit out?”

The Nelson City Council reply was as follows:

“The \$28 million budget includes all of the items detailed in the above sentence.”

This is a firm and reassuring response. However when asked:

“Is it possible to provide an itemised breakdown of the components of this capital budget? (I would have assumed that this would be possible given the detailed breakdown of features listed in point 3 of the proposal.)”

The reply was as follows:

“A detailed breakdown of the physical works component of the capital budget is not available as the detailed design is yet to commence. However, the design team have confirmed that the \$28 million dollar budget is appropriate for the scope of this facility.”

The additional costs associated with achieving a 5 Star Green building rating should not be underestimated. Nelson City Council were asked:

“Has this additional "sustainability" cost be allowed for in the BECA costs estimates that lead to their conclusion that a performing arts centre inclusive of all of the features outlined in point 3 of the proposal, could be built and fully fitted out, at a total cost not exceeding \$28m?”

The response was as follows:

“A detailed breakdown of the physical works component of the capital budget will be completed during the preliminary design, however, at this stage Beca have included for sustainability costings in their preliminary confirmation of the \$28 million budget.”

The Statement of Proposal also states at Part Two that *“BECA reported back that a quality Performing Arts Centre and Conference Centre can be provided on the Rutherford Street site within the \$28 million budget.”* Tasman District Council requested a copy of this independent report. The response was as follows:

“The Beca report was delivered verbally; however, Beca are confident that the \$28 million budget is appropriate for the scope of this facility.”

- 9.8 It appears that the capital budget is based on two sketches and an oral quote. In the absence of any supporting detail it is not possible to verify the robustness of the Statement of Proposal capital budget, and the ability of that \$28 million all inclusive budget to provide all of the top quality features promised in the Statement of Proposal, and confirmed in the email correspondence to Tasman District Council.

10. CURRENT FINANCIAL FEASIBILITY

- 10.1 As indicated earlier in this report, the BERL study explicitly distanced itself from any association with the financial feasibility of the Performing Arts Centre. The Nelson City Council Statement of Proposal does not directly address the issue of financial feasibility although it does explicitly state that the type of facility

proposed is one that “we need and can afford”. The Statement of Proposal only talks in general terms about potential use and makes no mention of potential revenue.

The report does however (part 9.) explicitly state that “once the Performing Arts and Conference Centre is up and running, it will cost approximately \$3.8 million per annum. This is interest, depreciation, and ongoing running costs. These running costs including staffing, maintenance, energy, consumables and utilities are likely to be around \$430,000. The total funding amount per annum also includes repayments of the loan taken out in the project. These amounts have already been provided for in our draft and final Nelson Community Plan (LTCCP), which is why Council considers the project to be affordable.”

- 10.2 As mentioned earlier in this report, previous studies by the Millenium Trust and others have predicted that a Performing Arts Centre could at least break even in cash terms. That is, cash revenue will at least equate to cash operating costs. While that approach may have been acceptable prior to 1989, all councils are now required to account for activities using full accrual accounting. Therefore the costs of depreciation and interest on capital have to be taken into account. In response to Tasman District Council questions, Nelson City Council have confirmed that all operating costs, all depreciation costs and all capital repayments have been included in their final Ten Year Community Plan.
- 10.3 In order to attempt a comparison of the Nelson City Council operating cost estimates against those earlier estimates, Tasman District Council requested a breakdown of the \$3.8 million per annum operating costs. The breakdown provided by Nelson City Council is as follows.

Interest	\$1.92 million (at 6% per annum average)
Repayments	\$0.80 million
Depreciation	\$0.64 million (estimated at 2%)
Net running costs	<u>\$0.44 million</u>
Total	\$3.8 million

The calculation is puzzling in that it ‘double counts’ by adding both depreciation and loan payments into a calculation of annual operating costs. Under accrual accounting depreciation would be included as an annual operating cost, but the repayment of loans is a capital expense rather than an operating expense, and it should not be included in annual operating costs.

Tasman District Council staff believe that the \$800,000 for repayments should be excluded from the annual operating costs, thereby reducing the Nelson City Council estimate to \$3 million.

10.4 **Interest costs**

Nelson City Council has estimated the interest cost at being 6% on total cost of \$32 million (i.e. building plus land). The rate of interest used is consistent with the financial assumptions used in the Nelson Ten Year Community Plan. While predicting interest rates is notoriously difficult, there seems to be a universal

acceptance that interest rates will rise in the next few years. By way of comparison, the Tasman District Council's interest rate assumption for the same period is 7.2%. If the interest rates predicted by Tasman District Council are applied to Performing Arts Centre capital budget, annual interest costs will increase by approximately \$405,000 per annum.

10.5 Depreciation

All Councils are now required to provide for depreciation in their accounts. While the full cost of depreciation may not be funded by cash demands on ratepayers, any shortfall reduces the ratepayer equity as shown in the Council's balance sheet and maintains borrowings at a higher level than what would have applied had the full value of depreciation been available to fund debt repayment.

Nelson City Council has provided for annual depreciation of \$640,000 which equates to 2% on a capital cost \$32 million. It would appear then this cost has been based on the both the fitted out building and the land. If so, this is somewhat strange as normally as normally depreciation would not be charged on the \$4 million worth of land. However, despite this apparent overestimate, Tasman District Council staff would question the appropriateness of an assumption of 2% as the correct depreciation rate for the entire \$28 million allocated to the fitted out fully functional facility.

Depreciation rates broadly follow categories e.g.

Permanent buildings	2% per annum
Plant and equipment	10% per annum
Furniture and fittings	20% per annum
Electronic/computer equipment up to	33.3% per annum

In the view of Tasman District Council staff it is extremely unlikely that an average depreciation cost of 2% could be achieved. In the absence of any detailed capital budget it is impossible to make any accurate assumptions as to a true depreciation rate but even at an average of, say, 6% across the entire facility, the annual operating costs would increase by a further \$1.28 million per annum. At 8% the additional cost would be \$1.92 million per annum.

10.6 Income

The earlier reports prepared by the Millennium Trust and others assumed quite low rental charges of just a few hundred thousand dollars. BERL, in its report, has noted that in economic terms, benefits would only come from additional shows. While it is probable that many existing shows would transfer to a new Performing Arts Centre they are only likely to do so if the fees and charges are no greater than what they pay in Nelson City Council's existing facilities. In practical terms the ratepayer will only benefit from revenue created by additional new shows, and as BERL pointed out these are likely to be few in number, and given the small population base in the area, leading to short run shows, it is very unlikely that promoters will be prepared to pay more than nominal hire charges.

It is assumed that that situation has been anticipated by Nelson City Council and that this is why there is no reference to revenue in the Statement of Proposal.

- 10.7 Perhaps the question of financial feasibility could be best addressed by simply acknowledging that the Performing Arts Centre would run at a significant cost on an annual basis. A low-loss scenario would be the \$3.0 million as per the amended Statement of Proposal calculation (see paragraph 10.3), with a higher annual operating loss scenario, could be around \$4.0 to \$5.0 million per annum.

11. OTHER POINTS

11.1 Tasman Support for Arts and Culture

Tasman District Council does not specifically report expenditure levels under this heading. However a brief exercise carried out in 2008 calculated that the annual contribution by the Tasman District Council for a variety of arts and culture activities totalled \$3.319 million. While some of those items may have changed in value, the overall sum is likely to have increased, especially when the recent additional funding provided for the Nelson Provincial Museum is included. The Tasman District Council has been a consistent and large contributor to performing arts and cultural activities throughout its own district and in large measures assisted events and other facilities located in Nelson City.

While all the groups that lobby Council for assistance tend to feel that they should be entitled to a bigger share of the cake, the record, such as it is, does show that there has been a significant contribution to arts and culture by the Tasman District Council, both within its own district and for the larger region.

11.2 Co-location of the Performing Arts Centre with the Conference Centre

When considering the provision of the Performing Arts facility and the Conference facilities essentially there are three options available.

- a. A single but multipurpose facility
- b. Separate but co-located facilities
- c. Separate facilities

In recent weeks there have been many suggestions in the media that co-location should be reconsidered. Each of the three alternatives mentioned above has both pros and cons attached. However on balance it is probable that the co-located Rutherford site option has a slight edge over the alternatives. It is important to recognise that the other two options are both viable in their own right, at least in terms of functionality. The Statement of Proposal and the questions asked in that proposal are specific to the location on the Rutherford Street site.

While the proposal has been set in this form to provide a clear focus and hopefully produce a single response, this should not mask the fact that the preferred Performing Arts Centre is a self contained facility that is not dependant on the Conference Centre.

Equally the Conference Centre is not dependant on the Performing Arts Centre. The words used in the Statement of Proposal have not made this distinction particularly clear.

11.3 Facilities in Other Centres

Both the Statement of Proposal and media comment have made mention of the facilities available in other cities. The inference in those comparisons is that if those cities can afford a performing arts theatre then the Nelson region should be able to afford one too. Such comparisons need to be put in perspective. For example, the Regent Theatre in Palmerston North is mentioned as one example. The original Regent Theatre in Palmerston North was a very large, well constructed and elegant theatre. However it lacked any form of fly tower. Approximately 15 years ago, following a sustained campaign to raise funds from the public, a full fly tower facility was built at the back of the original theatre, and the original theatre itself upgraded. The cost at that time was in excess of \$13 million, and, due to financial constraints, many hoped for additions such as an extended foyer and additional green rooms and technical equipment were not able to be provided. However the extended and renovated theatre is probably the best provincial theatre in New Zealand and it is capable of staging all large touring productions that come to New Zealand. Unfortunately despite the fact that it has a market catchment within two hours drive time, of 450,000 people, the Theatre still runs at a significant annual loss, which is met by ratepayer grant.

The recent upgrading of the Civic Theatre in Invercargill is also brought forward as an example. Invercargill City and Southland District are not dissimilar to Nelson and the Tasman District in overall population numbers. In that case, the original Civic Theatre (in much the same way as Palmerston North) was upgraded and a full fly tower built at the back of the original theatre. Again due to financial constraints the features that would have been desirable were eliminated from the approved budget. While the fly tower is of a reasonably high standard, the theatre itself remains cramped with pillars obstructing some views and the patron facilities are barely adequate by modern standards. The Invercargill proposal would not have proceeded without the support of the Invercargill Licensing Trust and the Southland Community Trust. Without those external funding sources it is unlikely that the proposal would have ever got off the ground. The theatre is now complete and has been in operation for some time but its actual usage is restricted to only a few major events, income is low, and as a result the ratepayers fund a significant annual operating loss. What is also interesting in the Invercargill situation is to note that the Southland Stadium and its co-located Cycling Velodrome are both now used extensively for a range of events and theatrical performances. It is likely that those two venues will continue to cater for a number of performance events, even though the Civic is available. Such luxuries can be afforded if your city has a good Licensing Trust.

11.4 Regional Economic Benefits and Regional Growth

Significant publicity has been given to the level of economic benefit that would flow from both the construction and ongoing operation of the Performing Arts Centre. Newspaper reports tended to highlight the best case scenario which would lead to annual economic benefit of \$1 million per annum, as calculated by BERL. As outlined earlier in this report, the real economic benefits come from the Conference Centre, which will bring money into the region on a consistent annual basis, whereas much of the money created by performance activity will depart with the promoters and artists as they leave town.

Tasman District Council is committed to growth in the Tasman district and is supportive of growth in the Top of the South region as a whole. This commitment is reflected in the very large core infrastructure capital programme contained in the Tasman District Council's Ten Year Plan. While no economic benefit study has been done on the Lee Valley Dam proposal, it is obvious that such a proposal which would provide water to the entire Waimea Basin, Richmond and parts of Nelson City and thereby enable intensive horticultural activity over a much increased area.

This project will bring in economic benefits vastly in excess of those estimated to arise from the Performing Arts Centre. Coincidentally, the capital costs of the project are in the same \$30 million plus range.

The number of additional jobs created will also be vastly in excess of those available on annual basis from the Performing Arts Centre. By way of comparison, the capital costs of both projects are expected to be relatively similar. While the Performing Arts Centre will require an annual subsidy from the ratepayer of up to \$5 million per annum, the Lee Dam operating costs will be funded by its users, and it is unlikely to have any call on the general rate.

11.5 Other Facilities

The Tasman District Council is committed to a programme of community halls throughout the region and is currently investigating whether or not there is any real need for some form of facility capable of limited performance use within the Richmond district.

Tasman District Council has contributed in the past towards the renovation of the Theatre Royal and the Trafalgar Centre. Preliminary plans already exist for further improvements ("Stage 3") at the Trafalgar Centre which would further enhance its current capacity to handle some types of events.

Trafalgar Park will be virtually rebuilt and improvements continue at Sports Park Motueka. When these are combined with the ever increasing range of facilities at Saxton Field and private venues such as vineyards, and church halls the region caters extremely well for outdoor performances and events.

While considerable mention is made of 'the need' for a new specialist Performing Arts Centre it should be recognised that there are a wide range of both private

and public alternatives in both the Tasman District area and the Nelson City area. With a very small resident population the two districts are currently very well served on a broad basis. While performing arts lobby groups and the population at large would welcome additional new specialist facilities this will only come at a significant additional cost in return for a relatively few additional events.

11.6 Effect on Rates

In answer to a query by Tasman Councillor, Mr Stuart Bryant, during the Nelson City Council presentation to Tasman District Council, the Nelson City Council Performing Arts Centre Project Manager, Mr Alec Louverdis, said that the additional rates for each Nelson City Council ratepayer (assuming no outside funding assistance) would be around \$158 per annum per rateable property.

Nelson City Council has 20,303 rateable properties. At \$158 per annum per property Nelson City Council would therefore expect to provide for annual funded costs of \$3.208 million. This is in line with the Nelson City Council Statement of Proposal 'annual operating costs' of \$3.8 million, less depreciation of \$0.64 million, but including annual repayments of \$0.8 million.

In percentage terms, the additional \$3.208 million equals a 6.6% rate increase, (if Nelson City Council's total rate take of \$48.619 million for 2009/2010 is used as a base line.

If, for any reason, the capital costs of building and fully equipping the promised facility rise beyond budgets, or interest rates rise above 6%, or any other operating costs increase, then the annual additional cost per rateable property will rise accordingly.

11.7 Public Support for Arts Funding

Public support in Tasman District for spending on the arts, and in particular, a Performing Arts Centre, has not been strong. As part of the consultation process for the Ten Year Plan, Tasman District Council used the Council website to ask ratepayers how they rated the importance of 25 different activities or projects.

'Developing the Arts Sector' and 'New Performing Arts Centre' were overwhelmingly ranked 25th and 24th least important for Tasman.

These rankings (about support for the arts) were even worse than those shown in the June/July 2008 Communitrak Survey. In that survey, randomly selected ratepayers were asked to rank 18 activities in terms of support for more council spending. 'Arts, culture and heritage in general' ranked 15th out of 18 choices.

Based on those surveys, it is difficult to conclude that there is a majority support for Tasman to commit additional expenditure in this area of activity.

11.8 Tasman District Council Submission

The cut-off date for submissions on the Nelson City Council Statement of Proposal was 24 November 2009.

The proposal is a Nelson City Council initiative, and there is no immediate reason why Tasman District Council should make a submission, other than to provide a response to the question “Is Tasman Contributing?”

Nelson City Council staff have assured Tasman District Council staff that should Tasman District Council wish to provide a response to that question prior to Nelson City Council’s final considerations, debate, and decision on 10th December; such a response will be welcome.

12. SUMMARY

- 12.1 Debate about a Performing Arts Centre and a Conference Centre has gone on for thirteen years. Nelson City Council has expressed a desire to bring the debate to a close and the current Statement of Proposal calls for a final decision to be made at the Council meeting of Thursday 10th December 2009, construction to start in 2010, and the facility to be opened by early 2012.

The funding is in place in the Nelson City Council Ten Year Community Plan, and the 10th of December Nelson City Council decision is effectively a final ‘stop or go’ decision.

- 12.2 Given the large state of the expenditure and the explicit nature of the question “Is Tasman Contributing”, Tasman District Council staff have deliberately gone back to the beginning of the proposal, and attempted to establish a factual trail of evidence, facts, and figures. Where appropriate information was not first available, Tasman District Council staff have used their best endeavours to establish definite information. Where it has not been possible to source definite information, Tasman District Council staff have developed assumptions or estimates in an attempt to fill those gaps in order to provide a complete picture.

While those assumptions and/or estimates can quite rightly be challenged, Tasman District Council staff have at all times strived for objectivity and impartiality.

- 12.3 The current Tasman District Council position on a Performing Arts Centre is included in the Ten Year Plan 2009/2019 as follows:

“We received about 20 submissions on the Nelson Performing Arts Centre. There were mixed views on whether Council should provide funding to this facility being proposed in Nelson City. Most of the submissions in favour of the Council providing funding came from Nelson City residents. Most of the submissions against Council funding the facility came from Tasman residents. Council is not planning to provide funding for the Performing Arts Centre in the form currently proposed. While we acknowledge the need for a conference centre in Nelson, the Tasman District Council remains confident that this can, and will be provided by private enterprise.

Council is of the view that when a conference centre comes into being, it, together with the renovate Theatre Royal (complete with fly tower capacity), the

Nelson School of Music, the enlarged and enhanced Trafalgar Centre, plus outdoor facilities at Trafalgar Park, Saxton Field and the Motueka Sports Ground, will meet all reasonable needs for the region's relatively small population."

12.4 Since that time 'the form currently proposed' has changed significantly. The latest 'current proposal' is now a downsized version of that originally proposed.

Therefore the question now facing the Tasman District Council is one of whether it should now change its 'view' that when the Conference Centre comes into being there are adequate facilities available to meet all reasonable needs for the region's relatively small population.

12.5 Many factors have remained constant.

- a. We are assured by Nelson City Council that the Conference Centre will be built by Rutherford Holdings Ltd, who will meet all capital and operating costs for that separate facility.
- b. All the other facilities mentioned are still available with some already enhanced or due to be enhanced in the near future.
- d. Public support in Tasman for expenditure on a Performing Arts Centre remains as a low level.
- e. The cost benefit in economic terms has not really improved since the original Ernst and Young report of 2002.
- f. Revenue estimates remain minimal.
- g. The potential catchment for patrons remains low.
- h. The proposal is still very expensive and the annual operating loss very high.

12.6 Some things have changed and some new factors have been introduced.

- a. The separate Performing Arts Centre will definitely be co-located at the Rutherford Street site.
- b. The proposal has been downsized and several features removed.
- c. The development will target a *'green star rating of not less than 5 stars'*

12.7 However many aspects of the proposal remain uncertain and subject to significant down side risk.

- a. The capital budget is based on an oral statement, and that statement is based on two simple sketches.
- b. There is a potential high risk conflict between the irresistible promise of an 'iconic building', with a 5 Star Green rating, and a 'gold plated' performance features, and the reality of an immovable \$28 million budget.
- c. The potential risk of cost over runs, or the alternative of further down sizing or down grading of fit out and equipment, appears high when against the more detailed capital cost estimate prepared for the previous proposal. After allowing for inflation and the addition of design fees, 5 Star Green rating costs and other costs, the total capital budget needed for that original proposal is close to twice the budget provided for the present proposal. With due respect to the assurances given, it is difficult to accept that the new proposal is to be just as good, but half the price.

- 12.8 There is further risk associated with the annual ratepayer cash subsidy that will be required to offset annual operating losses. The Statement of Proposal calculation has 'double counted', by including nonfunded depreciation of \$640,000 per annum. If this is adjusted, the cost per rateable property is \$158 per annum to fund an annual subsidy of \$3.3 million (This confirms that while the Statement of Proposal miscalculated, Mr Louverdis did not). However this appears to be a 'best case' scenario. Any construction cost over runs will have to be funded by further borrowings, and all borrowing is likely to face higher interest rates than those predicted.
- 12.9 Ultimately the operating costs, measured in accrual accounting terms, will have to be met by the ratepayer in one form or another. Here there is a real risk that actual depreciation will be several multiples of the Nelson City Council estimate. When the depreciation risk is combined with the interest risk a 'worst case' scenario of annual operating costs of \$4.0 to \$5.0 million is feasible.

13. OPTIONS

Assuming that there is no enthusiasm for a late submission to Nelson City Council, and the Tasman District Council does wish to provide Nelson City Council with an answer to the question "Is Tasman Contributing?" the options for Council are:

- a. Advise Nelson City Council that Tasman District Council does not wish to change its view as expressed in the 2009/2019 Tasman District Council Ten Year Plan, and that this view will be recorded in the Tasman District Council draft Annual Plan for the year 2010/2011.

Or

- b. Advise Nelson City Council that Tasman District Council is prepared to change its view as expressed in the 2009/2019 Ten Year Plan and that the level of support to be provided will be included in the draft Annual Plan for the year 2010/2011, and subject to public consultation as to the degree of change. (In such circumstances the actual level of support and effect on the Tasman District Council rates would not be established until June 2010.)

Note that any decision committing Tasman District Council to contribute to either capital and/or annual costs for the Performing Arts and Conference Centre is likely to be controversial in the context of the number of ratepayers affected throughout the Tasman District. Therefore depending on the degree of support, the decision could be significant in terms of the Council's Policy of Significance.

Paul Wylie
Chief Executive Officer

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