

STAFF REPORT

TO: Mayor and Councillors
FROM: Chief Executive
DATE: 30 March 2011
SUBJECT: **Performing Arts Centre – RCN11-04-02**

EXECUTIVE SUMMARY

The Nelson City Council Draft Annual Plan for the 201/2012 year includes a 'Proposal to develop Rutherford Park to include a performing arts centre and conference centre'.

In 2009 Nelson City Council proposed a combined performing arts and conference centre co-located with the Rutherford Hotel. At that time, the capital cost to Nelson City Council was estimated at \$32 million and Tasman District Council staff estimated an annual operating loss of at least \$3 million.

The conference centre component was to be owned and operated by the Rutherford Hotel. The latest proposal moves the location to the Nelson waterfront with a stand alone 1200 seat theatre and a conference centre apparently co-located with the Trafalgar Centre. The total capital cost is \$58 million. This proposal has the same key features as proposed in 2009, except that at the new location all the capital costs and ongoing costs of operation are the sole responsibility of the ratepayers.

The 'need' for the performing arts centre is still based on skimpy and outdated market research. The total capital budget is based on crude estimates that cannot be substantiated by design drawings or quality surveyor's estimates, as none appear to exist. The total operating losses could be in the region of \$5 million per annum.

Previously the Tasman District Council concluded that there was no business case for the 1200 seat theatre, and that existing facilities including an enhanced Trafalgar Centre, were sufficient for the region's small population. Conversely the Tasman District Council supported the need for a conference centre but concluded that such a facility could, and would, be provided by private enterprise. The Rutherford Hotel has since announced that it will enlarge its conference facility to the desired size.

If anything, the business case for a theatre is now worse, and the notion of two competing conference centres unacceptable.

Nelson City Council has indicated that it will seek Tasman District Council support. This report recommends that any request be declined.

1. PURPOSE

- 1.1 The purpose of this report is to inform Council of Nelson City Council's latest proposals regarding a Performing Arts Centre and/or a Conference Centre, and to seek Council's direction as to what role, if any, the Tasman District Council and its ratepayers should play in the provision of such amenities.

2. BACKGROUND

- 2.1 In its Draft Annual Plan for the year 2011/2012 the Nelson City Council has included a proposal entitled 'Proposal to develop Rutherford Park to include a performing arts centre and a conference centre'. The full details of the proposal are included at pages 21 to 31 of the Draft Annual Plan document. **See Appendix A.**

- 2.2 The key features of the proposed \$30 million performing arts centre would be:

- A 1200 main auditorium with tier seating
- High standard stage, 24 metre fly tower, backstage facilities and first rate acoustics

The key features of a proposed \$19 million conference centre would be:

- 700 seat capacity over two rooms
- 500 seat dining capacity
- At least 8 breakout rooms with some moveable walls
- Links with the performing arts centre, Trafalgar Centre and other Rutherford Park developments

- 2.3 The key features of the latest proposal are not dissimilar to the key features of the proposal put forward by the Nelson City Council in late 2009. That proposal was for a combined facility to be co-located with the Rutherford Hotel. At that time the cost of buildings for the separate performing arts centre were budgeted at \$32 million. No budget was provided for the conference centre as this was expected to be provided by the owners of the Rutherford Hotel

- 2.4 The latest proposal is for a total budget of \$58 million to allow for a stand-alone \$30 million performing arts centre, a \$19 million conference centre (which it seems would be co-located with the Trafalgar Centre) and another \$9 million which would be spent on other developments in the area including the development of the Matai River walkway, landscaping, pedestrian-friendly spaces, green open spaces and links to the city centre and marina.

- 2.5 The 2009 consultation proposal included a special section entitled '*Is Tasman contributing?*' The section of the 2009 consultation document went on to say:

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

- 2.6 At that time (November 2009) the Tasman District Council considered an extensive report which carefully reviewed all previous publicly available information on the performing arts centre and conference centre topics. The report concluded that there was no business case to support a performing arts centre and that, while the need for a conference centre was strongly endorsed by the Tasman District Council; the Council believed that such an enterprise could, and would be provided by private enterprise. Subsequently the Tasman District Council included the following words in its 2009/2019 Ten Year Plan

“We received about 20 submissions on the Nelson performing arts centre. There were mixed views on whether the 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 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 good outdoor facility at Trafalgar Park, Saxton Field and the Motueka Sports Ground will meet all reasonable needs for the region’s relatively small population.”

3 PRESENT SITUATION

- 3.1 The 2009 consultation proposal was promoted as seeking a definite stop or go answer. In the event, as negotiations between the owners of the Rutherford Hotel and Nelson City Council broke down, no such definitive decision was made and Nelson City Council sought an alternative venue. The alternative now chosen is Rutherford Park on the Nelson waterfront.
- 3.2 The form of consultation is less precise with regard to it producing a definite stop or go decision. However the proposal documents do make it clear that if the Council does confirm the plan it will proceed immediately into a design phase to be followed by a construction phase in 2012/2013 with a final completion date in the 2013/2014 year.
- 3.3 As with the past consultation, the Nelson City Council consultation document indicates that it proposes to seek contributions from the Tasman

District Council at both a capital and operational level. The full wording in the document is as follows:

“TASMAN DISTRICT COUNCIL CONTRIBUTION

The proposed facilities would benefit and be used by the wider region. The Tasman District Council did not include a contribution towards such a proposal in its 2009-2019 Long Term Plan. Nelson City Council would continue to encourage to Tasman District Council to contribute to these important regional facilities at both a capital and operational level because of the shared benefits.”

4 FINANCIAL/BUDGETARY CONSIDERATIONS

- 4.1 The present 2009-2019 Tasman District Council Ten Year Plan does not include any allowance for either capital expenditure or operational grants towards either a performing arts centre or a conference centre.

In a similar fashion the Draft 2011/2012 Draft Annual Plan does not include any allowance for either a capital contribution or a grant towards operational expenses.

- 4.2 The scale of the project is very large at \$58 million. If the Tasman District Council was to consider a very large capital contribution that has not been signalled in the Ten Year Plan it could possibly trigger the Council's own Significance Policy. However if no contribution is proposed then no such considerations arise.

5 OPTIONS

- 5.1 In simple terms the Council has two prime options.
- a/ Council can maintain its present position that there is no business case for a performing arts centre and that a conference centre can, and will, be built by private enterprise; or
 - b/ It could consider making a capital contribution towards either a performing arts centre, or a conference centre, or both and it could also consider whether it wished to commit to any share of ongoing funding to support the operations of either a performing arts centre, or a conference centre or both.

6 PROS AND CONS OF OPTIONS

- 6.1 The advantages of the performing arts centre appear to be:
- The acquisition of a much improved auditorium
 - Social and status benefits that would increase the national and international profile of the Nelson Tasman region

- Economic benefits

6.2 The advantages for a conference centre are:

- A larger capacity conference centre
- The ability to attract more conferences during the off peak tourism system thereby leaving to overall economic benefits

6.3 The disadvantages for the performing arts centre appear to be:

- The requirement to raise \$58 million to fund the combined Rutherford Park proposal
- The cannibalisation effect of the new theatre on existing facilities such as the Trafalgar Centre, the Theatre Royal and the outdoor facilities at Trafalgar Park, Saxton Field and Sport Park Motueka
- Significant annual operating loss

6.4 The disadvantages for the conference centre appear to be:

- The probable establishment of a competing privately owned and operated conference centre of a similar size
- The inability of the conference centre to connect directly with established hotel facilities
- A high capital cost
- An ongoing operational loss

7 EVALUATION OF OPTIONS

- 7.1 According to the proposal contained in the Nelson City Council Draft Annual Plan

“In the last thirteen years, several reports have demonstrated the need for a suitable large auditorium and conference facility to bring new economic development to the region. Research has shown a strong demand from a range of potential users from touring events to local productions, and for high profile public and civic functions such conferences, college and NMIT graduation ceremonies.”

- 7.2 The Tasman District Council would take issue with this claim. The previous November 2009 report presented to the Tasman District Council canvassed every report in the public domain at that time. While the reports generally tended to demonstrate a desire for a large performance auditorium, and a conference facility, the need for a suitable large performance auditorium has not been demonstrated or proved. In contrast, there is universal agreement that a conference facility would bring new economic development of the region.

- 7.3 The current consultation document claims that research has shown a strong demand for a range of potential users. The reality is that the so-called ‘research’ is extremely dated and of doubtful authority. In 1996, one report estimated a total annual usage for a combined facility of 187 days per annum. Subsequently, the Millennium Trust conducted a feasibility study which significantly upgraded usage estimates. A closer examination of the background data used by those two organisations indicates that it is largely based on a few phone calls to promoters and individuals estimates. It was for those reasons that the following words were included in the Tasman District Council November 2009 report

“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 as a result of the telephone survey conducted in September 2001. The results of the survey are attached ... 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."

- 7.4 The economic benefits of both a performing arts centre and a conference centre were the subject of a BERL report, completed in August 2009. In considering the economic benefits of a performing arts centre, BERL was careful to absolve itself from responsibility from the previous market survey information. Instead it produced a two-uses scenario to produce two economic benefit estimates.

Under BERL's high-use scenario the performing arts centre would add \$1.1 million per year in annual GDP and create 24 full time equivalent jobs in the region. Under the low-use scenario, the performing arts centre would only produce \$609,000 in annual GDP and create 13 full time equivalent jobs in the region. Under either scenario, BERL also noted that there would be one-off construction costs and economic benefits of \$15 million in GDP and 230 one year full time equivalent jobs.

- 7.5 The economic benefits of a performing arts centre are very low and even under a high use scenario the GDP increase is unlikely to exceed the annual operating loss. Little has changed for the better in the latest theatre proposal. It is hard to see how the economic benefits would be improved and given the lack of co-location with the hotel and a conference centre, it may well be less. Overall, it is extremely difficult to justify a performing arts centre on the basis of economic benefit.
- 7.6 In contrast BERL did see greater economic benefits from a large conference centre. The ongoing economic benefit of a large conference centre would be 31 full time equivalents and \$1.3 million in GDP.
- 7.7 To date, Tasman District Council has been a strong and consistent supporter of the need for a conference centre. In the Tasman District Council November 2009 report it was noted that *"support is well founded and the BERL report reinforces the merit of that stance"*. Establishment of a conference centre is also consistent with the Nelson Tasman Regional Tourism Strategy and the economic benefit case has overwhelming support from all quarters.
- 7.8 However that support has always been based on the notion of a single large conference centre. Following the breakdown of negotiations with the Nelson City Council in 2009, the owners of the Rutherford Hotel have proceeded with their own plans to establish an enlarged modern conference facility. Full details of this proposal were outlined to the Nelson City Council in a letter sent to the Nelson City Council on 3 March 2011 by Mr Andrew Talley on behalf of the Rutherford Hotel. A copy of that letter is attached. (See Appendix B). The Rutherford proposes to build a conference centre that will take 550 delegates in banquet style and 750 theatre style. This

proposal would appear to meet the generally acknowledged demand for a larger conference centre.

- 7.9 While all parties agree that there is an ability to expand the convention and conference activities outside of the peak tourism season, the expanded market has its limits. It is extremely hard to see how two competing conference centres would bring any additional benefits. Given that the Rutherford Hotel's proposal would be co-located with a hotel in the centre of town, it is difficult to see how the Nelson City Council waterfront proposal would be competitive unless it is built to a vastly superior standard and prices itself so as to undercut the commercial activity.
- 7.10 Stand-alone conference centres are rarely profitable. In a commercial world, conference centres are normally provided as an add-on to other facilities. Sky City would be a classic example, where the high cost of the conference facility is significantly less than the direct revenue from the centre. However, in the context of Sky City's bar and restaurant basis and its gambling business, the additional patrons attracted by the loss making conference centre produce significant profits for the remaining activities.
- 7.11 The Rutherford Hotel will be able to establish a financially viable conference centre in conjunction with its existing hotel operations which will probably lead to an expansion of room numbers in due course. By way of contrast, the stand-alone Nelson City Council conference facility will only be able to attract rental fees and it can be expected to run at a very significant annual loss. Just how much that loss would be is not canvassed in the current Nelson City Council proposal but it is known that a Council-owned conference facility in Palmerston North incurs annual operating losses (including interest and depreciation) approaching \$3 million per annum.
- 7.11 The latest Nelson City Council proposal establishes a capital budget of \$58 million. As far as is known, there are no developed design drawings in which a quantity surveyor could establish any reasonable cost estimate. It would appear that the last estimate of \$32 million for a theatre has been crudely modified to the proposed \$30 million budget. In this connection it is worth noting that the 2009 proposal contained a budget estimate that was based on a one line letter from a consultant.
- 7.13 While the theatre size is only slightly smaller at 1200 seats in the 2009 proposal, it still contains a full fly tower and all associated facilities. A 24 metre fly tower is equivalent to an eight storey building. The latest proposal is to be built on reclaimed land. It is probable that this would require special foundations and additional costs that would not have been required at the 2009 Rutherford Hotel site. In addition, the proposal promises a five star "green" building. Again, no allowance appears to have been made for the additional costs associated with such a building. One source indicates that a five star "green" building requires 30% more capital expenditure than a conventional building. In these circumstances, the capital budget for both the theatre and the conference centre may well be at serious risk if all the promised features are to be included on the proposed site.

- 7.14 The current proposal notes that annual operating costs excluding interest, depreciation, income and costs of staging events for these two completed facilities together has been estimated at \$650,000 per annum. This comment is somewhat disingenuous as ratepayers will have to fund interest, depreciation and face annual operating losses. In 2009, the Tasman District Council estimated a minimum operating loss including interest, depreciation and net running costs would be at least \$3 million. It should be noted that at that time Tasman District Council staff calculated depreciation at 2% whereas the latest proposal from Nelson City Council does admit to an annual depreciation cost of 5.7%. Given that the latest proposal is now for a \$58 million project instead of a \$32 million and that all annual costs associated with the conference centre will be borne by the ratepayer rather than the commercial sector, it is probable that the combined annual cost to ratepayers will be significantly greater and is more likely to be in the region of \$5 million per annum. Note that at this stage no detailed calculations have been made as there appears to be a complete dearth of concrete figures on which to base calculations.
- 7.15 Without question, a magnificent performing arts centre and a surplus of conference centres would add to the status and profile of the region. However, while this may initially lift spirits within the region, it could be expected that the very high annual costs and the dramatic impact on rates as a result, would not lead to an ongoing feeling of wellbeing. Visitors are currently attracted to our region in the first instance by the world renowned Abel Tasman track and the region's well founded reputation for sunshine. The social status perceived to be associated with a large theatre and conference centre would come at an extremely high cost and does not appear to be justified.

8 EVALUATION OF OPTIONS

- 8.1 The latest proposal has fundamentally the same characteristics as the previous proposal which the Tasman District Council considered in 2009. Once again, the market research is skimpy in the extreme and out of date. Once again, there is no developed design that will give substance to robust capital cost estimates. Once again, true operating costs appear to have been poorly calculated in a manner that raises grave concerns as to their ongoing accuracy.
- 8.2 The latest proposal shifts the cost for establishing and operating a separate conference centre onto the ratepayer and does so with the full knowledge that the Council owned facility will be in direct competition with a much more favourably located and established commercially operated conference centre.
- 8.3 The desire for a high quality performance centre is noble. However, it is unrealistic to expect that the small population within the region could ever make such a venture financially viable. Conversely in respect of the conference centre, the need is established and a competent and long established commercial operator in the region is committed to providing a

facility with basically the same capacity as that proposed by the Nelson City Council proposal.

9 RECOMMENDATION

- 9.1 The Nelson City Council proposal infers that Tasman District Council ratepayers should join with it in establishing the theatre and conference centre because of some notion of regional responsibility.

Tasman District Council currently accepts its fair share of regional responsibilities across a wide range of environmental and infrastructure services throughout the region. It does so where there is a clearly established need, a proper business case, and firm community support. It is clear that none of those factors are present in the current Nelson City Council proposal and it is therefore recommended that no provision be made either now or in the future to support either activity. Wording used in the current 2009 – 2019 Ten Year Plan, with very minor modification, will continue to be appropriate should Nelson City Council and its ratepayers decide to proceed with their current proposal.

10 DRAFT RESOLUTION

THAT the Tasman District Council confirms that, having considered the current 'Proposal to develop Rutherford Park to include a performing arts centre and conference centre', it does not wish to change its position on funding from that set out in the Tasman District Council 2009-2019 Ten Year Plan.

Paul Wylie
Chief Executive