

Extraordinary Whangarei District Council Meeting

Whangarei District Council Meeting

Supplementary Agenda

Date: 13 July, 2021

Time: 1:00 pm

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Her Worship the Mayor Sheryl Mai
(Chairperson)
Cr Gavin Benney
Cr Vince Cocurullo
Cr Nicholas Connop
Cr Ken Couper
Cr Tricia Cutforth
Cr Shelley Deeming
Cr Jayne Golightly
Cr Phil Halse
Cr Greg Innes
Cr Greg Martin
Cr Anna Murphy
Cr Carol Peters
Cr Simon Reid

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

4. Decision Reports

4.1. Oruku Landing Conference and Events Centre Project

4.1.1. *Oruku Landing Conference and Events Centre Project - additional information*

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4.1.1 Oruku Landing Conference and Events Centre Project – additional information

Meeting: Extra ordinary Whangarei District Council
Date of meeting: 13 July 2021
Reporting officer: Simon Weston (General Manager Infrastructure)
Sandra Boardman (General Manager Community)
Alan Adcock (General Manager Corporate)

1 Purpose

To provide further information to inform Council's decision-making.

2 Background

The Comments and Recommendations from the Risk and Audit Chair on the Oruku Landing Project are provided to assist Council's decision-making.

3 Attachment

Oruku Landing – Risk and Audit Chair and Recommendations

Oruku Landing - Risk and Audit Chair Comments and Recommendations

The Risk & Audit Committee meeting on 23 June agreed to extend time for an appraisal of the risks and to develop a framework in which risk appraisals can be applied in order to reach a high-quality decision.

The first part of this paper looks more closely at the risks and how they might change depending on the Council's view of the proposal being more 'commercial' or more of a 'community' good or some combination of these. Only elected Councillors can make the decision as to how the proposal should be characterized.

The second part of the paper suggests a sequence of questions and issues the elected councilors can use to reach the final decision. In my view this is the more important aspect of the decision-making process because it brings a wider range of considerations than simply risk.

Pros and cons of a stand-alone Events Centre

The following points are simply to give context to the risk appraisal and are not intended to be an argument for or against the proposal. Elected Councillors have to weigh up these factors.

On the 'plus' side:

- The District would have a complex costing \$122m of which it funds half and the Crown funds half. I have set aside any potential reversal of the NRC decision because that sum is comparatively incidental, albeit worthwhile.
- So, the Council's exposure is to its \$60-65 million—it has another \$60 million free from the Crown.
- It might later attract a hotel to the adjacent site.
- The complex would add weight to the attractions of the Town Basin and the Hundertwasser Museum.
- There would be some stimulus to the local economy

On the 'downside':

- The Council absorbs any cost over-runs
- Without the hotel, the assumed benefits need to be re-assessed
- There are issues over parking and over access to the Town Basin precinct
- Together they raise the location question.

Overview

Four major factors influence my appraisal of the risks.

First, focusing on risk alone is often a risk in itself. Risks need to be considered in the context of a framework which gives elected councillors a way in which risks, benefits and alternatives can all be assessed.

Second, the very tight timelines are a major risk because they 'stampede' the Council's deliberation process. These timelines are essentially derived from the Crown's requirements. In my view it is prudent and reasonable to ask the Government for a time extension by 4-5 months to accommodate the EPA extended decision time and to understand any risks around consents with conditions, should they be granted.

Third, elected councillors must consider whether the Events Centre meets the City Vision.

Last, councillors must reach a view on the likelihood of the hotel proceeding within, say, 5 years.

The Risk profile changes considerably with the answers to these last two points.

Risks considered from 3 different but overlapping perspectives--*financial, social amenity/community good and wider economic stimulus.*

Put another way, in my view a new stand-alone Event Centre should not be considered as similar to a commercial investment. Councils invest in non-commercial projects such as parks, walkways and so on without expecting commercial returns.

This project can be considered as a 3-part hybrid of the above perspectives and Council will decide what weighting to give to each part.

Financial

Insight Economics considered the original proposal through a purely commercial lens. It arrived at a negative Net Present Value of around \$70m using The Treasury's discount rate of 5%.

Given current interest rates I consider the discount rate to be on the high side. A rate of 3-4% could be justified, thus reducing the economic loss.

More importantly, this new project can be cast in the way set out earlier as being in part a social amenity/community good investment. For example, councils do not invest in parks for commercial returns yet there is a cost of money in using park land plus the costs of park maintenance.

Making some allowance for such community good factors reduces the purely commercial cost as determined by Insight Economics. That is, the Council could decide that it would be prepared to fund an Events Centre to \$XXX million as a community good providing social benefits and possibly wider economic benefits.

If this argument is accepted in principle though, it does not necessarily follow that the Council can ignore the commercial and economic part of the project.

I see the financial risks of the new proposal without a hotel as follows:

- a. The operating surplus could well be half or less than that originally forecast. The Council was projected to assume the cost of depreciation and the original project would meet its operating costs and achieve a surplus. The stand-alone Events Centre could well require Council funding for operations. Instead of generating a surplus of, say, \$600 thousand it might have a deficit.
- b. Council capital funding would increase by \$20-25 million to \$60 plus million and this quantum would constitute a significant part of the Council's debt increase in the Long-Term Plan. The aggregate debt position is mitigated by the Council's very strong funding position.
- c. The above comments show the importance of Council determining the likelihood of attracting hotel investment in the next few years.
- d. However yearly use of money costs for the Council's funding would be around \$2.1 million a year—certainly supportable now but vulnerable to likely interest rate rises over the medium-term.
- e. In sum, the Council could be looking at an annual charge of \$4.5 million as the sum of use of money and depreciation.
- f. The Council is exposed to any cost over-runs.

Considered in isolation, a stand-alone Events Centre would be categorized as medium to high risk even allowing for a community benefit component. This is moderately lower than the draft appraisal put to the 23 June meeting. This less risky ranking reflects the Council's strong balance sheet position rather than the merits of the proposal itself. Management correctly in my view have ranked the new proposal as high risk when viewed in isolation from the Council's financial position.

However, simply because the risks from a financial perspective are not overwhelming, it does not necessarily mean that the investment makes economic or social amenity sense. That decision can only be made by elected councillors.

In summary, the financial risks can be described as follows

- i) The negative Net Present Value of nearly \$70m is increased by the higher capital cost, lower earnings and higher depreciation

- ii) The offsets are the extent to which the Council regards the Centre as a community good, and the application of a lower discount rate.
- iii) The CIP grant provides a cushion but there is still a risk that the value of the Council's \$60 plus million may be eroded.
- iv) The Council's strong balance sheet provides a further cushion, although the ratings position needs to be considered in the light of forecast borrowing and unknown balance sheet impacts of the 3 Waters mandates.

Social amenity perspectives

There are two aspects to the project's social amenity benefits.

First, if it is providing a benefit for the community as a whole then that is an offset to looking at it as a purely commercial investment.

Just how much benefit is difficult to quantify. However, the Council's preparedness to absorb depreciation and interest costs suggests rough annual spending in the region of 4-6% of capital cost.

The point I am making is that if the Council builds a low-risk amenity such as path for say \$10 million it is likely to incur annual costs of \$350 000 for the cost of money and probably another \$2-3 000 on park maintenance.

Second, the Council is making an assessment of the social amenity of this project versus other social amenity projects. That comparison is not necessarily decided on risk ranking alone. The decision will be made on councillors' knowledge of the District's needs and benefits as well as risks.

If the Council goes ahead with a stand-alone Centre it needs to determine the extent to which other future social amenity projects may be "crowded out" because of reduced funding capacity.

The risks of the timing straitjacket

The Council needs to make a decision mid-July and have piles in the ground by September next year. This timeframe is set by the Crown Investment Partners.

The first risk, highlighted in management's appraisal, is for the Council to proceed quickly and in advance of regulatory approval from the Environmental Protection Agency. This would be a very high risk.

The Council is thus caught between two timeframes imposed by two Crown agencies. The EPA's time is 7 months yet it is supposed to be 3 months.

The second risk in this area is the possibility of a sub-optimal location. The project springs out of the broader hotel proposal and it makes sense for an Events Centre to be associated with the hotel.

In my view the risk profile of the Centre improves if there were a reasonable prospect of attracting a hotel within say 5 years.

Councilors should consider this location issue in the factors set out in the second part of this paper.

Stimulating wider economic activity

In my view it would be high risk to assume that the forecast stimulus effects in the joint hotel-Events Centre proposal would apply to a single Events Centre because:

- It is much less likely to attract visitors from outside the region.
- Gross revenues at the Events Centre will be considerably less than in the original proposal
- The possibility of draining revenue from existing Whangarei centres is increased

Certainly, the wider economic benefits appraised by the NDC are likely to be very much lower. Those benefits were driven by a combined development, attracting visitors from outside the region.

Management estimates that a stand-alone Centre's revenues would be around half of the combined project. The projected 'surplus' set out in the analysis is in the range \$400-700 thousand per annum. Whilst the apparent margin is healthy it could well be much lower as a stand-alone project. That risk in turn increases the risk that the Council might be forced to subsidise the Centre over and above the depreciation and interest costs it is projected to pay.

'Losing' the \$60m

To a considerable extent the Crown grant covers the negative NPV set out by Insight Economics, on the assumption of the adjacent hotel. I estimate that there will a further negative impact because of the absence of the hotel. Thus, the Crown grant covers \$60m of the negative NPV but there could be a further \$10-30m shortfall in the value of the Council's funding depending on the extent to which the Council views this as community good investment and whether the Council will end up meeting any operating revenue shortfalls.

In a sense, the benefit of the Crown funding is weakened by the underlying economics. Again though, this conclusion depends on the extent to which the Centre is seen as a community good project or as a commercial venture.

Options 2, 3, 4 and 6

I have not considered these in any depth because they do not address the more high-level concerns set out here

Option 5 Re-direction of CIP funding

I have addressed this in the context of seeking an extension of the consideration time rather than considering other proposals.

Risk ranking

Timing straitjacket—**High** because it requires the Council to speculate on regulatory outcomes.

Is an Events Centre the Council's major social amenity project?--- **High** until the Council determines the question.

Financial risks a-d---**Medium high** from Council financial perspective but could mitigated in part at least by seeing it as a community good investment.

The rankings must be regarded as provisional because they will be influenced by the Council's decisions on the issues set out below. Those decisions will in themselves reduce risks because they will reduce uncertainty.

Putting the risk factors into a decision framework

The individual risk factors have been identified in the June management paper and hopefully refined or added to in this paper.

However, the risks exist in something of a vacuum and need Council's strategic decisions to give a meaningful context. A decision to proceed or not should not be made solely on the basis of risk identification. There are benefits to consider as well as possible risk mitigation measures.

Elected Councillors could score (out of 10) the project, and any alternative, in the following decision structure:

The project's potential role in fulfilling the City Vision

What is the likelihood of hotel investment being made within the next 5 years?

What additional infrastructure in terms of water supply, drainage, roading and the like is needed to ensure the project operates at its optimum capacity

Are there any facilities, developments, or infrastructure which might feed into or have a 'symbiotic' link with this project? Identify. An example might be a beneficial impact on the Town Basin zone.

Could a standalone Events Centre provide optimum returns without additional quality hotel accommodation in the city?

Is there value in the infrastructure around the Events Centre fitting in to Council Plans

Capital funding options such as the CIP grant of \$60m

Risk of exposure to operating costs. Note the quantum needs to be put in the context of community good investments. This commentary may over-emphasise the risk.

Widens community involvement

Widens cultural horizons

Wider economic benefits

If the Council were to address these and any other wider issues the risk factors would be more clearly identified and mitigated, resulting in a higher quality decision.



RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the information. {Section 7(2)(c)}
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court. {Section 48(1)(b)}.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied. {Section 7(2)(c)(i)}.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

"That _____ be permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of Item _____.

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____.

Note:

Every resolution to exclude the public shall be put at a time when the meeting is open to the public.