



HUTT EVENTS CENTRE AN ECONOMIC ENGINE

**Economic Impact Analysis of the
Halls Reconfiguration and the Associated Hotel**

January 2016

Hutt City Council

HUTT EVENTS CENTRE: AN ECONOMIC ENGINE ECONOMIC IMPACT ANALYSIS OF THE HALLS RECONFIGURATION AND THE ASSOCIATED HOTEL

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Author:

Hamed M. Shafiee
Economist/Senior Policy Advisor
Strategy and Planning
Hutt City Council

Approved for publication by:



Name: Wendy Moore

Position: Divisional Manager, Strategy and Planning, Hutt City Council

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Executive Summary

This report evaluates the wider economic impact of the redeveloped Hutt City Event Centre. The new multi-use facility is capable of holding single and multiday events. The business events delegate expenditures within the city will make a considerable contribution to local economy which is assessed in this study in terms of additional GDP and jobs, using Input Output multipliers. This substantial impact can serve the community as an economic engine, beyond the wide-ranging values of tourism and the revenue from organising a variety of events.

The result is based on a number of assumptions including the share of Hutt City from Wellington region conference market in different event types, distinguishing the spending pattern of delegates from different origins, achieving slightly positive trends in the share of Hutt City from region and the proportion of domestic delegates by maintaining a good reputation, different portions of delegate expenditures to be spent in Hutt city base on event type and expenditure category.

The findings of the two base scenarios, namely the Event Centre and the attached hotel, and the Event Centre only, both over a 20 year period, suggest that the facilities could directly contribute to the local economy by creating 57 million dollars value added and 84 jobs. While the former is the net present value of the direct value added in a 20 year period, the latter is continuous FTE jobs created to support the visitors in the 5th year when the business is fairly established. In a broader context, the total effect on GDP and employment is estimated to be 104 million dollars in value added and 117 jobs. The result also shows that the direct and total contribution of Event Centre without an attached hotel to the GDP of Hutt City could be equal to 51 and 93 million dollars, respectively, with 74 direct and 104 total new jobs being created in the 5th year. The attached hotel can play a moderator role strengthening the economic benefits.

The robustness of the results is examined through various sensitivity tests. The outcome suggests the benefit of Event Centre to the Hut City residents in the worst possible scenario is almost three-fold of its redevelopment cost. This study considered extremely conservative assumptions and methods to counterbalance the known overestimation of the secondary effects using Input Output multipliers. Direct impacts are also reported as the multiplier-free lower bound estimate of the impact. The positive direct impact is an assurance on the substantial benefits of the project.

This report has been greatly benefited from Horwath HTL and Butcher Partners assistance and peer reviewed by New Zealand Institute of Economic Research (NZIER) independently.

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1. Introduction

This report aims to reassess the potential economic impact of the redevelopment of the town and horticultural halls, collectively called the Event Centre, EC in this report, on the Hutt City. The new multi-use facility is capable of holding single and multiday events. The estimated delegate expenditures within the city is considered as the main source of wider economic benefit in terms of additional GDP and jobs. Two base scenarios are evaluated: the EC and the attached hotel, and the EC only, both over a 20 year period. Both direct and total impacts¹ are reported. Sensitivity tests are applied to measure the strength of the utilised assumptions and the prominence of possible risks.

1.1 Background

Hutt City Council has decided to redevelop the old earthquake prone town hall and the horticultural hall in order to provide a modern facility capable of hosting various event types. This development will not only add an outstanding amenity to the Hutt Central Business District (CBD) but also provide the community users with a proper venue to hold different activities.

The driver for the reconfiguration was the need to undertake seismic strengthening of the Halls. Council sought advice from Horwath HTL Ltd in mid-2013 for a detailed review of options for how the Halls could be potentially reconfigured at the same time as (or partially instead of) the seismic strengthening of one or both Halls. Furthermore, an internal analysis was done to evaluate the effect of the project on the City's GDP and employment. Horwath HTL and Butcher Partners were consulted regarding the key assumptions in the preparation of the report.

A comprehensive redevelopment of both halls with a full service commercial focus was approved by the Council, as suggested by Horwath HTL and endorsed by the internal economic impact analysis. The Council also selected an external operator through an extensive thoughtful process and signed an agreement to lease the EC.

1.2 Counter-Factual

In undertaking every analysis it is important to understand the counter-factual – i.e. the situation which will take place in the absence of the development.

Horwath HTL analysed the recent activity and financial performance of both halls. It is shown that the halls hosted 95% of conferences and concerts / entertainment events and all the flower show events held in Hutt City while the community utilisation of Council owned halls were as low as 18%. Overall, the two halls hosted almost 20% of all events in the City.

¹ Total impact includes all the direct, indirect and induced effects. Indirect and induced impacts are secondary impacts, also called "multiplier effects". While indirect impacts refer to the additional value added and jobs in sectors within the region that supply goods and services to the EC, the induced impacts represent the increased value added and jobs within the region from household spending of the income earned in the EC.

The greatest utilisation of and so the revenue the halls generated was from public shows and exhibitions which reflects the relative size of these halls compared to the other community venues available in the City. However, no revenue is earned from flower show events, in accordance with the deed between the Hutt Valley Horticultural Society and Council.

The rental revenue earned from the halls was slightly over 100,000 dollars in the year ended June 2012, while the Council subsidised the operation and maintenance of the halls at a cost of approximately 300,000 dollars per year. A relatively high proportion of this revenue earned was from the banquets and entertainment events; however, the old halls could not provide for the required equipment and facilities (including catering services).

Horwath HTL estimated that the gross revenue of the EC in the baseline case with a commercial focus could be 121,000 dollars per year, while the capital cost of obtaining this gross revenue which consists of strengthening the buildings and providing soft fit-out & furniture -which is still less than the operation costs- is over 6 million dollars. The best baseline case with full service and a commercial focus (catering and technical services provided) can escalate the gross revenue to 1.6 million dollars per year; yet incur a higher capital and operation costs and ultimately a negative operating surplus.

Having examined the recent utilisation and constant cost of maintaining the halls, the redeveloped EC will provide a venue not only for the local events held previously but also for revenue generating business events that could not be hosted earlier. Since the focus of this report is the business events and the associated delegate's expenditure that are entirely new to Hutt City, the previous unprofitable operation of the hall is excluded from the calculations.

2. Costs of the EC Reconfiguration and the Hotel

The cost and revenue of each scenario were initially presented in the Horwath HTL report. A brief review of the costs is provided in this section; however, economic analysis evaluates the broad cost and benefit of the project and so does not consider the details of costs. Moreover, the operating costs will not be utilised in this report as the external operator organises the entire operation of the EC. Therefore, the capital cost of redevelopment of the centre –projected to be 24 million dollars- is the only cost to be included.

The lease agreement with the external operator is for an initial 20 years term with two rights of renewal of 10 years each. The operator is responsible for constructing and maintaining the hotel. Council will contribute to the process by providing the hotel land, compensating the marketing expenses equals to \$500,000 (i.e. \$200,000 in year prior to opening of EC; \$150,000 in Year 1 of operation and \$150,000 in Year 2 of operation) and arranging for required repair and maintenance at the EC. Community users will enjoy a 50% discount on current venue hire fees.

The target completion of both projects is 31st October 2016. However, the EC construction process, in practice, started at the end of October 2015 and it is expected to be completed by the end of March 2017, based on the current information. The hotel land excavation started at 31st July 2015.

Thus the midpoint adjusted and used to match the base date for the net present value calculation at 1st March 2016.

It is worth mentioning that this report only measures the costs of the EC redevelopment. The other costs or negative impacts can be evaluated in a comprehensive cost benefit analysis. The impacts review may include studying the affected neighbourhood, other event venues and accommodation facilities, local inflation in specific goods and services (specifically during the construction period), extra infrastructure needed, problems raised because of the seasonal character of jobs (such as uncertainty and lack of income for the employees), probable pollution, dissatisfaction and waste of time and energy due to traffic congestion during large events and the probable environmental effects.

3. Benefits of EC redevelopment and the hotel - Methodology

This section provides a detailed explanation of steps taken in order to calculate the contribution of the EC to Hutt City GDP and Employment. In the same way as the discussion about the costs, there are a range of other benefits associated with the EC redevelopment. The benefits include but not limited to generating additional economic vitality and activity (businesses having the capacity to hold required events (including meetings and provide their guests with decent accommodation), education and trainings to be provided for the EC and hotel employees, opportunity for local recreational tours to promote their services, the positive effect on neighbouring businesses such as office spaces and improving the social amenity (specifically for communities) and the image of Hutt City.

The only (official) reports published recently regarding the convention activities are the Convention Activity Survey (CAS) and Convention Delegate Survey (CDS), both published by the Ministry of Business Innovation and Employment (MBIE). While the former monitors and measures the performance of conferencing and meeting venues, the latter collects expenditure and length of stay data from multi-day convention delegates through an online survey. Consequently, the estimations provided in this report are based on the information contained in these surveys.

3.1 Estimating delegate expenditures in Wellington region

There is evidence that the CAS and CDS reports are not consistent. The statistical discontinuity in the reports and the lack of consistency are cited in some of their reports; however, they failed to provide a proper explanation for this weakness. It's basically due to the regular changes in the methodology, the survey design and the presentation of results, in addition to the probable lack of incentives for conference delegates to attend the surveys. The additional 6 months spent in 2015 is believed to help figuring out the best methodology and publish a more accurate report. Therefore, we concluded that it is reasonable and more reliable to use the number of delegates by region from the latest CAS reports, published in 2015, the average of delegate expenditures in the last four years from CDS reports, and the expenditures breakdown from CDS 2012. The data is amended, when required, to make sure that the report is based on precise information. The estimations can be

reviewed and enhanced by collecting data from EC delegates through survey after the commencement of EC operation.

Several methods are examined to find the most accurate outcome. We found that the most reliable 'total delegate expenditures' for the business events² can be calculated based on Wellington region multi-day conference delegates days (from CAS) and multi-day conference delegate expenditures (from CDS). The expenditures by delegates from other countries are dropped as we are not expecting a significant number of visitors from overseas at the EC. The total multi-day conference delegate expenditures in the Wellington region is equal to \$47 million.

This number plus the number of delegate days in other event types can provide us with an estimation of expenditures in other event types. The delegate days are considered as weight of each event type; although, the spending pattern of delegates attending different event type is not the same. Several assumptions are made to get a reasonable estimation of the total expenditure in other event types:

1. Delegates attending single day conferences do not generally pay for accommodation. So the accommodation expense (20% of the domestic delegate expenses) of the domestic delegates (35% of all delegates) is deducted.
2. The same as (1) applies to delegates attending meetings and seminars
3. Delegates attending Trade shows and Exhibitions would not pay for the conference registration fee; however, some fees such as venue hire and technical services are still applicable. So only the proportion of expenditures for food and beverage (F&B) and event organiser revenue (from the conference registration fee) are omitted. The detailed breakdown of expenditures in each delegate origin is utilised to calculate the exact numbers.
4. F&B is an essential part of banquets, award dinners and weddings. So the event organiser revenue is the only item dropped from this event type expenditure. The detailed breakdown of expenditures in each delegate origin is utilised to calculate the exact numbers.

3.2 The share of Hutt City from Wellington region

In 2013, Horwath HTL estimated that between 3 to 5% of the Wellington region conferences would be held in the EC, 5 years after finishing the redevelopment. The estimation was based on a calculation of the future projected activity compared to the historical data of the actual total Wellington market. The estimated number of events and delegate days provided by Horwath HTL for

² Business events are the only events considered in this report. The event categories are defined as:

- Multi-day Conferences are formal gatherings of people at a venue to discuss matters of shared interest involving multiple sessions and speakers, in more than a day.
- Single-day Meetings/Seminars are formal gatherings of people to discuss matters of shared interest, usually within a single day.
- Trade shows/Exhibitions are defined as a showcase of goods and services held for the benefit of a specific industry. EC will host a combination of business and community-focused trade shows and exhibitions; however, the people who attend the event may not actually consider the nature of event in their expenditure. We made reasonable assumptions representing this combination.
- Banquets, Award Dinners, and Weddings include all special occasion activities such as social gatherings and celebrations (for example a gala dinner, ball, graduation, cocktail party, or birthday party).

various scenarios and the actual statistics for the same as reported by CAS for the Wellington region is used to determine the share of Hutt City from Wellington region.

In 5 years from the commencement of the business, when the business is stable and the EC has developed a good reputation, the EC is expected to host 7% of multiday conferences, 85% of the Trade shows and exhibitions and 5% of the other two event types in the region. In this regard:

1. The share of the Hutt EC from the Wellington region in multiday conferences is higher than other event types as Wellington has lost a noteworthy portion of its share due to the closure of the Wellington town hall. We believe, using the current delegate days information, the assumed 7% is a conservative share that the Hutt EC can certainly achieve.
2. Hutt has various unique advantages for hosting public Trade shows and exhibitions.³ So not only the EC will get a high share of the region we should reflect the point that opening the EC will increase the total number of Trade shows in the region. This growth is in excess of the probable increase that could be captured as a result of the planned closure of the Wellington city's main exhibition venue in 2016. Therefore, it is reasonable to assume that in 20 years, the EC delegate days for such events will be close to the current level in the whole region.

The estimate for the overall share also makes sense as Hutt City population is a quarter of Wellington region, while Wellington city is the capital. This also matches the Horwath HTL estimations. The total EC delegate expenditures in each event type is represented in figure 1.

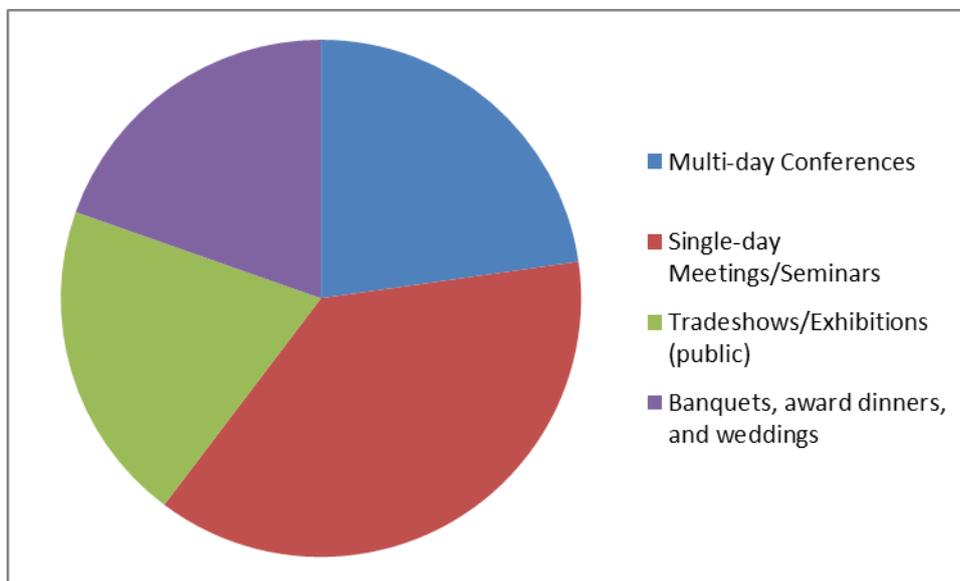


Figure 1. Total delegates expenditure in each event type in year 5

³ Trade shows in Wellington are expected to experience a significant surge commencing the EC as Hutt EC is located strategically in the centre with easy access to public transport and adequate car parks. It is reasonably low-cost compared to Wellington city.

3.3 Trends in the share of Hutt City from Wellington region

Good reputation is the key point in determining the economic performance of the EC in future. An experienced operator can guarantee that the EC will be in a position to achieve a decent growth over time.

In the initial year, the brand new EC should be able to host a minimum share of 5%, 50% and 3% of multiday conferences, Trade shows and exhibitions, and other event types in Wellington region, respectively. These shares will experience an upsurge to reach the shares determined in the previous section. The EC is expected to experience a one percent per annum growth in the discussed shares following the 5th year.

The delegate expenditures in each event type can be calculated through multiplying the share of Hutt City specified for each year by the Wellington region's event delegate expenditures calculated in the preceding section.

3.4 Delegate origin and the spending pattern

It is vital to take the dissimilar spending pattern of delegates from various origins into account. To this end, we categorised the delegates to three groups by the following origins:

- Local: delegates from Hutt City
- Other Wellington cities: delegates from all Wellington areas except Hutt City, and
- Domestic delegates: delegates from other New Zealand regions.

The key difference between the latter two is that the delegates from other Wellington cities will not stay in Hutt City overnight.

The share of each group from the total delegates is determined based on the CAS reports; however, all the shares are amended in specifying the accurate share of delegates in each event type to reflect the characteristics of Hutt EC and allow for the new 'other Wellington cities' category.

Furthermore, it is assumed that more domestic delegates attend the events held at EC over time, maintaining a good reputation. Their share, therefore, rise by 3% per annum in the first 5 years and 1% per annum afterwards. Share of delegates from other Wellington cities is considered fixed. The total number of local delegates is not expected to change significantly; nonetheless, the share of local delegates would decrease as the total number of visitors grows. This is also in line with the general increase in travel expenditures in New Zealand.

The delegate expenditures of each origin in each event type can be obtained through multiplying the origin shares by the previously calculated delegate expenditures. This can be written as:

The delegate expenditures of each origin in each event type = the share of that origin * the delegate expenditures in each event type

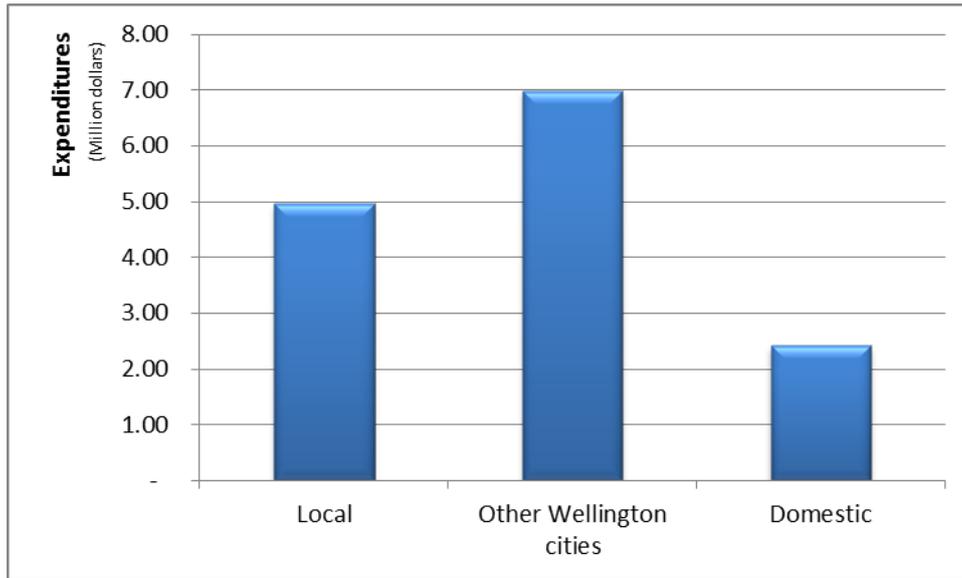


Figure 2. Total expenditures by delegates of each origin

The target market for the EC is regional and national level events, according to Horwath HTL. Therefore, international delegates are not taken into account. The local delegate expenditures are likely to have similar effect as the non-local delegate expenditures due to the fact that there is no event venue with the EC size and facility in Hutt City. Without having the capacity to host the discussed business events, locals have to attend other cities events, which is an undesirable outflow of money.

3.5 Delegate expenditures breakdown

The latest official information about how delegates spend money while they attend conferences is available in the CDS report year ending June 2012. We only used the share of each expenditure category as several years have passed since the time of surveys and the CDS methodology and the survey design have changed regularly so the values might not be a solid base at the current price levels. Using the shares would assist minimising its possible negative effects.

Table 1. Breakdown of average delegate expenditures attending multiday conferences

Category	Domestic	Local
Accommodation	\$323	\$17
Food and beverage	\$135	\$28
Retail purchases	\$65	\$10
Entertainment	\$37	\$14
Ground transport	\$67	\$17
Other spend	\$2	\$2
Registration Fee	\$642	\$646

Source: the CDS report year ending June 2012, published by MBIE.

The delegate expenditures in each category will be obtained by multiplying this share in each event type origin by the previous delegate expenditures of each origin in each event type. The expenditures of local and domestic delegates attending multiday conferences are provided in CDS report as presented in Table 1.

The registration fee is paid to the institution organising the conference. Horwath HTL estimation specifies that a portion of registration fee can be categorised as local expenditure as follows:

- 10% venue hire
- 30% food and beverage
- 20% technical services
- 10% miscellaneous expenditure.

30% of the registration fee would account for internal and operating costs and profit of the organisation running the event, and is not appropriate to classify this as local expenditure. It is worth adding that the organiser's labour costs are counted in the relevant category.

The values are amended based on the characteristics of each event type to be held in Hutt City. The modified values are employed to calculate the shares. The details of amendments are as follows:

- Multiday conferences
 - Locals: According to CDS, 88% of the expenditures will be the registration fee and 70% of the registration fee will be spent locally. The remaining 12% of expenditure will also be spent locally.
 - Other Wellington cities: We assumed that people from other Wellington cities leave Hutt City in the evening. So it is reasonable to assume that they don't pay the accommodation fee and only 70% of the other expenditures as well as 70% of the registration fee will be spent in Hutt City. Therefore, amending the domestic delegates expenditures from the CDS report, the registration fee will be 81% of their total expenditure and 70% of total expenditure will be in Hutt City.
 - Domestic: According to the CDS, 49% of the expenditures would be the registration fee and 70% of the registration fee will be spent locally. We assumed that 80% of the remaining 51% will be spent locally, assuming the new hotel is built.
- Single day conferences
 - Locals: Same as locals above.
 - Other Wellington cities: Same as Other Wellington cities above.
 - Domestic: They pay the same amount as domestic delegates for multi day conferences, except they don't pay for accommodation. So the registration fee will be 68% of their expenditure. The same assumptions for share of local expenditures applied.
- Trade shows/Exhibitions

Delegates attending these events pay the same amount as delegates attending conferences (according to their origin), except they don't pay for registration fee. However, some event expenses are paid. Therefore, the venue hire, technical services and miscellaneous expenditure are included. Same assumptions for share of local expenditures applied.
- Banquets, Award Dinners and Weddings

The spending pattern of this group is similar to Trade shows, except that the food and beverage is necessary in these events. Same assumptions for other expenditures applied.

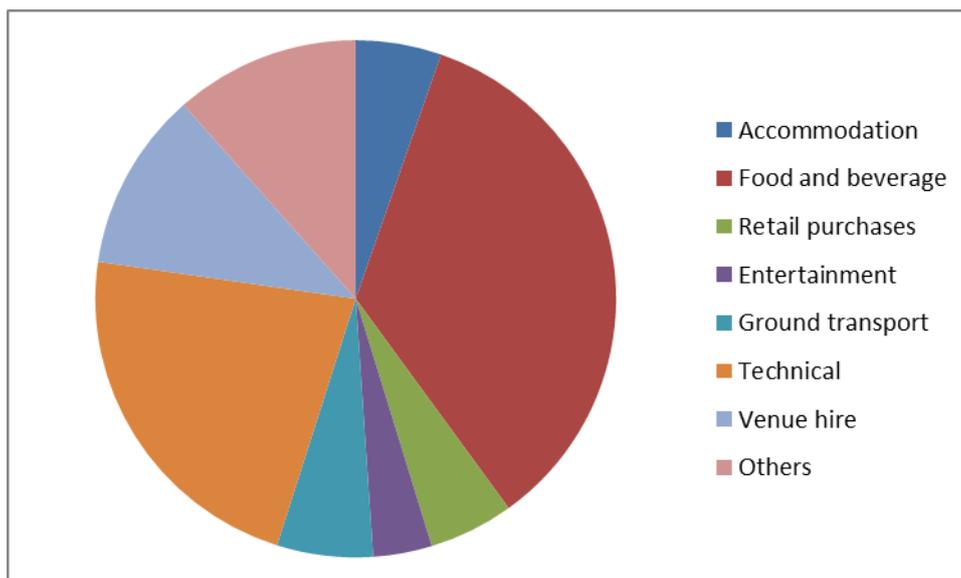


Figure 3. Total delegate expenditures in year 5, categorised by Input Output industries

Combining the information above provides the total spending in each expenditure category as presented in Figure 3.

3.6 Amending Input Output Multipliers

The Hutt City regional Input Output (I/O) table and the associated multipliers are based on the National Accounts input-output tables for the year ended March 2007.⁴ The value added multipliers are reliable as the changes in the interactions between the industries are usually happening extremely slowly but the job multipliers have been amended to reflect the inflation during the last 7 years. In this regard, the 2006 Q2 (end of June) Producer Price Index (PPI) obtained from Statistics New Zealand is compared to the PPI forecast for 2016 Q1 (end of March) as the base of NPV calculation at this report). While the former is reported at 866, the latter is estimated to be at 1066 level, using the compound average annual rate during the last 5 years (which is 1.2%) and assuming that the PPI follows the same trend in the following six months. This indicates the inflation rate of slightly more than 23%, i.e. every dollar spend has less value and so less effectiveness in creating new jobs. Therefore, job multipliers should be multiplied by 0.81 (i.e. $1/(1+23.14\%)$).

The job multipliers are also adjusted to consider the effect of future productivity improvement. Following the trend in productivity improvement, we use compounded average annual rate of last 10 years (which is equal to 1.16%) to discount the jobs multipliers in the next 20 years.

⁴ Input-output models are commonly used to determine the 'multiplier effects' or the flow-on effects to the economy should a project be implemented. However, input-output multipliers have various flaws such as double counting because they assume that resources are freely available to meet any increase in demand. This is more important in large infrastructural projects such as Event Centre, in which the economic benefits are likely to substantially overstate the impact on the economy. Therefore, multiplier effects should be used with care. Dynamic Computable General Equilibrium (CGE) modelling can also be undertaken in sensitive cases because CGE models incorporate supply constraints and second round effects; however, there are still a number of limitations in expensive CGE models.

The original and adjusted job multipliers for the first year are presented in Table 2.

Table 2. Amending Input Output job multipliers

Job creation with Input Output Category	\$1m 2006/07 prices		equivalent \$1m jobs today	
	Direct output \$1m: jobs	Total output \$1m: jobs	Direct output \$1m: jobs	Total output \$1m: jobs
Accommodation	11.9	15.9	9.66	12.91
Food and Beverage	16.7	20.5	13.56	16.65
Recreational, clothing, footwear and other personal retailing	8.94	12.89	7.26	10.47
Heritage and artistic activities	10.6	15.8	8.61	12.83
Road transport	6.6	11.3	5.36	9.18
Rental and hiring services	3.5	6.5	2.84	5.28
Non-residential property management	1.6	4.9	1.30	3.98
Other (average of above)	8.5	12.5	6.94	10.19

In terms of retail trade, direct and total value added ratios for retail are 0.49 and 0.92 but going through the adjustment process (excluding the 15% GST from multiplier effect and allowing for 40% of the output to have retail effect and the remaining to follow the average relevant base industries impact) the multipliers change to 0.57 and 0.89, respectively. Direct and total job multipliers change from 11.7 and 16.4 to 8.94 and 12.89, with the same process.

Furthermore, the CDS expenditure categorisation is married with the activity categories in Council Input Output Table as represented in Table 3. The simple average of all mentioned categories is used for 'others' category.

Table 3. Expenditure categories and the value added ratios

Input Output Category	Equivalent CDS Categories	Direct value added	Total value added
Accommodation	Accommodation	0.47	0.81
Food and Beverage	Food and beverage	0.51	0.84
Recreational, clothing, footwear and other personal retailing	Retail purchases	0.57	0.89
Heritage and artistic activities	Entertainment	0.49	0.90
Road transport	Ground transport	0.43	0.79
Rental and hiring services (except real estate)	Technical	0.59	0.85
Non residential property management	Venue hire	0.37	0.70
Other – (average of above)	Others	0.49	0.83

3.7 NPV of contribution of the EC and hotel to GDP and local jobs

The base date of the net present value calculation for this report is 1st March 2016, and 20 years of operation after the commencement of the business is measured, according to the EC lease agreement. As this report merely evaluates the wider economic impact of the project, other cost or revenues such as EC maintenance cost and revenue, financial costs and interest earned, and GST and taxes are not incorporated in the assessment.⁵

The NPV of the value added generated, using the discount rate of 4.5% and the depreciation rate of 1.5%⁶ on the 24 million dollar EC redevelopment cost⁷, indicates that the facilities directly contribute to the local GDP by 57 million dollars, when the total impact on GDP is over 104 million dollars.⁸ This implies an internal rate of return (IRR) of 20% and 32%, respectively.

Applying the amended multipliers on the total expenditure in each expenditure category, the EC redevelopment and the hotel will contribute to the local economy by creating a total of 76 jobs in the first year of operation. This number increases to 117 in the 5th year and shrinks gradually to 114 in the 20th year. The decrease in the number of additional jobs in spite of the growth in the EC impact on GDP is the reflection of the productivity improvement.

To extend the analysis to a 40 year period, in view of the two rights of renewal recognised in the lease agreement, it is assumed that the growth rate of the economic impact in the years 10 to 20 (1%) will last while the halls has no significant residual value at the end of the term. The simplified analysis shows that the NPV of the additional GDP achieved in the last two decades could be up to 62 million dollars which is 60% of the initial 20 year period.

4. Benefits of EC redevelopment (no hotel)

It is widely believed that the operation and so the benefits of EC and the hotel are tied together. While the bidirectional effect is rather obvious, the question is if the change in the economic impact of the project in the absence of the hotel is significant.

The same methodology is applied to maintain the consistency; however, four deductions are considered in evaluating the wider economic impact of the EC without this new hotel. The intuition behind this is there is no suitable hotel to accommodate the delegates attending prestigious multiday conferences in the Hutt City. So the absence of hotel would lead to

- Conference organisers might select to arrange their events in other Event Centres. This may cause a 10% decrease in the number of multiday conferences. It is believed that if the

⁵ Economic evaluation, not similar to financial evaluation, shall not include depreciation, capital charges and transfer payments. So we disregarded these values in calculating wider economic impact.

⁶ In general, in a social cost-benefit analysis the Residual Value of an asset at the end of its economic life is zero. However, this report only covers a 20 year period of EC operation. So Residual Value of the EC is considered in the analysis.

⁷ The inflation rate is considered to be zero in the NPV evaluation as the current inflation rate is only 0.4 (YE September 2015 quarter) and real values are used in case of all other rates. However, the compounded average annual rate of inflation during last 5 years is considered in the determining the effect of the project in job market.

⁸ Note that the value added figures are not a true indicator of net benefit of the EC as not all of the costs and revenues are measured. The figures represent the wider economic benefit after deducting the EC redevelopment cost.

number of the multiday conferences drops by more than the presumed percentage, the vacant space will be employed for other type of events.

- Share of domestic delegates in multiday conferences falls by 20% as they would not be able to find a proper accommodation near to the conference venue.
- The conference delegates may choose to stay in other accommodation facilities (such as motels, inns or lodges) but half of them might be willing to stay in hotels in other Wellington cities. So half of the accommodation expenditure will be spent out of Hutt City.
- Delegates staying in hotels out of Hutt City spend some portion of their expenditures in that area. It is assumed that this shrinks the total food and beverage, retail purchases and entertainment expenditures in Hutt City by 10%.

The result indicates that the contribution of EC without an attached hotel to the GDP of Hutt City could be equal to 93 million dollars, representing a 29.50% IRR, with 67 new jobs being created in the initial year. The number of jobs may increase to 104 in year 5, following by a gradual decrease to 101 by the end of 20 years term. The direct value added is estimated to reach 51 million dollars, representing a 18.57% IRR, with 74 new direct jobs created in year 5.

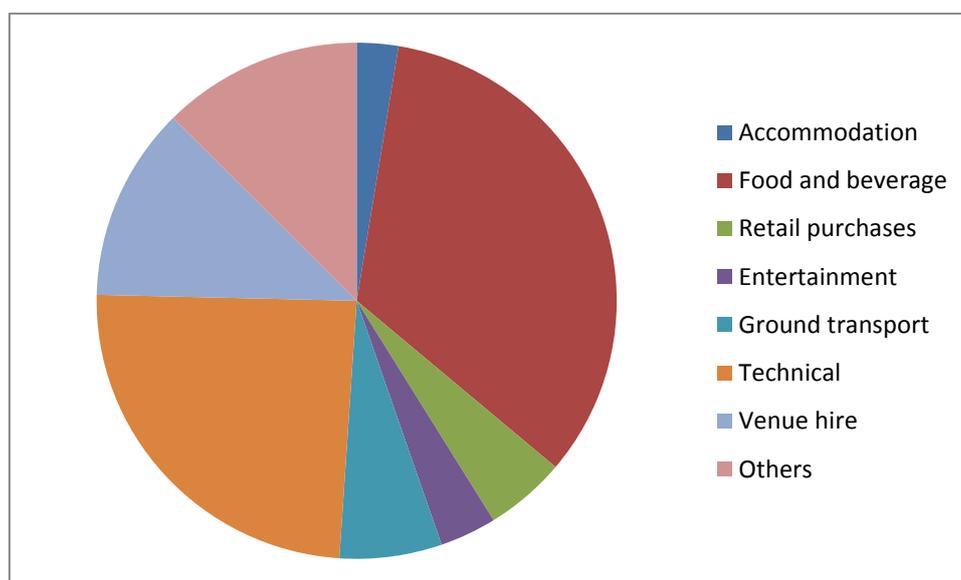


Figure 4. Total delegate expenditures in not hotel scenario in year 5, categorised by I/O industries

Examining the robustness of this outcome, we test for the case that the number of multi day conferences decline by another 10% (in excess of the initial 10%). The total contribution to GDP decreases to 91 million dollars and the new jobs will be 66 in the first year to be increased to 102 in the fifth year of operation.

The result is also reviewed with an extra 10% reduction in the delegate’s local retail purchases and entertainment expenditures. It is unlikely to experience further drops in the food and beverage as a high proportion of this shall be provided during the event. The economic impact is reduced by less than a million dollars and only two jobs, signifying the strength of the original outcome.

It is worth mentioning that comparing the “with hotel” and “without hotel” scenarios are not indicative of the benefits Hutt City may obtain from the hotel. This is mainly due to the fact that this study focuses on the effect of redeveloping the EC and so the additional benefits the hotel could

generate in the city (such as providing the businesses with a prestigious place to accommodate their guests) was not initially taken into account.

5. Risk and Uncertainty, Sensitivity Tests

The results indicate that the benefits would highly exceed the costs over a 20 year time horizon; however, it is important to measure the strength of the utilised assumptions and the prominence of possible risks as the impact analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to rises and declines.

Therefore, several sensitivity tests are applied to examine the effect of variations in the key assumptions.

- 1- Share of Hutt City out of Wellington region conference market is presumed using the Horwath HTL estimations. All the available information including expected event types, event length and event days are reviewed to determine the share of Hutt City from the region. The total business event's delegate days at the event centre is estimated to be 4% of the region in the lowest Horwath HTL assessment. We applied this as the maximum share in all event types except Trade shows/exhibitions (which is reduced by 50% compared to the original estimation) during the first 5 years with no change in the later trends previously discussed.
- 2- The second sensitivity test is considered in case delegates spend less money while attending the events. To examine this, the delegate's expenditures are reduced by 10% in all event types except multi-day conferences which is already extremely conservative, according to the published data.
- 3- The last test is applying the 7% discount rate to allow for high inflation, risk of early failure or other probable risks.⁹

The change in depreciation rate is also examined -not reported- as the effect on the outcome is found to be less than a million dollars, which is negligible. Omitting the trends in the share of Hutt City from the Wellington region and the proportion of domestic delegates reduce the contribution to GDP to 98 Million dollars while it does not affect the number of jobs significantly.

The present value of direct and total impacts of the delegate expenditures in the examined sensitivity tests are presented in table 5. The worst case scenario is evaluated as all the above happening.

⁹ While the base discount rate is considered at 4.5% which is the approximate cost of capital to Council and is used in the earlier study, we considered several aspects to determine the discount rate for sensitivity testing. 6% represents a limited risk (in a welfare economic study) and it is the maximum rate offered by Andrew Shalley. Using commercial discount rate formula $r_d = r_f + \beta (r_m - r_f)$ in which r_d , r_f and r_m are discount rate, risk free interest rate (i.e. OCR) and market interest rate, respectively, one may conclude that $r_d = 2.5 + 2 (4.5 - 2.5)$. So the discount rate of 6.5 is justifiable, allowing for the existing uncertainties and the fact that the risk of obtaining the estimated revenue in a large EC is at least two fold of regular market risk. Finally, 7% is the central government and Treasury 'go-to' rate for infrastructural projects and single use buildings. We used 7% which is the maximum discount rate offered by relevant studies.

Table 5. Sensitivity tests, contribution to GDP in 20 years and additional jobs created in year 5

Scenario		Base (realistic)	B	C	D	E	F	G	Worst Case
Least share from region		-	√			√		√	√
Least delegate's expenditure		-		√		√	√		√
Highest 7% discount rate		-			√		√	√	√
Direct	Value Added (million dollars)	57	37	51	39	32	35	24	20
	Job creation	84	59	78	84	54	78	59	54
Total	Value Added (million dollars)	104	71	94	77	64	69	51	45
	Job creation	117	81	108	117	75	108	81	75

No trend is considered in the New Zealand conference industry and the average delegate expenditure, being conservative. Although a sharp increase is observed in some of the statistics during the last few years, it is believed that it might be a delayed recovery from the 2008 global financial crisis.

Finally, the supplementary impact of additional investment by the operator to construct the hotel and the further non-EC's event delegates use of the hotel by Hutt City businesses and residents are not taken into account. Addition of these figures plus the other positive and negative impacts mentioned in sections 2 and 3 is likely to escalate the wider economic impact of the project significantly. Therefore, the base scenario analysis is not to be considered as an optimistic scenario.

In this regard, two optimistic scenarios are considered. The former, a 10% increase in the share of Hutt City out of Wellington region conference market represents the possible more demand and so higher utilisation rate by business events. The direct and total value added generated will be 65 and 116 million dollars, when the total number of jobs rises to 129 in year 5. The latter, a simultaneous 10% increase in the delegate expenditures, shows a raise in the direct and total value added to 73 and 129 million dollars, with 142 extra jobs in year 5. It is believed that further probable jumps in demand would cause a surge in EC venue hire fees, which does not necessarily have a significant impact on other delegate expenditures in the City.

6. Conclusion

Findings of this study suggest that the redeveloped Event Centre could provide Hutt City residents with a substantial economic benefit, serving the community as an economic engine. Beyond the wide-ranging values of tourism and the revenue from organising a variety of events, the money spent by delegates before and after attending the event assists improving the economic vitality of the City. The attached hotel can play a moderator role strengthening the economic benefits.

The estimation of economic impact of the business events to be held in EC, using Input Output multipliers, indicates that the facilities could directly contribute to the local economy by creating 57 million dollars value added and 84 jobs. While the former is the net present value of the direct value

added in a 20 year period, the latter is continuous FTE jobs created to support the visitors in the 5th year when the business is fairly established. The total effect on GDP and employment is estimated to be 104 million dollars in value added and 117 jobs. The result also shows that the direct and total contribution of EC without an attached hotel to the GDP of Hutt City could be equal to 51 and 93 million dollars, respectively, with 74 direct and 104 total new jobs being created in the 5th year.

The result is based on a number of assumptions, so the robustness of the result against the assumptions is examined through a number of sensitivity tests. Variations in the key assumptions and the higher discount rate point out that the benefit of EC to the Hut City residents in the worst possible scenario is almost three-fold of its redevelopment cost. However, this outcome, similar to any other economic impact or cost benefit analysis, is to be compared with other alternatives, and is not solely an appropriate indicative of how good an investment is.

Moreover, Input Output multiplier effect in economic impact analysis of large projects have significant error margin and should be interpreted with special considerations. This is due to the fact that the multipliers do not consider the supply constraints and may substantially over-state the benefit of large projects. We are being extremely conservative in determined assumptions and methods to counterbalance this concern and provide an accurate outcome. Direct impacts are however multiplier-free and can be argued to be a likely lower bound estimate of the impact. The positive direct impact is an assurance on the substantial benefits of the project. In addition, while GDP figures represent the broad impact of the EC on the local economy, there are a number of limitations in the GDP definition and its measures that should be considered in the use of the outcome. Lastly, the economic impact assessment does not provide the value of net benefit obtained from the project. This needs a separate comprehensive social cost benefit analysis.

The outcome of this report is not the same as the previous study undertaken at mid-2013 as this report:

- a. Employed newly published information by MBIE in CAS and CDS reports which indicates the escalation of business events as well as local delegate expenditures
- b. Detached Wellington region delegates to local delegates and delegates from other Wellington cities
- c. Considered increasing trends in the share of Hutt city from Wellington region conference market and proportion of domestic delegates
- d. Took two other business event categories, namely Trade shows/exhibitions and Banquets/award dinners/weddings, into account
- e. Calculated WEB of 20 years of EC operation (i.e. 20 years after launching the EC), according to the EC lease agreement
- f. Considered various shares of delegate expenditures to be spent in Hutt city base on event type and expenditure category.
- g. Applied compounded depreciation rate and future productivity improvement
- h. Distinguished the 'with hotel' and 'no hotel' scenarios
- i. Applied various sensitivity tests including a higher discount rate

Ultimately, the inevitable lack of complete data was the main limitation of this study. A longitudinal study by collecting data from EC delegates after the commencement of EC operation would be ideal for further investigating the role of EC in the development of the Hutt City.