

## Finance Committee

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# OPEN AGENDA

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Meeting Date: **Wednesday 13 September 2017**  
Time: **3.30pm**  
Venue: **School Hall  
Napier Girls' High School  
Clyde Road  
Bluff Hill, Napier**

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**Council Members** Councillor Hague (In the Chair), Mayor, Councillors Boag, Brosnan, Dallimore, Jeffery, McGrath, Price, Tapine, Taylor, White and Wright  
**Officer Responsible** Director Corporate Services, Adele Henderson  
**Administrator** Governance Team

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**Next Finance Committee Meeting**  
**Wednesday 25 October 2017**

# ORDER OF BUSINESS

## APOLOGIES

Cr Wise

## CONFLICTS OF INTEREST

## PUBLIC FORUM

Nil

## ANNOUNCEMENTS BY THE MAYOR

## ANNOUNCEMENTS BY THE CHAIRPERSON

## ANNOUNCEMENTS BY THE MANAGEMENT

## CONFIRMATION OF MINUTES

That the Minutes of the Finance Committee meeting held on Wednesday, 2 August 2017 be taken as a true and accurate record of the meeting.

## NOTIFICATION AND JUSTIFICATION OF MATTERS OF EXTRAORDINARY BUSINESS

(Strictly for information and/or referral purposes only).

### AGENDA ITEMS

1	Statement of Proposal - Civic Site Optimisation .....	3
2	Loan Raising 2017/18.....	155
3	Budgets to be carried forward to 2017/18 .....	159
4	Christmas Cheer Funding Applications .....	162

<b>PUBLIC EXCLUDED .....</b>	<b>164</b>
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## AGENDA ITEMS

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### 1. STATEMENT OF PROPOSAL - CIVIC SITE OPTIMISATION

<i>Type of Report:</i>	<i>Procedural</i>
<i>Legal Reference:</i>	<i>Local Government Act 2002</i>
<i>Document ID:</i>	<i>383441</i>
<i>Reporting Officer/s &amp; Unit:</i>	<i>Fleur Lincoln, Strategic Planning Lead</i>

#### 1.1 Purpose of Report

The purpose of this report is to approve the Statement of Proposal that provides Council with the option to divest, by way of sale or long-term lease, the site currently occupied by the Civic Administration Building to a private developer for commercial development. The Statement of Proposal contains an outline of what is proposed; the reasons for the proposal; the options being considered their advantages and disadvantages; and the feasibility of the preferred option.

The Business Case contains the detailed information and analysis supporting the option put forward in the Statement of Proposal.

An Engagement Plan summary and methodology is also provided for Council approval.

#### Officer's Recommendation

- a. That the Statement of Proposal – Civic Site Optimisation be approved for consultation in accordance with the Engagement Plan Summary.
- b. That the Statement of Proposal is notified to the public on the 4<sup>th</sup> October 2017, with submissions closing 3 November 2017.

#### MAYOR'S/CHAIRPERSON'S RECOMMENDATION

That the Council resolve that the officer's recommendation be adopted.

#### 1.2 Background Summary

Prior to undertaking programmed refurbishment work on the Civic Administration and Library Buildings, Council engaged Strata Group to undertake a seismic assessment on both buildings, using the new method of assessment introduced following the Christchurch and Kaikoura earthquakes. The assessment returned a seismic strength result of 10% New Building Standard (NBS) for the Civic Administration Building and 15% NBS for the Library Building, making both buildings earthquake prone. Government departments typically require buildings to achieve at least 67% NBS, and to be accommodated within earthquake-prone buildings for as little time as possible.

In addition, there are a number of issues with these buildings including their current condition, design and configuration that need to be addressed in conjunction with this project.

Following the June 2017 discovery of the buildings earthquake-prone status, it was necessary for Council to consider the options for the redevelopment of this site. A number of options have been considered for this site, but the key question being presented is whether to strengthen and refurbish both buildings, or whether to redevelop one of these buildings while presenting an opportunity to utilise a part of the Hastings Street site for a commercial development. The Statement of Proposal that Council is being asked to approve for consultation addresses the future of the part of the site currently occupied by the Civic Administration Building.

The Proposal being presented to the public provides Council with the option to divest, either by way of sale or long-term lease, the part of the site shown as Site A in the plan below for commercial use, and to retain and consolidate Council's administrative functions on Site B. The Statement of Proposal is analysed in the Business Case which presents the options, benefits, costs, and risks, and finally recommends a preferred option.



### 1.3 Issues

The main issue for the proposal presented is whether Council's administrative functions can be accommodated within the part of the site currently occupied by the Library Building and the Library. Council's functions are currently spread across two buildings and a large site. Consolidating Council into one of these buildings, or one half the site, would free up the remainder of this site for another opportunity that could provide benefits to the city of Napier.

Officers undertook a spatial planning exercise for Sites A and B to determine if Council's administrative functions could be accommodated within either of these two sites. It was found that although both sites could do this, as well as accommodating a new Library, Site B was a significantly better site given that all of Council's administrative staff and the majority of the Library could be



accommodated within the existing strengthened and refurbished Library Building. In addition, the development would require very little earth moving work, and a new Library extension, Council chambers and customer services area could be built as an annex on the Station Street side of the Library Building, which would improve accessibility and activate this street edge.

Council Officers also explored the feasibility of a number of commercial options on Site A to ensure that offering this site for commercial development would result in a feasible development that would provide wider benefits to the city. Council sought expressions of interest from well-known local property developers to canvas their thoughts on the best commercial use of the site. Council also approached international-brand hotels for expressions of interest. A hotel feasibility assessment and an economic impact assessment (which considered three types of commercial development) were commissioned. These found that the hotel was the most feasible option that provided the greatest initial and long-term economic benefit to the city. An urban design assessment confirmed that Site A was the preferred site for commercial development given its extension of a main retail/commercial street, good connections to the CBD and waterfront, and the potential for sea views from upper storeys.

#### **1.4 Significance and Consultation**

The Statement of Proposal has been prepared in accordance with section 83 of the Local Government Act 2002.

Although the site itself is not deemed a strategic asset under Council's Significance and Engagement Policy, Council has opted to utilise the Special Consultative procedure under the Local Government Act 2002 as it is a clear decision-making process that is familiar to both the public and Council.

#### **1.5 Implications**

##### **Financial**

The Statement of Proposal does not request a change to the Long Term Plan. Costs associated with the demolition of the Civic Administration Building can be met through existing budgets and by using the proceeds of the sale or lease of this site.

##### **Social & Policy**

The proposal is consistent with the principles of the City Vision. The City Vision recognises the location of Council's Hastings Street offices as a key opportunity for activation and improved urban design. It recognises the connection through to the waterfront and ease of access to the CBD, and its principles seek to ensure decision-making supports a compact, vibrant city centre with excellent design and connectivity across the city.

##### **Risk**

Risk associated with the proposal has been assessed and is included as a summary in the Statement of Proposal and in full in the Business Case. An additional risk not outlined in the risk schedule is that of making a decision not to divest or lease Site A for commercial use. The benefits included in both the Statement of Proposal and Business Case will in all likelihood not be realised if the decision is made to reject the proposal.

## 1.6 Options

The options, as they are presented in the Statement of Proposal and accompanying Business Case are as follows

:

1. **Option 1** – Do nothing
2. **Option 2** – Consolidate Council administrative functions within a strengthened and refurbished existing building with new building extensions on half of the Hastings Street site and divest either: **a)** Site A; or **b)** Site B for commercial development
3. **Option 3** – Strengthen and refurbish both the Civic Administration Building and the Library Building, and remain within both buildings
4. **Option 4** – Demolish both Council buildings and build new in the same location
5. **Option 5** – Dispose both Site A and Site B and either rebuild or lease elsewhere.

## 1.7 Development of Preferred Option

The Statement of Proposal, supported by the Business Case, narrows the viable options down to either Option 2(a) or 2(b).

The spatial analysis undertaken to determine if Council could be accommodated more effectively within either Site A or Site B recommended that Council be sited on Site B. An urban design assessment then considered which site would be better suited (from an urban design perspective) to civic administration and which to commercial. It concluded that Site A would be the preferred site for a commercial activity.

Various commercial activity scenarios were then assessed for feasibility and their economic impact to the city. Although it was found that all commercial options were feasible and provided a positive economic impact, the hotel option presented the most valuable case. It is important to note however, that the Statement of Proposal does not specify which type of commercial activity it recommends for Site A.

**The recommended option put forward in this Statement of Proposal will provide Council with the option to divest, either by way of sale or long-term lease, Site A (part of the Hastings Street site).** This approach to leveraging Council's assets has many benefits:

- Affordability – the proposal presents the most affordable option to the community. Council can offset some of the costs through the sale of part of the site.
- Positive economic impacts for the city – all three commercial types assessed showed that commercial use on part of the site would bring positive economic benefits to the city, with the option for an international-brand hotel providing the greatest benefit (and to the region).
- Improved amenity – redevelopment of this site presents the opportunity to work with the developers to provide improved amenity of the building and in the streetscape.
- Improved working environment for staff, better access to Council services for customers, and increased safety for all.

## 1.8 Attachments

- A Statement of Proposal [↓](#)
- B Site Optimisation Business Case
- C Seismic Assessment for Library Building (under separate cover)
- D Seismic Assessment for Civic Building (under separate cover) [↓](#)
- E Spatial Analysis [↓](#)
- F Economic Impact Assessment [↓](#)
- G Hotel Feasibility Assessment [↓](#)
- H Urban Design Assessment [↓](#)
- I Risk Assessment Schedule [↓](#)
- J NCC Risk Strategy [↓](#)
- K High Level Engagement Plan - Council Buildings [↓](#)

# CIVIC ADMINISTRATION SITE OPTIMISATION

## *Statement of Proposal*



**NAPIER**  
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## Contents

Statement of Proposal	3
Background	3
Reason for proposal	5
Issues	5
Opportunities	6
Is the proposal feasible?	6
What are the options?	6
Option Refinement	9
Preferred Option	11
What are the benefits?	11
What are the costs?	12
How will the proposal be funded?	12
Special consultative procedure	12
Submissions	13

## Statement of Proposal

This Statement of Proposal has been prepared in accordance with section 83 of the Local Government Act 2002. To support the proposal Council has developed a business case which is to be read in conjunction with Statement of Proposal.

Napier City Council has opted to utilise the Special Consultative Procedure under the Local Government Act 2002 as it is a clear decision-making process that is familiar to both the public and Council.

The proposal being considered is:

- 1. Napier City Council will have the option to divest, either by long-term lease or sale, the site on which the Civic Administration Building is currently located (Site A) to a private developer for commercial development.**

## Background

In 2017, Napier City Council (Council) engaged a structural engineering firm to undertake a seismic assessment of its two buildings (the Civic Administration Building and the Library Building) located in Hastings Street, Napier. Both buildings were found to be earthquake-prone, with the Civic Administration Building being assessed at 10% of the new building standard (NBS) and the Library Building being assessed at 15% NBS. In addition, the buildings in their current configuration no longer meet the needs of Council staff, nor do they deliver the excellent customer experience that is demanded in today's modern world.

This presented a unique opportunity to consider the efficient use of this site, and the prospect that a redeveloped site and building(s) could deliver a better working environment for staff and an improved customer experience. Also, leveraging part of the site for a commercial development, Council could revitalise the southern edge of the city. The savings to be made by strengthening and refurbishing only one building are also significant.

### Physical location of this proposal

This proposal relates to the site currently occupied by the Civic Administration Building as shown in Figure 1 below. The possible earthquake strengthening and redevelopment of the remaining part of the site is not the subject of this Statement, and will be investigated through a separate process. Likewise, decisions relating to the future of the Napier Public Library will be subject to an extensive community engagement process separate to this Statement.



Figure 1 – Site Layout

Council is now presenting the Napier community with a proposal. The decision to be made is the first step in a series of decisions on the future of the Hastings Street site.

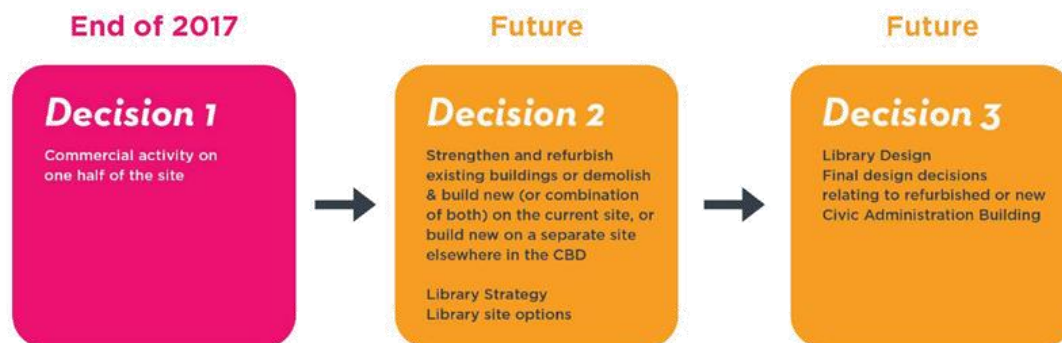


Figure 2 – Decision Stages

## Reason for proposal

Napier City Council had planned and budgeted for some refurbishment of the Civic Administration Building within the existing Long Term Plan. Because both Council buildings were found to be earthquake-prone, Council must decide what the best option for Napier is with the redevelopment of this site.

## Issues

In addition to the seismic assessment, a number of other issues were raised due to the current condition, design and configuration of the existing Council buildings:

1. **Poor building configuration and access to governance:** The main entrance to the building is inappropriate to deliver Council functions effectively. It lacks flow, accessibility and prominence making our customers confused and not sure where they should go the first time they visit Council buildings. Wheel chair access is also inadequate and provided at the rear of the building. The Council Chambers has a dysfunctional layout, with no air conditioning, and poor acoustics, and its location on the second floor makes access difficult for some.
2. **Perception of low quality customer service** - The building does not align with the Council Values of Customer and Community Service requirements seeking excellence in customer service. Insufficient meeting rooms for counter queries and customers are problematic and members of the public currently have to navigate through various floors to access council services including Council Committee rooms and functions.
3. **Physical condition of the building:** The building design is dated and the aesthetic contribution of the building towards a vibrant CBD is poor and could be improved. The entranceway to the building is undesirable and not conducive to good customer service.

Refurbishing the Civic Building required significant work to be undertaken including window replacements, air conditioning, interior redecorating, customer service centre development, carpet replacement, full electrical replacement, walls removed, exterior upgrades, earth works for customer interface for disabilities and many more requirements.

As initial cost estimates were high, officers took this opportunity to look at other options rather than a straight upgrade to ensure that the decision on the use and upgrade of the building would deliver the most cost effective and efficient outcome.



## Opportunities

A number of other factors have led Council to consider options for the site beyond the original decision to seismically strengthen and refurbish the Council buildings. In particular, the consolidation of Council's operations into a strengthened and refurbished library building allows better and more efficient use of that building space, more integrated working environment, and improved workflow and working environment.

There is also an opportunity to leverage Council assets for projects such a commercial development or similar, that would enable the council outcome of '*A strong prosperous and thriving economy*'. This has the potential to revitalise the economy, revitalise the CBD and cement Napier city as a tourist town.

## Is the proposal feasible?

The accompanying Business Case explores the feasibility of the proposal and assesses alternative options to the one put forward.

In order to determine whether the proposal is feasible, the following questions were answered:

1. What options are being considered?
2. Is it feasible or desirable to retain both buildings and both sites?
3. Can Council's administration functions be accommodated on part of the site?
4. Would a commercial activity on the remainder of the site be feasible?
5. What benefits to the city of Napier (and potentially beyond) can be expected from the proposal to divest or lease part of the site to commercial interests?

## What are the options?

The options assessed are:

- **Option 1** – Do nothing
- **Option 2** – Consolidate Council administrative functions within a strengthened and refurbished existing building with new building extensions on half of the Hastings Street site and divest either: a) Site A; or b) Site B for commercial development
- **Option 3** – Strengthen and refurbish both the Civic Administration Building and the Library Building, and remain within both buildings
- **Option 4** – Demolish both Council buildings and build new in the same location
- **Option 5** – Dispose both Site A and Site B and either rebuild or lease elsewhere.

The advantages, disadvantages and costs associated with each option are provided in the Table on the following page.

Option	Advantages	Disadvantages	Estimated Demolition Cost (Ex. GST)
<b>Option 1: Do nothing</b>	<ul style="list-style-type: none"> <li>Short term savings due to no investment being made to upgrade building.</li> <li>No staff disruption or loss of work time</li> </ul>	<ul style="list-style-type: none"> <li>Will not meet legal requirements</li> <li>Staff and customers at risk in earthquake-prone building</li> <li>No improvement on organisational function</li> <li>Substantial investment needed in the long term</li> <li>Staff satisfaction in relation to workplace continues to erode</li> </ul>	<ul style="list-style-type: none"> <li>No immediate cost</li> </ul>
<b>Option 2: Consolidate Council's administrative functions within a strengthened and refurbished existing building with new building extensions on half of the Hastings Street site and divest either a) Site A; or b) Site B for commercial development</b>	<ul style="list-style-type: none"> <li>Improve Council function</li> <li>Low cost option in relation to benefits</li> <li>Minimal work disruption</li> <li>Improves safety</li> <li>Refurbished and extended buildings that better serve the needs of the community</li> <li>New development and activity on half of Hastings Street site</li> <li>Divestment proceeds could be used to off-set some of the costs of redevelopment</li> </ul>	<ul style="list-style-type: none"> <li>Work disruption due to refurbishing work</li> <li>Some building work required for Library, Council Chambers and Customer service area (building extensions)</li> <li>Council could permanently lose an asset</li> </ul>	<ul style="list-style-type: none"> <li><b>Option 2(a)</b> Demolition costs (CAB) - \$959,000 (excl. plot levelling)</li> <li><b>Option 2(b)</b> (Library Building) - \$1,144,400 (retain basement structure, and for Library Annex - \$110,000 (excl. making good)</li> </ul>
<b>Option 3: Refurbish both the Civic Administration Building and the Library</b>	<ul style="list-style-type: none"> <li>Organisational function improves</li> <li>More space for Council offices, meeting space, etc</li> </ul>	<ul style="list-style-type: none"> <li>Not the most efficient use of Council assets given Council's</li> </ul>	

<b>Building and stay in current location</b>		<p>administrative functions can be accommodated on half the site</p> <ul style="list-style-type: none"> <li>Higher cost than option 2 due to refurbishing two buildings</li> </ul>	
<b>Option 4: Demolish both Council buildings and build new in the same location</b>	<ul style="list-style-type: none"> <li>Organisational function improves and building design is fit for purpose</li> <li>Improvements to the streetscape (amenity will be possible).</li> </ul>	<ul style="list-style-type: none"> <li>Potentially higher costs in relation to other options</li> <li>Inefficient use of space given that Council's administrative functions can be accommodated within half the site.</li> </ul>	<ul style="list-style-type: none"> <li>Demolition costs for Civic Administration Building - \$959,000 (excl. plot levelling)</li> <li>Demolition costs for Library Building - \$1,144,400 (retain basement structure)</li> <li>Demolition for Library Building Annex - \$110,000 (excl. making good)</li> </ul>
<b>Option 5: Dispose both sites and either rebuild or lease elsewhere</b>	<ul style="list-style-type: none"> <li>Custom made building can be designed to be perfectly fit for purpose.</li> <li>A new Council building elsewhere in the city could reinvigorate a struggling part of the CBD</li> <li>A large site on the fringes of the City will be made available for commercial development</li> </ul>	<ul style="list-style-type: none"> <li>May be difficult to get public support as an acceptable option</li> <li>High cost by having to purchase land elsewhere</li> <li>Ongoing cost to Council/community if new site is leased</li> <li>Unlikely to find a suitable space within the city centre which will impact on city centre vibrancy and accessibility from the public</li> </ul>	<ul style="list-style-type: none"> <li>Demolition costs for Civic Administration Building - \$959,000 (excl. plot levelling)</li> <li>Demolition costs for Library Building - \$1,144,400 (retain basement structure)</li> <li>Demolition for Library Building Annex - \$110,000 (excl. making good)</li> </ul>

### Option Refinement

Option 1 was discounted as Council would not be meeting its legal obligations, nor would it provide for the safety of staff or customers.

Option 3 has also been discounted as it is unaffordable to the community and is not the most efficient use of resources (both financial and physical), and will not contribute to improved customer service or service delivery.

Option 4 is also unaffordable and does not leverage the efficient use of the site to achieve wider benefits.

Pursuing Option 5 would be difficult given there is unlikely to be another site within the CBD that can accommodate Council's functions and is as accessible as its current location.

Option 2, to consolidate Council's administrative functions within a smaller footprint and utilising one of the existing buildings, while divesting the remainder of the site for commercial development, presents the most viable option. Option 2 consists of two additional alternatives: divestment of Site A or Site B. The feasibility of these alternatives are further explored in the spatial analysis, urban design and commercial feasibility sections below.

### Spatial Analysis

An architect undertook a spatial planning exercise to answer this question. Although it was found that both sites were capable of accommodating Council's administrative functions as well as a Public Library, there were significant advantages to retaining Site B and redeveloping this site for Council use. The existing Library Building is able to accommodate all of Council's staff, while a new extension to the front of this building can easily accommodate Library facilities, a Council chambers, and a Council customer service and public meeting room space.

The alternative, retaining Site A for Council functions, would require significant excavation and building work to accommodate all of Council's functions and would result in poor building configurations, no access to light within the existing building, changes in levels across floors, and a very cramped space. Costs are expected to be significantly higher for this option.

### Urban Design

An Urban Design Assessment was carried out to understand which part of the site was better utilised for civic functions and which for commercial. The assessment concluded that Site A is an extension of a key commercial street (Hastings Street), high profile, coastal views from upper floors, and good, highly visible pedestrian connections to the CBD, and was therefore better suited to commercial activity. Site B is located within a cluster of other civic administration functions, is located adjacent to the bus depot, and is therefore better suited to civic administration functions.

**Commercial Feasibility**

The economic impact assessment considered the feasibility of three types of commercial activity on Site A: medium-format retail, office accommodation; and hotel. The assessment concluded that although all three commercial type options are potentially feasible to varying degrees, a hotel would be the most desirable option (see table below).

Commercial Type	Feasibility Comment
International-brand hotel	<p>There are no international-brand hotels located within Napier at present, despite Napier being the 'headquarters' of the commercial accommodation sector in Hawke's Bay. Napier has recorded both a longer-term and shorter-term significant growth in visitor activity. Overseas spending has also grown significantly as is hotel occupancy. Based on current growth figures (3.6%/year)*, Hawke's Bay is estimated to receive 6.6 million visitor nights by 2030 (currently at 4.2 million/year). This figure is conservative.</p> <p>The redevelopment of the Napier Conference Centre is likely to attract larger conferences and events, requiring a large hotel that can accommodate all delegates/guests in the one place. Aside from Site A, there are no large sites available within the city centre that would accommodate such a hotel, and none likely to be available in the future without impacting on the city's heritage resource.</p> <p>* Statistics NZ is forecasting international visitor growth at 4.8% per year.</p>
Medium-format retail	<p>Despite a noticeable lift in retail spending over the past few years, underlying growth has been limited, reflected in the number of tenancy vacancies in the CBD. In addition, medium-format retail located in the Fringe Commercial Zone has the potential to further dilute the overall economic strength of Napier's core retailing, hospitality and Art Deco area in the CBD.</p>
Office accommodation	<p>The underlying market for office accommodate real estate in Napier's CBD is subdued. Overall there is a fair amount of vacant office space in the area, however what is available is not of a size or configuration demanded, nor is it of a standard demanded by tenants. Demand is fueled primarily by existing enterprises in the area wishing to relocate their activities.</p>

Further to this, the Horwath HTL report supports the financial viability of an international-brand hotel on this site.



### Preferred Option

The preferred recommended option for the use of the civic administration site is **Option 2(a)**:

- Site A – Divest (either long-term lease or sell) for Commercial Use
- Site B – Retain ownership and develop for civic administration purposes

### What are the benefits?

The main benefits of the proposal have been identified as follows:

- **Affordability** – the proposal presents the most affordable option to the community.
- **Land value** – Council can off-set some of the costs of this development through the divestment of part of the site to a private developer for commercial use.
- **Economic benefits of commercial use of Site A** – an economic impact assessment has shown that three types of commercial activity (retail, office, and hotel) have a positive impact on Napier's economy. However, the development of an international-brand hotel on this site has considerably greater economic benefits than the other two types of commercial activity.

Economic Impact Measure	Total Economic Impacts					
	Construction/Development			Annual Operation		
	Hotel	Office Block	Retail Outlet	Hotel	Office Block	Retail Outlet
<b>Total Revenue (\$M)</b>	95.37	12.33	11.89	34.80	5.24	0.39
<b>Net Household Income (\$M)</b>	16.06	2.22	1.97	6.38	1.16	0.04
<b>Total Employment (persons/jobs)</b>	331	46	41	228	32	1
<b>Gross Regional Product (\$M)</b>	31.66	4.36	3.85	14.53	2.44	0.18

Napier-Hastings Net Economic Impact Gains for Construction & Year 5 Operation of Alternative Commercial Developments in Napier

- **Improved amenity** – a new commercial development on Site A, and development of Site B presents the opportunity to increase amenity of the site and surrounds, providing better public spaces and more open building frontages.

- **Increased vibrancy** – commercial use of Site A will likely increase the number of people moving through this area, particularly so in the evening hours should the site be developed for a hotel.
- **Improved working environment for Council staff and better access to Council services** – consolidating all of Council's administrative functions on one part of the site and in one building presents the opportunity to reconfigure the working spaces so they are more suited to team requirements and a modern approach to working on projects. The redevelopment also allows Council to make changes to accessibility of the building and improved customer service systems and facilities.
- **Increased safety** – the primary purpose of the proposal is to address the seismic strength of Council's administration buildings. This will improve safety for both staff and customers.

### What are the costs?

Demolition costs for the Civic Administration Building on Site A are **\$959,000 (excluding GST and plot levelling)**. There will also be costs associated with subdivision and legal fees (not yet quantified). Costs associated with the redevelopment of Site B will be considered at a later date as a separate decision, however in order to accommodate all Council services (including the Library) on Site B the Library annex will need to be demolished. The cost to do this is estimated at **\$110,000 (excluding GST and making good)**.

### How will the proposal be funded?

Demolition costs for Site A can be managed through existing budgets. Should Site A be divested, the proceeds from the sale will contribute to the rebalancing of these costs.

### Special consultative procedure

In adopting the Statement of Proposal for public consultation, including the draft declaration indicating the proposed option, the Council is required to consider whether the Statement of Proposal meets the requirements of section 87 of the Local Government Act 2002. A statement of proposal must include:

- A statement of the reasons for the proposal; and
- An analysis of the reasonably practicable options, including the proposal; and
- Any other information that the local authority identifies as relevant.

The Council considers this Statement of Proposal meets these requirements.

### Submissions

Submissions may be received from **4 October 2017** and until no later than **noon on 3 November 2017**. Any person who wishes to speak in support of their submission will be given the opportunity to be heard by the Council at a yet to be scheduled hearing.



# NAPIER CITY COUNCIL

## *Civic Building Site Optimisation Business Case*



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## Contents

<b>1. Executive Summary</b>	<b>3</b>
<b>2. Introduction</b>	<b>3</b>
<b>3. Issues</b>	<b>5</b>
<b>4. Opportunities</b>	<b>6</b>
<b>5. Strategic Context</b>	<b>7</b>
<b>6. Options</b>	<b>9</b>
6.1 Option Refinement	9
6.2 Site Optimisation	10
6.3 Urban Design Assessment	11
6.4 Commercial Feasibility	12
6.5 Preferred Option	14
<b>7. Preferred Option Benefits</b>	<b>14</b>
<b>8. Preferred Option Risks</b>	<b>16</b>
<b>Appendix A - Options Assessment</b>	<b>19</b>
<b>Appendix B – Seismic Assessment</b>	<b>22</b>
<b>Appendix C – Spatial Analysis</b>	<b>23</b>
<b>Appendix D – Economic Impact Assessment</b>	<b>24</b>
<b>Appendix E – Hotel Feasibility Report</b>	<b>25</b>
<b>Appendix F – Urban Design Assessment</b>	<b>26</b>
<b>Appendix G – Risk Assessment</b>	<b>27</b>

## 1. Executive Summary

This Business Case has shown that strengthening and refurbishing both Council buildings is neither efficient nor cost effective, and this option will not achieve the best design outcomes. This issue has presented Council with the opportunity to reconsider how the site could be used more efficiently in a way that leverages its prime central city location to achieve the greatest benefit to Napier.

Spatial analysis has revealed that it is possible to consolidate all of Council's administrative functions on one half of the site (Site B), while urban design analysis concludes that Site A is better suited to commercial use. This is because of the direct connection between Site A and the commercial core of the city, the waterfront, and the availability of sea views.

Three types of commercial activity have been assessed for feasibility and the economic benefits they are expected to bring to the city. While all three options, and a combination of these, would bring positive benefits to the Napier economy, the Hotel option clearly presents the greatest benefit, and is the most feasible.

In conclusion, the recommended option is Option 2(a) – to divest Site A to a private developer for commercial use, while consolidating council's administrative functions within Site B.

## 2. Introduction

This business case seeks to facilitate investment decisions about the Civic Administration Building, and to support decisions on the future of the site on which it occupies (hereafter known as Site A) from civic purposes to commercial purposes, whether this be by way of sale or long-term lease arrangement to a private developer.

The business case supports the Statement of Proposal, which is the means by which Council will engage with the Napier community, and make a decision on the future use of the civic administration site.



Figure 1 – Site Layout

The purpose of this Business Case is to:

- identify whether the Council can be practically housed on one half of the site, therefore allowing the remaining half to be considered surplus;
- identify options for the use of the civic administration site, and the advantages and disadvantages of each (cost-benefit and risk analysis);
- determine a preferred way forward that is affordable and achievable; and
- enable Council to make an informed decision based on facts.

**Not within the scope** include matters associated with:

- options for the redevelopment of the civic administration facilities (strengthening and refurbishment of buildings, new buildings etc);
- which site within the CBD the library will be located at;
- details relating the library design, delivery model, partnerships, and offerings.

Those matters not within the scope of this Business Case will be explored and decided on in future stages of the site redevelopment.

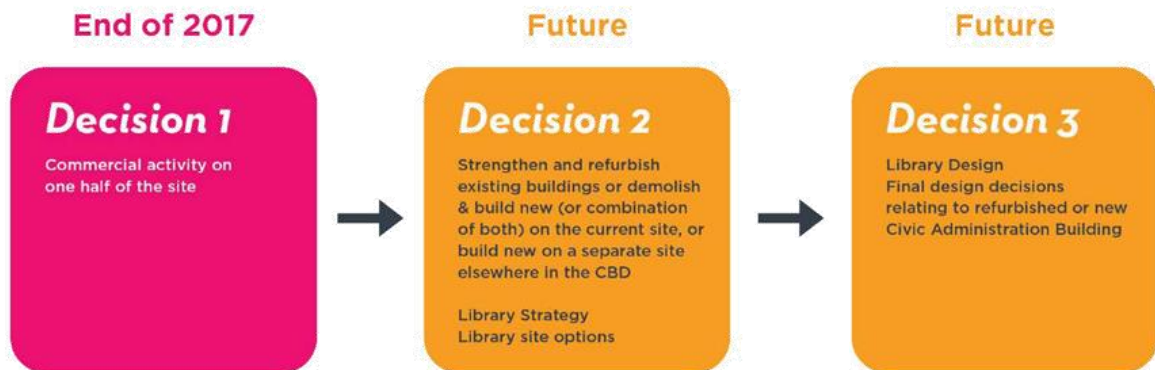


Figure 2 – Decision Stages

This business case is supported by a number of reports prepared by experts, which are attached as Appendices. These reports include:

Appendix	Provider	Content
A	Options Assessment	Exploration of the advantages and disadvantages of each option.
B	Strata Group	A detailed seismic assessment of the Civic Administration and Library Buildings, undertaken in 2017.
C	Citrus Studio	spatial planning to determine whether Council's civic administration functions can be accommodated within one half of the site.
D	Economic Solutions Ltd	An economic impact assessment to test the feasibility of various commercial options for the site, and to assess which commercial option would provide the greatest benefit to the Napier and wider Hawke's Bay community.
E	Horwath HTL	A feasibility study for an international-brand hotel on this site in Napier.
F	Urban Kin	An urban design assessment that considers which of the two halves of the site would be better suited to commercial use from an urban design perspective.
G	Napier City Council	Risk Assessment of Recommended Option

Table 1 – Appendices

### 3. Issues

The Council's Hastings Street administrative offices are in need of refurbishment to better provide for excellent customer service, and to address the issues relating to building condition and layout. With the exception of \$400,000 invested in the reception area of the Civic Building, Community Development and Planning and Infrastructure areas, only minor maintenance has been carried out over the past fifty years in both the Library and Civic buildings. Napier prudently held off undertaking any further upgrading of the building pending the Hawkes Bay Amalgamation Poll September 2015. With that process finished Council could continue delivering on its vision for Napier.

The initial assessment for refurbishing of the Civic Building required significant work to be undertaken including window replacements, air conditioning, interior redecorating, customer service centre development, carpet replacement, full electrical replacement, walls removed, exterior upgrades, and earth works to provide better customer interface for people with disabilities, as well as many more requirements.

As part of the Long Term Plan 2015-25 Council consulted with the public on the upgrade of the Civic Building. Consultation made mention to

*"We don't just want to fix the basics as well as any seismic issues though, so we will be putting together a proposal in the near future that should address not only the standards and expectations of the community and customers, but make the building more efficient for staff and everyone to use."*

The Long Term Plan allocated \$7.5m to the seismic strengthening and refurbishment of the civic buildings.

A number of issues raised due to the current condition, design and configuration of the existing Council buildings are stated below:

1. **Earthquake status** – In mid-2017, a seismic assessment was commissioned to ensure the building met current building standard requirements. This assessment found that the Civic Administration Building achieved a seismic rating of 10% New Building Standard (NBS), while the Library Building achieved a seismic rating of 15% NBS, making both buildings earthquake-prone.
2. **The status quo is not an option.** The earthquake-prone status of the buildings means that doing nothing is not viable – it neither meets Council's legal obligations, nor provides a safe environment for customers and staff.
3. **Poor building configuration and access to governance:** The main entrance to the building is inappropriate to deliver Council functions effectively. It lacks flow, accessibility and prominence making our customers confused and not sure where they should go to the first time they visit Council buildings. Wheel chair access is also inadequate and is provided at the rear of the building. The Council Chambers has a dysfunctional layout, with no air conditioning, and poor acoustics, and its location on the second floor makes access difficult for some.
4. **Perception of low quality customer service** - The building does not align with the Council Values of Customer and Community Service requirements seeking excellence in customer service. Insufficient meeting rooms for counter queries and customers are problematic and members of the public currently have to navigate through various floors to access council services including Council Committee rooms and functions.
5. **Physical condition of the building:** The building design is dated and the aesthetic contribution of the building towards a vibrant CBD is poor and could be improved. The entranceway to the building is undesirable and not conducive to good customer service.

## 4. Opportunities

The issues mentioned above have presented an opportunity for Council to consider alternative options to strengthening and refurbishing both building. This Business Case considers the advantages and disadvantages of all of these options and recommends an option that will deliver the most cost effective and efficient outcome. These options are included in Section 6 of this report.

The preferred option, which is an alternative to strengthening and refurbishing both buildings is to consolidate Council's administrative functions and the Library onto a reduced footprint on the Hastings Street site – potentially within a strengthened and refurbished existing building with new building extensions to provide additional space. The consolidation of Council's operations into one building would allow better and more efficient use of that building (and land), a more integrated working environment, and an improved workflow and working environment.



On the remaining portion of the Hastings Street site, there is an opportunity to leverage Council assets for projects such a commercial development or similar, that would enable the council outcome of 'A strong prosperous and thriving economy'. This has the potential to revitalise the economy, revitalise the CBD and cement Napier city as a tourist town.

## 5. Strategic Context

The following Council strategic documents have informed and supported the recommendations of this business case.

### **City Vision – Small City, BIG Ideas**

During 2016, Council adopted its City Vision as its strategic framework for the City. The City Vision – Small City, BIG Ideas, establishes a set of six principles that influence Council's decision-making and its interactions with the community, and help to prioritise what is important.

The City Vision promotes vibrancy in the CBD and identifies a number of nodes within the city centre and Ahuriri that could be improved by encouraging certain types of development, opening up access to public land, or improving connections between places. One of these nodes is the area adjacent to and including Council's Hastings Street civic buildings, where the building and landscape design has been recognised as presenting challenges for access and activation.

One of the key drivers of the City Vision is about quality experiences that both locals and visitors can enjoy. Napier's city centre is a key (and increasing) tourist destination in the Hawke's Bay region, and creating well-designed streetscapes that provide high amenity, improved pedestrian connections through the city, and spaces for events/activities to pop-up is paramount to achieving such high quality experiences.

### **Long Term Plan 2015-2025**

This project delivers Council's mission:

*"To provide the facilities and services and the environment, leadership, encouragement, and economic opportunity to make Napier the best city in New Zealand in which to work, raise a family, and enjoy a satisfying life".*

The 2015-2025 Long Term Plan identifies that while much of the Long Term Plan is 'business as usual', Council is focussed on increasing investment to grow Napier. Although the significant seismic issues of the two Hastings Street civic buildings hadn't yet been identified at the time this Long Term Plan was prepared, \$7.5 million was set aside to remedy the expected issues and to undertake some refurbishment to improve the working environment.

### Investment Objectives

In early 2017 (prior to the findings of the seismic assessment), the Council management team undertook an initial strategic review on the Council's building accommodation and its ongoing future options utilising the Treasury's Investment Logic Map (ILM) methodology. This included setting investment objectives and defining and reporting on a range of potential options. The options included service solution options (how), service delivery options (who), and implementation option (when). The outcome of this review is illustrated below:

#### Issues



Figure 3: Investment Logic



The decision on the future of Site A discussed in this business case delivers only one of these Investment Objectives: 'To enable the city centre and the Waterfront in a way that enhances the development of Napier and cements its place as an iconic destination'. Future decisions relating to the redevelopment of Site B, and future negotiations with the commercial developer will deliver on Investment Objectives 2 and 3, and are part of Stage 2 of this work programme.

## 6. Options

A number of options for the development of Council's Hastings Street site have been considered. These are:

- **Option 1** – Do nothing
- **Option 2** – Consolidate Council administrative functions within a strengthened and refurbished existing building with new building extensions on half of the Hastings Street site and divest either: **a)** Site A; or **b)** Site B for commercial development
- **Option 3** – Strengthen and refurbish both the Civic Administration Building and the Library Building, and remain within both buildings
- **Option 4** – Demolish both Council buildings and build new in the same location
- **Option 5** – Dispose both Site A and Site B and either rebuild or lease elsewhere.

The advantages, disadvantages, and costs of each option are further explored in Appendix A.

### 6.1 Option Refinement

The Do Nothing option (Option 1) was discarded early as it was not a feasible option. Council is both legally and morally obliged to ensure the safety of customers and staff in its buildings by not operating from earthquake prone buildings. Government departments typically require their operations to be accommodated within buildings that achieve at least 67% NBS. Therefore Council must look to relocate out of these buildings until such time that the building(s) are able to be made safe.

Disposing of the Hastings Street site in its entirety (Option 5) is also not a desirable option. In a city the size of Napier, it would be difficult to find a CBD location capable of accommodating the large number of staff operating out of the Council's main administration buildings.

Strengthening and refurbishing both buildings (Option 3) is not financially prudent, and misses the opportunities to be gained by consolidating within a reduced footprint while offering the remainder of the site for a development that would help to invigorate the city.

Demolishing both buildings (Option 4) incurs considerable costs without any opportunity to recover these through the divestment of assets. This option makes the least efficient use of existing resources (buildings and land) and does not present any opportunity for leveraging a Council asset to promote increased city vibrancy and economic spinoff.

Option 2, to consolidate Council's administrative functions within a smaller footprint by utilising one of the existing buildings, while divesting the remainder of the site for commercial development, presents the most desirable and viable option. Option 2 consists of two additional alternatives: divestment of Site A or Site B. The feasibility of these alternatives are further explored below, before a preferred option is recommended.

## 6.2 Site Optimisation

Currently, Council's administrative functions are spread across two buildings, and with a considerable curtilage of open, unused space around both buildings. In addition to the inefficient use of prime CBD land, operating out of two buildings is inefficient in terms of delivering excellent service to customers. Having multiple points of entry and two service areas is confusing for customers. Operation and maintenance costs are also multiplied when operating out of two buildings. When considering the future of the site, it is logical to determine whether Council's administrative functions can be accommodated within one of the buildings, or in a redeveloped/rebuilt building, thereby freeing up land for another purpose.

Napier City Council engaged an Architect to undertake a spatial planning exercise to answer this question (Appendix C).

The first alternative to **retain the existing building (the Library Building) on Site B and accommodate all of Council administration functions and a Library on this site** would require:

- Demolition of the Library annex
- An extension of the building out toward Station Street which would contain Library, Council Chambers, and the Council customer services and public meeting room space

The **advantages** are:

- Minimal additional building is required
- No excavation work is required
- Extending the Library toward to corner of Dalton and Station Street will help to activate this street corner
- All staff can be accommodated within the existing Library Building
- Access to daylight and workspaces layout is good

The **disadvantages** are:

- The Library will be spread over three levels

It has been recommended by the Architect that this first alternative presents the better outcome in terms of building layout access to daylight, and access to the public. It is also likely to be the most cost effective.

The second alternative, to **retain the existing building (Civic Administration Building) on Site A and accommodate all of Council administrative functions and a Library on this site** would require:

- Excavate the ground level down to the street level
- Build two additional floors on top of the existing building

- Build an addition to the front of the existing building to accommodate a Library, Council customer service and public meeting room space, and Council Chambers

The **advantages** are:

- The Library would be spread only over two floors
- The Library location would be of a higher profile and would activate this street corner

The **disadvantages** are:

- Excavation work is extensive (cost)
- Building two additional floors (cost)
- The extensions to the building at the street will remove any light penetration into the existing building for the first two floors
- The configuration of the layout is very poor

Overall, although the space analysis has shown that it is possible for Council's administrative functions and the Library to be accommodated on Site A, the outcome will be poor and therefore it is not recommended by the Architect.

### 6.3 Urban Design Assessment

With Council's administrative functions and a Library able to be accommodated on one half of its Hastings Street site (Site B), the other half (Site A) is able to be divested to commercial interests. In addition to the spatial constraints of each site, an assessment of which site would be better suited for a commercial activity will further guide decision-making on which half of the site to divest. An urban design statement is attached in Appendix F and is summarised below:

Site A	Site B
<ul style="list-style-type: none"> <li>• Site is an extension of a key retail street (Hastings Street)</li> <li>• Site has direct pedestrian connection to the waterfront</li> <li>• Site has uninterrupted coastal views once a building reaches 3-4 stories</li> <li>• Site has good pedestrian connections to CBD through Civic Court</li> <li>• Mixed-use commercial is recommended for this site</li> </ul>	<ul style="list-style-type: none"> <li>• Site is located within a cluster of other civic administration functions including the HBRC, WINZ, Housing NZ, and NZ Police</li> <li>• Site is located adjacent to the bus depot</li> <li>• Site has good pedestrian connections to the CBD through Civic Court</li> </ul>

Table 2: Urban design comparison of sites

It is clear that Site A is better suited for commercial use, with excellent pedestrian connections to the CBD and waterfront. The site has highly valued coastal views, better visibility along a main inner city street, and a natural extension of a key retail street, with medium-format retail activities across the road on Hastings Street. The Economic Impact Assessment (EIA) (Appendix D) show that the site is of sufficient size, and in an appropriate location to accommodate a small number of medium-format retail outlets, or a large multi-storied office accommodation building or large hotel.

## 6.4 Commercial Feasibility

Both the '*Potential Central Napier New Commercial Land Use/Development Options – Economic Benefit Assessment*' prepared by Economic Solutions Ltd and the '*Market Supply and Demand and Financial Feasibility Study for a Proposed Napier Hotel*' report prepared by Horwath HTL (Appendix E) considers the feasibility of commercial options on Site A. The former examines three commercial options (hotel, medium-density retail, and office accommodation) while the latter focuses purely on an international-brand hotel.

Feasibility of these options, primarily contained within the Economic Solutions Ltd report are explored above in section 4.4 and are shown in the table below:

Commercial Type	Feasibility Comment
International-brand hotel	<p>There are no international-brand hotels located within Napier at present, despite Napier being the 'headquarters' of the commercial accommodation sector in Hawke's Bay. Napier has recorded both a longer-term and shorter-term significant growth in visitor activity. Overseas spending has also grown significantly as is hotel occupancy. Based on current growth figures (3.6%/year)*, Hawke's Bay is estimated to receive 6.6 million visitor nights by 2030 (currently at 4.2 million/year). This figure is conservative.</p> <p>The redevelopment of the Napier Conference Centre is likely to attract larger conferences and events, requiring a large hotel that can accommodate all delegates/guests in the one place. Aside from Site A, there are no large sites available within the city centre that would accommodate such a hotel, and none likely to be available in the future without impacting on the city's heritage resource.</p> <p>* Statistics NZ is forecasting international visitor growth at 4.8% per year.</p>
Medium-format retail	<p>Despite a noticeable lift in retail spending over the past few years, underlying growth has been limited, reflected in the number of tenancy vacancies in the CBD. In addition, medium-format retail located in the Fringe Commercial Zone has the potential to further dilute the overall economic strength of Napier's core retailing, hospitality and Art Deco area in the CBD.</p>
Office accommodation	<p>The underlying market for office accommodation real estate in Napier's CBD is subdued. Overall there is a fair amount of vacant office space in the area, however what is available is not of a size or configuration demanded, nor is it of a standard demanded by tenants. Demand is fueled primarily by existing enterprises in the area wishing to relocate their activities.</p>

Table 3: Feasibility of commercial options

The Horwath HTL report further explores feasibility of a hotel on this site. The report assumes a 4-5 star international-brand hotel with up to 120 rooms, and some non-room revenue which may take the form of a restaurant, bar etc.

The report concludes that the increasing visitor numbers and spend in Napier are likely to continue and that there is plenty of opportunity to grow this further given the city's attractions and the increase in international visitors at a national level. The key success factors/criteria for a new hotel are:

- Size – it needs to be large enough to handle group tours and mid-scale conferences, but not so large that it creates an over-supply of rooms, especially during the off-peak season;
- Close proximity to the town centre and the Art Deco hub;
- A focused marketing strategy for shoulder and low season business; and
- A well-recognised international brand appropriate for its market positioning.

A new hotel development would need to be undertaken on the basis that it is a long-term investment, as it is expected to take a number of years for the hotel to achieve an optimal level of profitability and operational cash flow. Subsequent to this report being prepared, Napier City Council sought expressions of interest from the commercial sector for the use of Site A for commercial development, receiving a high level of interest from prospective developers and investors from the visitor accommodation sector.

The summary of the financial performance estimated for such a hotel is shown in the table below:

For the year ending December	2020		2021		2022		2023		2024	
NZ\$000s	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Keys	120		120		120		120		120	
Occupancy %	66.7%		72.7%		74.7%		76.7%		78.6%	
Average Room Rate	\$190.0		\$201.9		\$207.9		\$214.2		\$220.6	
Rev PAR	\$126.7		\$146.7		\$155.3		\$163.3		\$173.4	
Total Revenue	8,760	100.0%	10,057	100.0%	10,687	100.0%	11,282	100.0%	11,920	100%
Departmental Profit	4,692	53.6%	5,615	55.8%	6,153	57.6%	6,605	58.5%	7,075	59.4%
Gross Operating Profit	2,631	30.0%	3,316	33.0%	3,724	34.8%	4,098	36.3%	4,488	37.6%
Adjusted Gross Operating Profit	2,421	27.6%	3,051	30.3%	3,426	32.1%	3,770	33.4%	4,129	34.6%
EBITDA	\$1,938	22.1%	\$2,519	25.0%	\$2,864	26.6%	\$3,179	28.2%	\$3,506	29.4%

Table 4 – Forecast growth and financial projections

Based upon an assumed total development cost of \$300,000 per key, overall Return on Investment is shown in the table below:

Total development cost assumed at	\$300,00 per key	
Total investment	\$36 million	
Return on investment	Year 1	5.4%
	Year 2	7.0%
	Year 3	8.0%
	Year 4	8.8%
	Year 5	9.7%

Table 5 – Forecast return on investment

Based on the above figures, the option to develop a hotel on this site presents a feasible opportunity for investors.

### 6.5 Preferred Option

The spatial and commercial analysis helped to determine which site (A or B) to retain for Council administration, and which site to divest for a commercial development.

**The preferred option, as presented, is Option 2(a), being the demolition of the Civic Administration Building, and the divestment of this site (Site A) for commercial development. Council's administrative functions will be consolidated within Site B within a strengthened and refurbished Library Building and new extensions to this building.**

Whether Site A is divested by way of sale or long-term lease will be dependent upon the needs of the developer and the negotiation process.

## 7. Preferred Option Benefits

### Tangible Benefits

There are a number of financial benefits that are anticipated:

#### 1. *Cost of Strengthening and Refurbishing Both Buildings*

The cost to strengthen and refurbish both buildings will always be greater than the cost to strengthen and refurbish one building. In addition, it is unnecessary, as it has been shown that all of Council's administrative functions (including the Library) can be accommodated within the Library Building, and an extension to this building on Site B.



2. *Value of Site A Land*

Divesting this site could off-set some of the costs associated with demolishing the Civic Administration Building (should this be undertaken by Council), or with the redevelopment of Site B. Should Council opt to retain ownership of this site and lease the site to private commercial interests, the lease agreement will result in ongoing revenue stream for Council (amount yet to be determined).

3. *Direct and Indirect Economic Benefits of Commercial Use of Site A*

A comprehensive economic impact assessment was completed by Economic Solutions Ltd (Appendix D) to determine the direct and flow-on economic impact of three commercial options for Site A: an international-brand hotel; a medium-format retail development; and an office accommodation development.

Table 6 below summarises the results of the detailed economic impact modelling assessment provided in the detailed report found in Appendix D. The results indicate that after taking into account the potential downside or offsetting of economic impacts associated with each development/operation option, the hotel is estimated to generate the highest level of net economic impact gains for the City. The construction stage for the hotel will also generate the highest level of short-term or one-off economic impact.

Economic Impact Measure	Total Economic Impacts					
	Construction/Development			Annual Operation		
	Hotel	Office Block	Retail Outlet	Hotel	Office Block	Retail Outlet
<b>Total Revenue (\$M)</b>	95.37	12.33	11.89	34.80	5.24	0.39
<b>Net Household Income (\$M)</b>	16.06	2.22	1.97	6.38	1.16	0.04
<b>Total Employment (persons/jobs)</b>	331	46	41	228	32	1
<b>Gross Regional Product (\$M)</b>	31.66	4.36	3.85	14.53	2.44	0.18

Table 6: Economic impacts of Commercial Options

### Intangible Benefits

Some benefits of the project are not tangible in a monetary sense, however deliver significant social returns to the City of Napier:

1. *Improved Amenity*

The existing Civic Administration Building currently provides little interactive opportunity between the interior of the building and the street. The building is set back from the street frontage, creating a large area of raised paved courtyard that is neither welcoming to visitors nor is able to be used for any purpose. The potential demolition of this building, and change in use to commercial opens up the opportunity to construct a new building, at or close to the street frontage, with good design outcomes and a more active frontage.

2. *Increased Vibrancy*

The use of Site A for commercial will increase the number of people moving around this southern part of the city. Although all of the three types of commercial activity will likely improve vibrancy, it is likely that a 120-room hotel will likely provide the greatest benefit to the city in terms of an increase in the number of people moving around the city and to the various attractions in the city. During the evening hours, a hotel in this location will bring people to the city, as they check in, walk to the various destinations, and eat out. It is likely that additional businesses, particularly restaurants, will want to locate close to a hotel.

3. *Improved working environment for Council staff and access to democracy*

Retaining Site B and consolidating all Council administration functions on this site and within the one building presents the opportunity to reconfigure the working spaces. This will ensure they are more suited to the requirements of the realigned Council teams and create a modern approach to working on projects. Redevelopment also provides the chance to update technology and improve the physical condition of the building, thereby enhancing the public's perception of the quality of customer service, Council's reputation, and improving staff morale. Changes to the building will also improve physical access to customer service and council meetings for all users.

4. *Increased safety*

Whichever redevelopment option is taken forward, there will be a significant improvement in the safety rating of the Council building(s), which results in a safer environment for both Council staff and the public.

## 8. Preferred Option Risks

A detailed assessment of the risks associated with the preferred option to divest/lease the site on which the Civic Administration Building is currently located (Site A) to a private developer for commercial interests are attached as Appendix G. The assessment was carried out in accordance with NCC Risk Management Strategy (relevant pages attached in Appendix G).

The key risks, that cannot be easily mitigated, that Napier City Council (and therefore the Napier community) face in making this decision are summarised below. Risk assessment will be undertaken throughout all stages of the project to address new information and ensure the appropriate strategies are employed to minimise or mitigate these risks.

IMPACT CATEGORY	RISK LEVEL	MITIGATION
<b>ENVIRONMENTAL</b>		
The building may contain asbestos, and the necessary containment measures will need to be employed to avoid contamination of the soil/grounds.	Extreme	Asbestos testing is currently underway. If asbestos found, then measures undertaken to contain.
<b>FINANCIAL</b>		



Demolition costs could be higher than anticipated	High	Highly qualified QS to review and test the market, comparison of tenders (industry est.), refined tender processes, provide complete info
Seismic strengthening and refurbishment costs of the Library Building could be higher than anticipated	High	Highly qualified QS to review and test the market, comparison of tenders (industry est.), refined tender processes, provide complete info
The level of interest in purchasing the site, and therefore sale price could be lower than anticipated	High	Testing the market, promotion. Careful of our restrictions on sale & purchase, partnering with developer
<b>HEALTH AND SAFETY</b>		
Risk of Asbestos being present in the building	Extreme	Asbestos testing is currently underway. Full health and safety requirements if asbestos is possible.
<b>ICT, ASSETS/INFRASTRUCTURE</b>		
Underground NCC services are located across both sites. There is a risk that these could be damaged during demolition.	High	Plans are proofed with location technology prior to contract being awarded Location of services clearly marked on all plans and potentially physically marked on the ground
There is a risk that the underground services may not be located where they are expected (position and depth).	High	There is a risk that the underground services may not be located where they are expected (position and depth).
Underground Fibre and electricity/gas services may be located across both sites. There is a risk that these could be damaged during demolition.	High	Early consultation with Unison will provide early warning. Contact service providers and locate services. Location of services clearly marked on all plans and potentially physically marked on the ground
<b>LEGISLATIVE COMPLIANCE</b>		
Risk that the necessary legislative requirements haven't been met in making the decision to divest or lease Site A.	Medium	Extensive scoping of legislative requirements prior to contract being awarded Seek legal advice
<b>REPUTATION/IMAGE</b>		

The public may not approve of the process being undertaken (eg insufficient consultation and/or feedback mechanisms) or the decision being made.	Medium	Seek legal opinion on consultation meeting legal requirements. Seek advice and input from qualified consultation specialists
The public may believe that the decision is pre-determined.	Medium	Demonstrate evidence of consideration of all options Separate out decision-making – Councillors to make decisions
<b>SERVICE DELIVERY</b>		
If the decision is made to not divest Site A for commercial interests, the opportunity to re-activate the southern part of the city, achieve better urban design, grow the economy, and improve the reputation for Napier as a tourist destination may be lost.	High	Present a comprehensive business case with sufficient information for Council to make the an informed decision
The developers of Site A may choose to ignore the advice of NCC's planners in relation to achieving good design outcomes, which may result in opportunities to re-activate the southern part of the city and improve amenity and connections being lost.	Low	Make these matters part of the negotiation process with the developer
The developer chooses to develop the site differently to what is expected, or on-sells the site to another developer, with no consideration given to urban design principles or good planning outcomes.	Medium	Add clauses in contract to prevent this Partner with develop to achieve good design outcomes Provide incentives to achieve good design outcomes Make our expectations clear during negotiations

Table 7: Summary of Risk Assessment Schedule for Preferred Recommended Option

## Appendix A - Options Assessment

Option	Advantages	Disadvantages	Estimated Demolition Cost (Ex. GST)
<b>Option 1: Do nothing</b>	<ul style="list-style-type: none"> <li>• Short term savings due to no investment being made to upgrade building.</li> <li>• No staff disruption or loss of work time</li> </ul>	<ul style="list-style-type: none"> <li>• Will not meet legal requirements</li> <li>• Staff and customers at risk in earthquake-prone building</li> <li>• No improvement on organisational function</li> <li>• Substantial investment needed in the long term</li> <li>• Staff satisfaction in relation to workplace continues to erode</li> </ul>	<ul style="list-style-type: none"> <li>• No immediate cost</li> </ul>
<b>Option 2: Consolidate Council's administrative functions within a strengthened and refurbished existing building with new building extensions on half of the Hastings Street site and divest either a) Site A; or b) Site B for commercial development</b>	<ul style="list-style-type: none"> <li>• Improve Council function</li> <li>• Low cost option in relation to benefits</li> <li>• Minimal work disruption</li> <li>• Improves safety</li> <li>• Refurbished and extended buildings that better serve the needs of the community</li> <li>• New development and activity on half of Hastings Street site</li> <li>• Divestment proceeds could be used to off-set some of the costs of redevelopment</li> </ul>	<ul style="list-style-type: none"> <li>• Work disruption due to refurbishing work</li> <li>• Some building work required for Library, Council Chambers and Customer service area (building extensions)</li> <li>• Council could permanently lose an asset</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Option 2(a)</b> Demolition costs (CAB) - \$959,000 (excl. plot levelling)</li> <li>• <b>Option 2(b)</b> (Library Building) - \$1,144,400 (retain basement structure, and for Library Annex - \$110,000 (excl. making good)</li> </ul>

<b>Option 3: Refurbish both the Civic Administration Building and the Library Building and stay in current location</b>	<ul style="list-style-type: none"> <li>Organisational function improves</li> <li>More space for Council offices, meeting space, etc</li> </ul>	<ul style="list-style-type: none"> <li>Not the most efficient use of Council assets given Council's administrative functions can be accommodated on half the site</li> <li>Higher cost than option 2 due to refurbishing two buildings</li> </ul>	
<b>Option 4: Demolish both Council buildings and build new in the same location</b>	<ul style="list-style-type: none"> <li>Organisational function improves and building design is fit for purpose</li> <li>Improvements to the streetscape (amenity will be possible).</li> </ul>	<ul style="list-style-type: none"> <li>Potentially higher costs in relation to other options</li> <li>Inefficient use of space given that Council's administrative functions can be accommodated within half the site.</li> </ul>	<ul style="list-style-type: none"> <li>Demolition costs for Civic Administration Building - \$959,000 (excl. plot levelling)</li> <li>Demolition costs for Library Building - \$1,144,400 (retain basement structure)</li> <li>Demolition for Library Building Annex - \$110,000 (excl. making good)</li> </ul>
<b>Option 5: Dispose both sites and either rebuild or lease elsewhere</b>	<ul style="list-style-type: none"> <li>Custom made building can be designed to be perfectly fit for purpose.</li> <li>A new Council building elsewhere in the city could reinvigorate a struggling part of the CBD</li> <li>A large site on the fringes of the City will be made available for commercial development</li> </ul>	<ul style="list-style-type: none"> <li>May be difficult to get public support as an acceptable option</li> <li>High cost by having to purchase land elsewhere</li> <li>Ongoing cost to Council/community if new site is leased</li> <li>Unlikely to find a suitable space within the city centre which will impact on city centre vibrancy and accessibility from the public</li> </ul>	<ul style="list-style-type: none"> <li>Demolition costs for Civic Administration Building - \$959,000 (excl. plot levelling)</li> <li>Demolition costs for Library Building - \$1,144,400 (retain basement structure)</li> <li>Demolition for Library Building Annex - \$110,000 (excl. making good)</li> </ul>

## Appendix B – Seismic Assessment

## Appendix C – Spatial Analysis



## Appendix D – Economic Impact Assessment

## Appendix E – Hotel Feasibility Report

## Appendix F – Urban Design Assessment

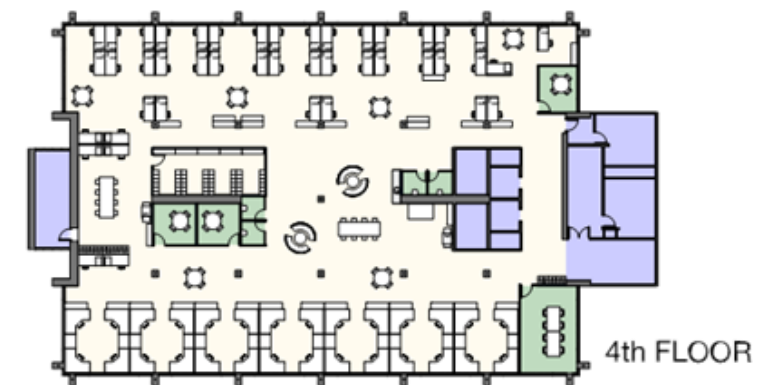
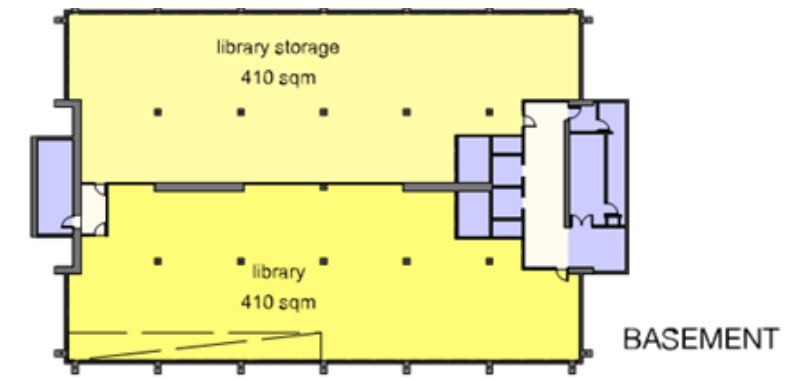
## Appendix G – Risk Assessment



STAFF OCCUPANCY (excl library)

ground	16
first	24
second	79
third	55
fourth	72

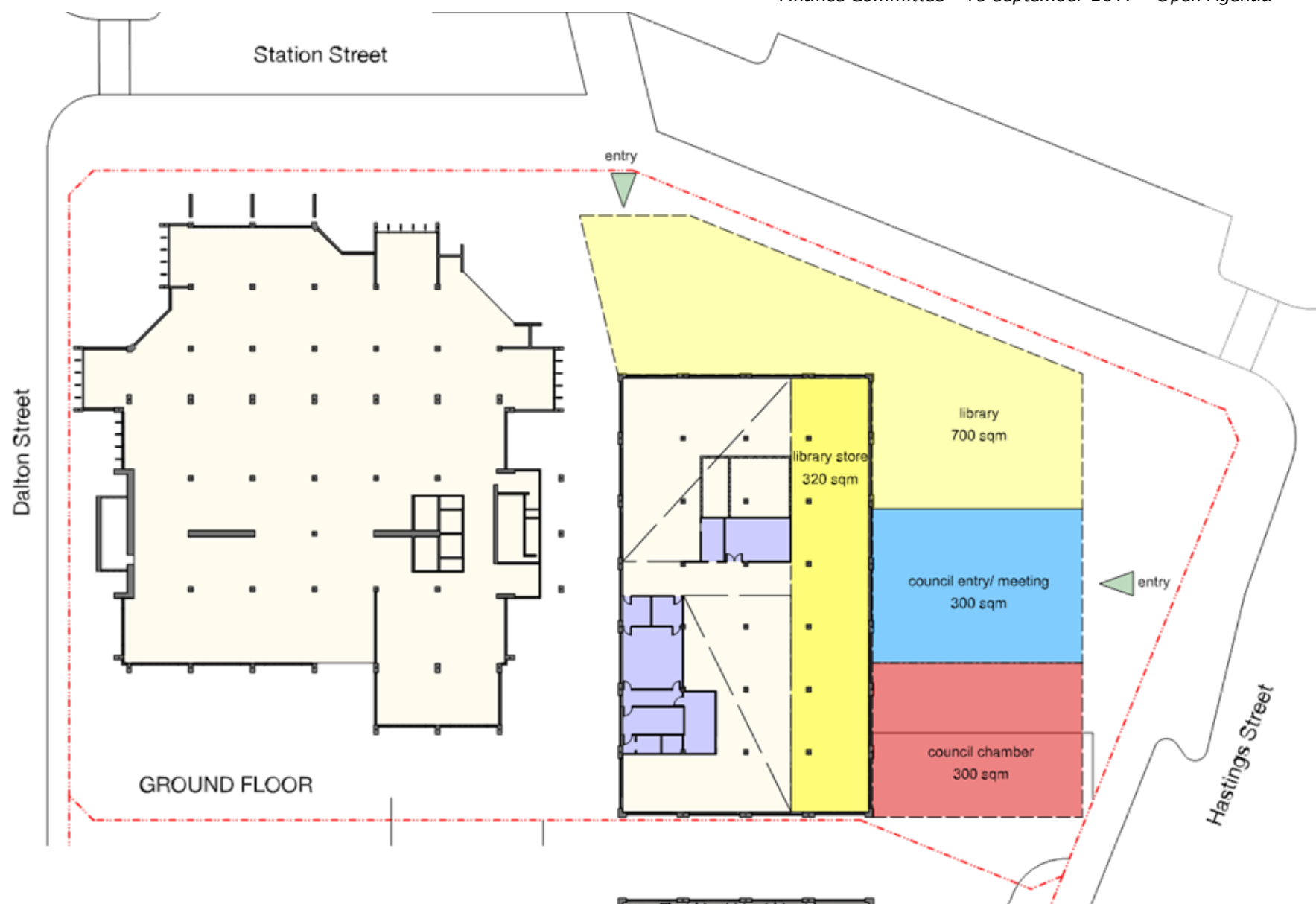
TOTAL 246



NCC LIBRARY BUILDING

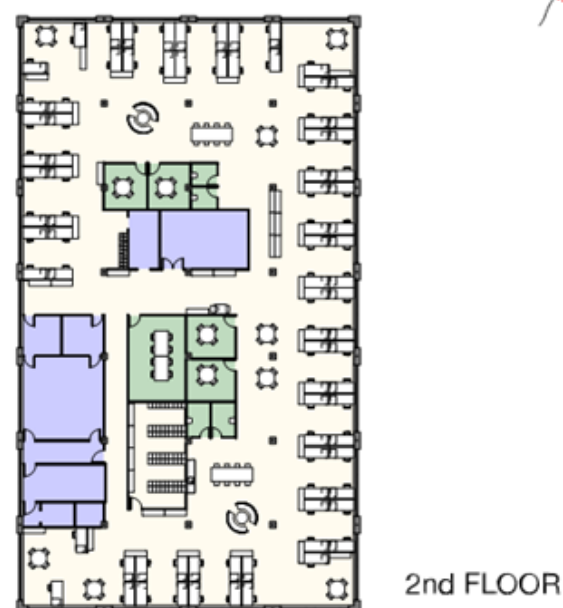
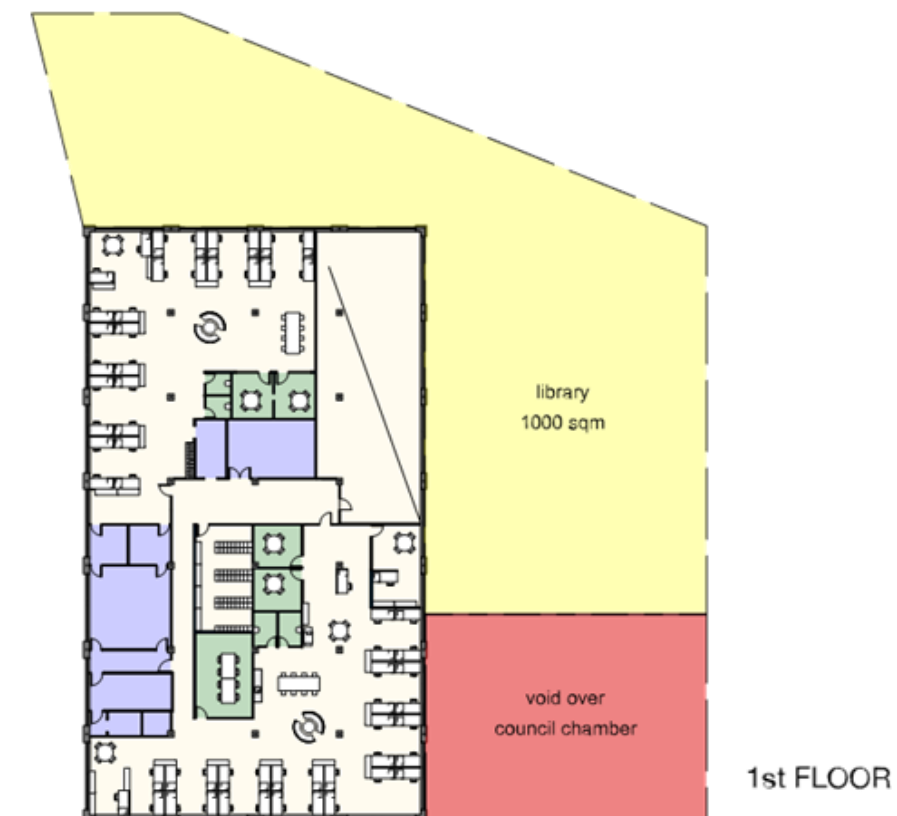






**STAFF OCCUPANCY (excl library)**

ground	33
first	59
second	82
third	76
<b>TOTAL</b>	<b>250</b>



## NCC CIVIC BUILDING



# Potential Central Napier New Commercial Land Use/Development Options *Economic Benefit Assessment*

**14 August 2017**

**Report Prepared by**

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## Contents

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Executive Summary .....	1
1- Introduction.....	2
2- Economic Impact Assessment Methodology .....	3
3- Economic Impacts of 120 Room Hotel Development .....	4
4- Economic Impacts of New Office Block Option.....	10
5- Economic Impacts of Medium Format Retail Option.....	13
6- Summary of Potential Net Economic Impacts.....	17

### **Appendices 1 and 2**

## Executive Summary

- This report provides the results of an assessment that has been undertaken of the potential economic impacts and other economic benefits for Napier and the wider area, of three possible future land-use/development options for the site in central Napier which is currently the location of the Napier City Council's main Civic and administration activities. The building in which these activities are based has recently been evaluated as being well below current earthquake/seismic protection levels and it is understood that the Council will be relocating from the building for this reason as well as a number of other major issues with the building.
- The three alternative future land-use options for the site in question for which this economic impact assessment was requested were a new international 4-4.5 star hotel, a new three-storey office block and a single-level medium format/scale retail outlet. The impact assessment analysis provided in the main body of the report covers the construction stage (which generates only short-term economic impact gains during the construction period) for each development option, as well as the ongoing annual turnover operation for the different options (specifically their year 5 operations).
- **Table A** below summarises the results of the detailed economic impact modelling assessment provided in the detailed report. The figures in the table reflect the assessed net economic impact gains at the combined Napier-Hastings level, for the different options. In terms of the annual operation economic impacts, the net gains take into account likely initial business diversion in Napier with the new hotel; in most cases, the internal relocation of existing local operators into the new office block; and the likely occupation of the site in question by a locally relocating retailer rather than by an externally sourced new retail investment into the City. The gross economic impacts for each option were quantified for ESL by Dr W Hughes, consulting economic impact modelling specialist, Auckland, using base financial and employment data provided by ESL and a December 2016 Napier-Hastings economic model.

**Table A: Napier-Hastings Net Economic Impact Gains for Construction & Year 5 Operation of Alternative Commercial Developments in Napier**

Economic Impact Measure	Total Economic Impacts					
	Construction/Development			Annual Operation		
	Hotel	Office Block	Retail Outlet	Hotel	Office Block	Retail Outlet
<b>Total Revenue (\$M)</b>	95.37	12.33	11.89	34.80	5.24	0.39
<b>Net Household Income (\$M)</b>	16.06	2.22	1.97	6.38	1.16	0.04
<b>Total Employment (Persons/Jobs)</b>	331	46	41	228	32	1
<b>Gross Regional Product (\$M)</b>	31.66	4.36	3.85	14.53	2.44	0.18

- The results in the table indicate that after taking into account potential downside or offsetting economic impacts associated with each development/operational option, the hotel is estimated to generate the highest level of net economic impact gains for the City. The construction stage for the hotel will also generate the highest level of short-term or one-off economic impact.

## 1- Introduction

- 1.0 The existing Napier City Council Civic and administration building, located on the corner of Hastings and Station Streets, Napier has recently been assessed as being of major earthquake risk and well below new building code requirements in respect of this risk. In addition, longstanding major design flaws and areas of wasted space render the building unsuitable for refurbishment to current seismic standards in a cost-effective manner.
- 1.1 As a consequence, the Napier City Council is giving consideration to potential future commercial land-use/development options and opportunities for the site in question, following relocation of the Council's Civic and administrative headquarters from the site. Economic Solutions Ltd (ESL) has been requested to provide a detailed economic benefit assessment of the options.
- 1.2 The Council has requested ESL to work to the following base guidelines for the assessment:
- The Napier City Council will be abandoning its current Civic and administrative location and moving these activities into the adjacent Library building.
  - It is not feasible to strengthen, refurbish and then lease out the existing building for alternative office use, as this is considered cost-prohibitive and also the building is not designed with this function in mind.
  - In general terms, current demand for central Napier office and retail space is flat and there is a relatively plentiful supply of such space in the area.
- 1.3 Notwithstanding the latter point, the Council has requested ESL to focus its economic assessment on the following potential future land-use/development possibilities for the site in question:
- A new high-class international hotel.
  - A new office block.
  - A medium format retail development.
- 1.4 For each of the above options, the Council has requested that the economic assessment covers the following key considerations:
- a) The underlying current and longer-term future market situation for each option.
  - b) The potential flow-on or multiplied economic impacts associated with each option.
  - c) Other potential local/regional economic benefits of each development option or possibility.
- 1.5 *It is emphasised that whilst the economic impact analysis in the report details the gross or total flow-on economic impacts for each development option, reference is also made to the potential 'downside' or offsetting economic impacts associated with each option. It is important that these are taken into account in order that the comparative net economic impact gains for Napier for each option, are clearly identified. This is particularly relevant to the annual operation of each development activity. The net gains are indicated in section 6 of the report.*



- 1.6 The key base information sources used for the analysis in the report have been the following:
- The February 2017 report prepared for the Napier City Council by Horwath HTL Consultants concerning the economic and financial feasibility of a proposed new hotel for Napier City.
  - Statistics New Zealand building consent and other results for the City.
  - Discussions with Napier City Council planning staff.
  - Discussions with 'Napier Inner City Marketing' on retailing trends in the City.
  - Discussions with local valuation companies (Turley & Co, Telfer Young and My Valuer) on office and retail sector property trends in the City.
  - Discussions with local real estate companies (Property Brokers, Bayleys and Colliers).
  - Economic impact modelling results provided by Dr Warren Hughes of Hughes Economics, Auckland (specialist economic impact modelling consultancy). Copies of Dr Hughes' modelling results and his CV details are attached as **Appendices 1 and 2**.
- 1.7 Section 2 of the report provides a short background commentary on the nature of economic impact assessment. Sections 3-5 provide an economic assessment analysis for the new hotel, office block and retail development options respectively.

## 2- Economic Impact Assessment Methodology

- 2.1 Economic Impact Assessment (EIA) quantifies the total multiplied economic impacts for a specific geographical area (local/regional/national) of a significant existing or new revenue/expenditure operation, development or activity in the area.
- 2.2 The total economic impacts comprise the initiating direct expenditure or revenue/turnover impact associated with the activity and the flow-on or 'multiplied' economic impacts.
- 2.3 The flow-on impacts incorporate both production and consumption impacts. The production impacts comprise the flow-on gains for businesses supplying goods and services to the initial expenditure or revenue activity, whilst the consumption impacts comprise the additional household spending of employees working directly in the activity and also in the businesses supplying inputs to the activity.
- 2.4 Economic impacts are traditionally measured using four different variables, these being Total Revenue/Gross Output (the total value of the economic impact including the value of any imported items), Net (Disposable) Household Income (after removing taxation, savings, superannuation, etc.), Total Employment (measured in terms of labour-years for construction activity and persons/jobs for operational activity) and Total Value Added/Gross Domestic Product GDP (or Gross Regional Product GRP for sub-national areas).
- 2.5 The GRP impact is considered to best measure the true multiplied gain in total economic activity in an area as a result of an initial expenditure or revenue project/change, as it excludes

the value of imported items required for the project (payments for which flow out of the region to externally based suppliers of goods and services).

- 2.6 An economic impact or input-output table/model for a particular district/region/country is required in order to calculate multiplied economic impacts for the area. The economic impact results presented in this report are based on the latest available (year ended December 2016) Napier-Hastings multiplier results for relevant sectors within a 106-sector economic impact model for this area. The underlying national input-output table for these results relates to the 2007 year and was released by Statistics New Zealand in July 2012. A Napier-Hastings economic impact model has been used for the analysis, in order to capture the full extent of flow-on or supplier industry linkages to the construction and annual operational activities for each of the three potential land-use options being considered in the report.
- 2.7 The table has subsequently been modified by Butcher Partners, Christchurch for regional and local application. Dr Hughes has updated the Napier-Hastings economic impact model using employment data for the year ended December 2016. It is noted that the various multiplier results presented in the report reflect Type II multipliers which include both production and consumption flow-on economic impacts.
- 2.8 It is also noted that the common aspects of each potential future commercial land-use option covered by this economic impact assessment are the construction stage for each development option followed by its ongoing annual operation. It is further noted that the construction stage economic impacts relate only to the construction period and are not ongoing. In terms of the hotel option, ESL was requested by the Napier City Council to undertake the economic impact assessment based on the year 5 financial operation for the hotel, which then allows sufficient time for the facility to be assessed as an established part of the local visitor accommodation sector (however, relative economic impact results are also provided in the report for earlier years 1-4 of the hotel operation). For the purposes of the analysis, the economic impact assessments for the office and retail development options are also assumed to relate to the 5<sup>th</sup> year of their operations.
- 2.9 Whilst the analysis indicates the total economic impact gains for each land-use option, nevertheless it should be noted that in general terms where any of the options result in any 'business diversion' in the City (e.g. reduced patronage for other visitor accommodation outlets arising from a new hotel development or an increased amount of vacant office and retail building space following a relocation), the economic impact gains need to be balanced against any resulting 'downside' economic impacts. Further, to the extent that future use of the Council site in question comprises, for example, some office or retail activities simply relocating from other parts of Napier, the level of overall operational economic impact gains will be commensurately reduced.

### **3- Economic Impacts of 120 Room Hotel Development**

- 3.1 This section indicates the underlying local market situation for this development option and the potential local Napier-Hastings level flow-on economic impacts of its construction and annual operation.

## Market Assessment

3.2 The following relevant points are made in this respect:

- The Horwath HTL report indicates that, currently, there are 9 hotels operating in Napier, none of which have internationally recognisable hotel brands and 8 having amongst them an average of 35 rooms (and 43 for the full group of hotels). As a group, these hotels currently account for 18% of all commercial accommodation units in Napier and 16% of total commercial accommodation night-stays. They also account for almost 65% of the total number of Statistics New Zealand (SNZ) surveyed hotels in Hawke's Bay and almost 80% of the total regional inventory of hotels rooms.
- SNZ monthly commercial accommodation monitor results for Napier indicate underlying annual average growth of approximately 2% in total commercial accommodation night-stays in the City, since 2004. However, following the impacts of the GFC (Global Financial Crisis) up until 2013, commercial night-stays have increased significantly and overall by some 205,000 or 39% (annual average growth of almost 9%). For the May 2017 year, Napier accounted for 61% of total Hawke's Bay region commercial accommodation night-stays.
- Since 2004, the number of night-stays spent in Hawke's Bay hotels has increased at an annual average rate of 6.3%, compared to 1.4% across all commercial accommodation. The number of night-stays has risen overall by approximately 255,000 or 27% since 2013.
- For the year ended May 2017, average hotel occupancy was recorded at 61% at the Hawke's Bay level, compared to the 'all accommodation' figure of 44%. The Hawke's Bay hotel occupancy figure for the May 2004 year was recorded at 38%.
- International visitor-nights spent in all Hawke's Bay commercial accommodation have grown at an annual average rate of 3.9% since 2004, compared to 0.6% for the domestic visitor market. Since 2013, international commercial visitor-nights have recovered overall by 30%. The international visitor sector's share of total commercial visitor nights was 27% in 2016/17, compared with 20% in 2003/04.
- Ministry of Business Innovation and Employment (MBIE) tourism data indicates that total visitor spending in Napier has increased overall by 31% (annual average 5.5%) in nominal terms, since 2012. International visitor spending regionally has risen by 50% (domestic visitors 19.5%) for the period and total accommodation spending by 26% (international visitor accommodation spending by 29%).
- The Horwath HTL report indicates that Hawke's Bay currently has a minor share of national conventions activity which should be partly addressed though with the ongoing operation of the recently redeveloped Napier Conference Centre. The report also indicates that Hawke's Bay has experienced a noticeable fall since 2009 in national tourism market share in respect of the commercial visitor-night and total visitor spend indicators.
- The Horwath HTL report calculations indicate (page 29) that visitor demand for Hawke's Bay hotel sector room nights is forecast to continue to grow during the next 10 years and overall by around 30%. Overall hotel sector occupancy is forecast to increase from 60% in year 1 of the new hotel operation (assuming it is operating in year 2020) to around 70% in year 6 and 71-72% in year 8.

- MBIE is currently forecasting total international visitor arrivals into New Zealand to increase by 18% over 2017-2023, total visitor-days by 12% and total visitor spending by 19%.

3.3 **Summary** – Napier is the ‘headquarters’ of the commercial accommodation sector in Hawke’s Bay and within this the hotel industry which nevertheless currently remains a relatively limited part of the City’s overall commercial accommodation infrastructure. In addition, Napier does not currently have any internationally recognisable hotel brands. The City has recorded both longer-term and particularly shorter-term significant growth in total, international market and hotel accommodation visitor activity within the commercial sector. Overseas visitor spending in Napier/Hawke’s Bay has also grown significantly. Hotel occupancy levels have increased considerably to a relatively high level at the present time. Visitor demand for hotel accommodation in the area is forecast to increase significantly over the next decade, partly underpinned by the projected increase in overseas tourism to New Zealand. All these factors and trends contribute to a sound basis for the further development of Napier’s hotel sector.

### Economic Impact Assessment

3.4 **Table 1** below indicates the Napier-Hastings area economic impacts of the construction stage for the proposed hotel. The reference table in Appendix 1 is Table 1. The base financial data for the economic impact modelling analysis is sourced from the Horwath HTL report. The estimated hotel construction cost is \$36 million.

**Table 1: Napier-Hastings Area Economic Impacts of Hotel Construction**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	36.00			
Total Direct Economic Impacts	36.00	5.57	92	9.25
Total Flow-on Production and Consumption Economic Impacts	59.37	10.49	239	22.41
<b>TOTAL ECONOMIC IMPACTS</b>	<b>95.37</b>	<b>16.06</b>	<b>331</b>	<b>31.66</b>

3.5 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of approximately \$95.4 million. This comprises the initial direct Revenue impact of \$36 million and a flow-on/multiplied Revenue impact of approximately \$59.4 million (the overall multiplier value inferred by these results is 2.65);
- A total Net Household Income impact of \$16.1 million, comprising a direct Income impact of \$5.6 million and a flow-on/multiplied Income impact of \$10.5 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the construction work, including multiplier impacts (overall multiplier value of 2.88);



- A total Employment impact of 331 persons/jobs, comprising a direct Employment impact of 92 persons and a flow-on/multiplied Employment impact of 239 persons (overall multiplier value of 3.60); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of approximately \$31.7 million, comprising a direct GRP impact of \$9.3 million and a flow-on/multiplied GRP impact of \$22.4 million (overall multiplier value of 3.42). The total GRP economic impact figure indicates the real level of the contribution of the hotel construction stage to overall economic activity in Napier-Hastings.

3.6 **Table 2** indicates the Napier-Hastings area economic impacts of the annual revenue operation in year 5 of the proposed new hotel. *The reference table in Appendix 1 is Table 2.* The base financial data for the economic impact modelling analysis is sourced from the Horwath HTL report. The forecast total revenue figure in year 5 is \$11.92 million.

**Table 2: Napier-Hastings Area Economic Impacts of Year 5 Annual Hotel Revenue Operation**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	11.92			
Total Direct Economic Impacts	11.92	2.54	110	5.39
Total Flow-on Production and Consumption Economic Impacts	13.18	1.71	40	4.64
<b>TOTAL ECONOMIC IMPACTS</b>	<b>25.10</b>	<b>4.25</b>	<b>150</b>	<b>10.03</b>

3.7 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of \$25.1 million. This comprises the initial direct Revenue impact of approximately \$11.9 million and the a flow-on/multiplied Revenue impact of \$13.2 million (the overall multiplier value inferred by these results is 2.10);
- A total Net Household Income impact of approximately \$4.3 million, comprising a direct Income impact of \$2.5 million and a flow-on/multiplied Income impact of approximately \$1.8 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the annual hotel operation, including multiplier impacts (overall multiplier value of 1.67);
- A total Employment impact of 150 persons/jobs, comprising a direct Employment impact of 110 persons and a flow-on/multiplied Employment impact of 40 persons (overall multiplier value of 1.36); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of approximately \$10 million, comprising a direct GRP impact of \$5.4 million and a flow-on/multiplied GRP impact of \$4.6 million (overall multiplier value of 1.86). The total GRP economic impact figure indicates the real level of the contribution of the annual hotel revenue operation in year 5 to overall economic activity in Napier-Hastings.

- 3.8 The comparative Value Added/GRP economic impacts for years 1-4 of the hotel operation are year 1 (\$7.37m), year 2 (\$8.46m), year 3 (\$8.99m) and year 4 (\$9.49m). The base total operating revenue forecasts for these years are year 1 \$8.76m, year 2 \$10.06m, year 3 \$10.69m and year 4 \$11.28m. The total GRP impact for the full five-year period is approximately \$44 million.
- 3.9 **Table 3** indicates the Napier-Hastings area economic impacts of the spending by hotel guests in year 5 of the hotel's operation, outside the hotel. Both the Horwath HTL report and MBIE visitor spending data for Hawke's Bay were utilised in the process of calculating the total direct spending figure of \$6.42 million. This covers the expenditure categories of retail sales, transport, and visitor attractions and amenities. *The reference table in Appendix 1 is Table 3.*

**Table 3: Napier-Hastings Area Economic Impacts Year 5 Hotel Guest Visitor Spending Outside Hotel**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	6.42			
Total Direct Economic Impacts	6.42	1.70	73	3.12
Total Flow-on Production and Consumption Economic Impacts	7.15	1.14	30	2.99
<b>TOTAL ECONOMIC IMPACTS</b>	<b>13.57</b>	<b>2.84</b>	<b>103</b>	<b>6.11</b>

- 3.10 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of approximately \$13.6 million. This comprises the initial direct Revenue impact of \$6.4 million and the a flow-on/multiplied Revenue impact of \$7.2 million (the overall multiplier value inferred by these results is 2.11);
- A total Net Household Income impact of approximately \$2.8 million, comprising a direct Income impact of \$1.7 million and a flow-on/multiplied Income impact of approximately \$1.1 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the annual ex-hotel guest visitor spending, including multiplier impacts (overall multiplier value of 1.67);
- A total Employment impact of 103 persons/jobs, comprising a direct Employment impact of 73 persons and a flow-on/multiplied Employment impact of 30 persons (overall multiplier value of 1.41); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of approximately \$6.1 million, comprising a direct GRP impact of \$3.1 million and a flow-on/multiplied GRP impact of \$3 million (overall multiplier value of 1.96). The total GRP economic impact figure indicates the real level of the contribution of annual guest spending outside the hotel during their stay in Napier.

- 3.11 The estimated comparative GRP impacts for the earlier years are year 1 \$4.83m, year 2 \$4.94m, year 3 \$5.22m and year 4 \$5.65m. Along with the year 5 result, these figures provide for a



total visitor spending GRP impact within the Napier-Hastings area of approximately \$27 million over years 1-5.

- 3.12 *Potential Business Diversion* – the establishment and operation of a major new 120-room hotel in central Napier will add to the current portfolio of 9 hotels in the City and increase the total number of hotel rooms in the area by just over 30%. It will also increase the number of 4-5 star hotel rooms in the City by 34% and more than double the number of rooms in the ‘large hotel’ component of the local hotel sector. Given the above, the operation of the proposed new hotel could potentially adversely impact both the rest of the hotel sector and parts of the remainder of the commercial accommodation sector in Napier, especially in the shorter-term. The Horwath HTL report notes (at page 30/31) that “The occupancy rate reduction shown in 2020 would be due to the opening of the new Hotel.....this highlights the sensitivity on overall occupancy of the introduction of a significant new room inventory into a relatively small existing stock”. Chart 5.4 of the report also indicates overall average Hawke’s Bay hotel occupancy post 2020 remaining at annual levels below 2016-2019 levels.

However, the above points need to be balanced against a number of other considerations. The period leading up to the actual construction work on the possible new hotel and the construction period itself will provide some time for existing hotel and other accommodation outlets in and around central Napier to prepare/adjust (if necessary) their operations for the arrival of the new ‘player’. At this stage, the hotel is proposing to have a focus on a range of currently relatively untapped markets including international visitors, conventions activity and commercial visitors to Napier in the shoulder and low seasons.

In addition, it is noted that since 2004, total commercial accommodation arrivals into Hawke’s Bay have been increasing at an underlying annual growth rate of approximately 1% and 5.3% since 2013. The comparative figures for the regional hotel sector are 8.2% and 7.9%. Total commercial accommodation night-stays have risen by an average 2% per annum and total hotel night-stays by 7.8%.

Following detailed analysis, ESL is forecasting total regional commercial accommodation based visitor night-stays to increase overall by 21% during years 2017-2024 and, on the basis of the long-term historical trend in hotel sector night-stays and also the sector’s share of total regional commercial night-stays, a 49% increase in total hotel nights (which takes the sector’s share of total commercial nights from the current 16% to 19% in year 2024). Since 2004, the international visitor market’s share of total Hawke’s Bay commercial nights has risen gradually from 18% to 28%. ESL is forecasting an overall 30% increase in overseas visitor commercial night-stays in the region, for the 2017-2024 period. In 2024, the overseas market share of total Hawkes Bay commercial nights is forecast at 30%.

Further analysis by ESL indicates that in light of the above forecasts, the potential ‘downside’ economic impacts for the rest of the Hawkes Bay hotel sector arising from the operation of the proposed new hotel during years 1-5 are less than 10% of the total operational economic impacts gains indicated in Tables 2 and 3 above and also falling slightly over the period. However, taking into account just the Napier hotel sector, the potential downside economic impacts are estimated to be noticeably above the 10% mark in year 1 of the new hotel’s operation but falling to around the 10% mark by year 5.

- 3.13 **Other New Hotel Benefits** – the possible new hotel development will add to the portfolio of both hotel and overall commercial visitor accommodation options in Napier, consistent with the goals to strengthen the City's status as a key regional tourism destination, significantly grow Napier's international visitor and conference/conventions market, facilitate the further growth and development of the City's key Art Deco sector and the flow-on development benefits for the central City economic and social infrastructure, and increase visitation to Napier in the off-peak periods. The hotel will likely provide a competitive spur to other hotels in the City, to expand/restructure their visitor/guest attraction and promotional activities, implement more defined market segmentation policies and seek more operational efficiencies. The class and international branding of the hotel will provide an important opportunity to increase tourism/hospitality employment skills in the city/region and there may be flow-on benefits from this for local industry training providers. Overall, the hotel should strengthen Napier's external tourism and economic profile.

#### 4- Economic Impacts of New Office Block Option

- 4.1 This section indicates the underlying local market situation for this development option and the potential local Napier-Hastings level flow-on economic impacts of its construction and annual operation.

##### Market Assessment

- 4.2 The following points are made in this respect:
- The general office/administration based sector is a significant component of the overall Napier economy, accounting for at the present time approximately 22% of total employment in the City, compared to 17% in year 2000. Overall annual employment in the sector has stabilised since around 2007 at the 4,500-5,000 mark. The average employment size of businesses in the sector is small and has fallen over time.
  - The office sector is a significant part of the Napier CBD economy, accounting for a third of total employment in the CBD area currently. However, this proportion compares to the 40% figure in 2009.
  - Last year, the general office sector accounted for 37% of total employment in the Ahuriri area, compared to the year 2000 figure of 11%. Since 2009 when office sector employment jumped considerably in Ahuriri, this indicator has risen by 30%.
  - Feedback from local consultation indicates that there is a significant amount of vacant office building space in central Napier at the present time, comprising though mainly ageing stock of variable quality and seismic strength. There are also a considerable number of office tenancies and of varying scale.
  - Over the past decade, a total of 40 new office/administrative/public transport builds have been consented in Napier, with a combined worth of \$34.5 million and a total floor area impact of 21,750m<sup>2</sup>. These include the new office complexes in Albion St, Napier. In addition, the period has also seen some 200 consented office building alterations with a combined value of \$25.4 million.

- The July 2017 report provided by Hawke's Bay Valuers Turley and Co TCL Ltd indicates a prime office vacancy rate of an estimated 8-10% for the Napier-Hastings area and a vacancy rate of 25%+ for secondary office complexes. TCL also indicate in the report that many occupied office premises are underutilised. Office development activity tends to be frequent but principally comprising existing Hawke's Bay tenants relocating. Government sector office demand since 2008 has declined considerably. The trend over the past decade for a number of office activities in Napier to relocate or establish in Ahuriri continues, for example, the recent major new 'Tech Hub' development.

4.3 **Summary** – Despite the current 'flurry' of office relocation interest (e.g. Napier City Council, IRD and other local businesses) in central Napier, the underlying market for office real estate in the area remains relatively subdued. Overall, there is a considerable amount of vacant office space in the area (particularly in non-prime office buildings) and demand continues to be mainly fuelled by existing enterprises in the area wishing to relocate their activities.

4.4 **Table 4** below indicates the Napier-Hastings area economic impacts of the construction stage for a potential new three-storey office block located on the current Napier City Council Civic and administration building site in central Napier. The reference table in Appendix 1 is Table 4.

4.5 In order to determine an appropriate base total direct building construction and fit-out cost figure for the office building, the total area of the site in question, Council car-parking requirements, Statistics New Zealand building consent results for new office developments in Napier over the period since 2004 and results for new office fit-out costs elsewhere in New Zealand, were all taken into consideration.

4.6 The total construction and fit-out cost for a new office building located on the current Napier City Council 'Headquarters' site in central Napier is estimated at \$5 million dollars in round terms, comprising actual construction \$2.82 million, fit-out costs \$1.86 million and other costs (e.g. furniture/equipment) \$0.32 million. These costs were run through the Napier-Hastings economic impact model and generated the following economic impact results (Table 4):

**Table 4: Napier-Hastings Area Economic Impacts of New Office Construction**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	5.00			
Total Direct Economic Impacts	5.00	0.98	17	1.60
Total Flow-on Production and Consumption Economic Impacts	7.33	1.24	29	2.76
<b>TOTAL ECONOMIC IMPACTS</b>	<b>12.33</b>	<b>2.22</b>	<b>46</b>	<b>4.36</b>

4.7 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of approximately \$12.3 million. This comprises the initial direct Revenue impact of \$5 million and a flow-on/multiplied

Revenue impact of \$7.3 million (the overall multiplier value inferred by these results is 2.47);

- A total Net Household Income impact of \$2.2 million, comprising a direct Income impact of approximately \$1 million and a flow-on/multiplied Income impact of \$1.2 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the construction work, including multiplier impacts (overall multiplier value of 2.26);
- A total Employment impact of 46 persons/jobs, comprising a direct Employment impact of 17 persons and a flow-on/multiplied Employment impact of 29 persons (overall multiplier value of 2.71); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of about \$4.4 million, comprising a direct GRP impact of \$1.6 million and a flow-on/multiplied GRP impact of \$2.8 million (overall multiplier value of 2.73). The total GRP economic impact figure indicates the real level of the contribution of the office construction stage to overall economic activity in Napier-Hastings.

4.8 **Table 5** below indicates the Napier-Hastings area economic impacts of the estimated total annual revenue operation of the potential new office complex in year 5 of its operation. Total revenue essentially covers the total annual revenue earning activities of the various businesses operating in the complex. For the purposes of the analysis, the office complex is assumed to be fully occupied in year 5. The total floor area of the complex is estimated at 2,600m<sup>2</sup> taking into account the options of one floor of the office building comprising car-parking space and, alternatively, car-parking space being provided outside the building. Again, Napier City Council car-parking requirements in its current District Plan were taken into account.

4.9 The above floor area equates to an estimated total employment figure for the complex of 205 or one employee per 13m<sup>2</sup> of gross floor area which is close to the estimate for one of the recently developed new office complexes in the City (with the current national figure for New Zealand currently estimated at in the order of one employee per 10m<sup>2</sup> gross floor area. The Napier-Hastings economic impact model being used for this assessment generates a total annual direct turnover figure for the complex in year 5 of \$28.60 million. *The reference table in Appendix 1 for the detailed economic impact results associated with this value is Table 5.*

4.10 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of approximately \$52.4 million. This comprises the initial direct Revenue impact of \$28.6 million and the a flow-on/multiplied Revenue impact of \$23.8 million (the overall multiplier value inferred by these results is 1.83);
- A total Net Household Income impact of approximately \$11.6 million, comprising a direct Income impact of \$7.7 million and a flow-on/multiplied Income impact of approximately \$3.9 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the annual office block operation, including multiplier impacts (overall multiplier value of 1.52);



- A total Employment impact of 316 persons/jobs, comprising a direct Employment impact of 205 persons and a flow-on/multiplied Employment impact of 111 persons (overall multiplier value of 1.54); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of approximately \$24.4 million, comprising a direct GRP impact of \$14.1 million and a flow-on/multiplied GRP impact of \$10.3 million (overall multiplier value of 1.73). The total GRP economic impact figure indicates the real level of the contribution of the annual office block revenue operation in year 5 to overall economic activity in Napier-Hastings.

**Table 5: Napier-Hastings Economic Impacts of Office Block Tenant Services/Annual Revenue Operations**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	28.60			
Total Direct Economic Impacts	28.60	7.68	205	14.13
Total Flow-on Production and Consumption Economic Impacts	23.79	3.96	111	10.30
<b>TOTAL ECONOMIC IMPACTS</b>	<b>52.39</b>	<b>11.64</b>	<b>316</b>	<b>24.43</b>

- 4.11 *The extent to which the total economic impacts quantified above are actually realised in the Napier-Hastings area will depend on, in turn, the extent to which the new office complex is able to attract new tenants from outside the Napier-Hastings area. As indicated in sections 4.2 and 4.3 above, most of the demand in central Napier for existing and new office space is from existing operations in the area wishing to obtain more appropriate and/or more modern office premises. Thus, it can be inferred from this that only a relatively small proportion (in the order of 5-10%) of the above quantified economic impacts represents a net economic impact gain for Napier.*
- 4.12 **Other New Office Economic Benefits** – a new office block has the potential to generate a number of flow-on economic advantages for the City, for example, providing further real estate choice for local firms seeking more appropriate and efficient operating locations, retaining and possibly expanding the workforce in the central City area and strengthening the basis of City efforts to attract more external business investment to Napier.

## 5- Economic Impacts of New Medium Format Retail Option

- 5.1 This section indicates the underlying local market situation for this development option and the potential local Napier-Hastings area flow-on economic impacts of its construction and annual operation. Current examples in Napier of medium format and scale retailing include Rebel Sports, Briscoes, Noel Leeming, Kathmandu and Number One Shoes.

### Market Assessment

- 5.2 The following points are made in this respect:

- Retailing is also a significant component of the overall Napier economy, accounting for at the present time approximately 7% of total City industry GDP and 12% of total employment in the area. The sector's local importance is heightened considerably through its close links to Napier's hospitality and tourism sectors.
- Annual employment in the sector has been gradually falling though since 2008 and overall by 18.4%. The average employment size of businesses in the sector is small at around 6-7 persons.
- The retail sector is also a significant part of the Napier CBD economy, accounting for approximately 20% of total industry employment in the area currently. The CBD retailing sector also accounts for almost half of total retailing across Napier.
- Since 2009, total retailing employment in the Ahuriri area has increased from 45 to 130 last year.
- Over the past decade, a total of 43 new retail and hospitality (cafes/restaurants/bars) builds have been consented in Napier, with a combined value of \$40.4 million and a total floor area impact of 37,000m<sup>2</sup> (representing an average floor area size of 860m<sup>2</sup> per new build). In addition, there have also been 336 consented retail/hospitality building alterations worth a combined value of \$31.8 million.
- The July 2017 report provided by Hawke's Bay Valuers Turley and Co TCL Ltd indicates a prime retail building vacancy rate of an estimated 5% ('mild oversupply') for the Napier-Hastings area and a vacancy rate of 6-15% for secondary retail real estate. The general Lower Emerson St area continues to record a relatively high level of retail vacancies.
- The report also refers to the many building redevelopments that have occurred in the Hastings St area of Napier over the past five years and provided new retail and hospitality location opportunities for existing operators. This development trend is expected to continue in the medium-term.
- Total Napier retail spending since 2010 has increased in real inflation-adjusted terms, at an underlying average annual growth rate of just over 1%. Retail and related hospitality growth in the City has strengthened considerably over the past two years in particular though, partly due to increased general and cruise ship-based tourism. Retailing activity in the City is also very seasonal.
- Feedback from consultation undertaken with central Napier business promotion and real estate interests referred to a number of relevant considerations, including the need to strengthen the retail/hospitality core of the area, the importance of fostering the further growth and development in the Napier CBD of the small independent retail/hospitality sector and the apparent relatively limited Australian or New Zealand interest at the present time in establishing new retail offerings in the City (e.g. national chains).

5.3 **Summary** – *Whilst retailing is an important economic sector for Napier and the City's general central business district is the key retailing location for the area, nevertheless, at this time, the possible operation of another medium format retail outlet on the current Napier City Council Civic and administration site, is not considered likely nor appropriate. Despite the noticeable*

lift in retail spending across the City during the past two years, underlying growth has been limited on a longer-term basis as partly reflected in the significant vacancy levels for secondary retail space in the CBD and particularly Lower Emerson St. In light of this, the operation of a medium format retail outlet on the site in question which is located in the fringe commercial zone, has the potential to further dilute the overall economic strength of Napier's core retailing, hospitality and Art Deco area located within the CBD.

- 5.4 **Table 6** below indicates the Napier-Hastings area economic impacts of the construction and fit-out costs for a potential new medium format retail development located on the current Napier City Council Civic and administration building site in central Napier. *The reference table in Appendix 1 is Table 6.*
- 5.5 The base total building construction and fit-out cost estimate of \$5.2 million for the retail development was determined following review of the gross building floorspace area that could possibly be accommodated on the site in question after taking into account Napier City Council car-parking requirements, building consent details (e.g. construction value and total floorspace area) provided by Statistics New Zealand for significant new retail and hospitality developments consented in Napier over the past 15 years or so and statistical information researched on the level of fit-out costs for new retail stores in New Zealand.

**Table 6: Napier-Hastings Area Economic Impacts of Construction of Medium Format Retail Outlet**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	5.20			
Total Direct Economic Impacts	5.20	0.84	15	1.36
Total Flow-on Production and Consumption Economic Impacts	6.69	1.13	26	2.49
<b>TOTAL ECONOMIC IMPACTS</b>	<b>11.89</b>	<b>1.97</b>	<b>41</b>	<b>3.85</b>

- 5.6 The key results to note from the table are as follows:
- A total Revenue impact within Napier-Hastings of approximately \$11.9 million. This comprises the initial direct Revenue impact of \$5.2 million and a flow-on/multiplied Revenue impact of \$6.7 million (the overall multiplier value inferred by these results is 2.29);
  - A total Net Household Income impact of approximately \$2 million, comprising a direct Income impact of approximately \$0.8 million and a flow-on/multiplied Income impact of approximately \$1.2 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the retail outlet construction work, including multiplier impacts (overall multiplier value of 2.35);
  - A total Employment impact of 41 persons/jobs, comprising a direct Employment impact of 15 persons and a flow-on/multiplied Employment impact of 26 persons (overall multiplier value of 2.73); and

- A total **Value Added or GRP** (Gross Regional Product) economic impact of about \$3.9 million, comprising a direct GRP impact of \$1.4 million and a flow-on/multiplied GRP impact of \$2.5 million (overall multiplier value of 2.83). The total GRP economic impact figure indicates the real level of the contribution of the retail outlet construction stage to overall economic activity in Napier-Hastings.

5.7 **Table 7** below indicates the Napier-Hastings area economic impacts of the estimated total annual revenue operation of the possible new retail outlet in year 5 of its operation. The *reference table in Appendix 1 for the detailed economic impact results is Table 7*. The key direct employment and annual turnover estimates required for the economic impact modelling process were calculated on the basis of publicly available national results for a New Zealand medium format retail chain with a branch in Napier whose current building floorspace dimensions could be accommodated on the Council site in question.

**Table 7: Napier-Hastings Economic Impacts of New Retail Outlet Annual Revenue Operation**

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	Employment (Persons)	Value Added/ GRP (\$M)
Initiating Total Revenue/Expenditure	3.67			
Total Direct Economic Impacts	3.67	0.48	20	1.85
Total Flow-on Production and Consumption Economic Impacts	4.11	0.32	6	1.80
<b>TOTAL ECONOMIC IMPACTS</b>	<b>7.78</b>	<b>0.80</b>	<b>26</b>	<b>3.65</b>

5.8 The key results to note from the table are as follows:

- A total Revenue impact within Napier-Hastings of approximately \$7.8 million. This comprises the initial direct Revenue impact of \$3.7 million and the a flow-on/multiplied Revenue impact of \$4.1 million (the overall multiplier value inferred by these results is 2.12);
- A total Net Household Income impact of approximately \$0.80 million, comprising a direct Income impact of about \$0.5 million and a flow-on/multiplied Income impact of approximately \$0.3 million. The total income figure above represents the additional Net Household Income generated within the Napier-Hastings area by the annual retail operation, including multiplier impacts (overall multiplier value of 1.67);
- A total Employment impact of 26 persons/jobs, comprising a direct Employment impact of 20 persons and a flow-on/multiplied Employment impact of 6 persons (overall multiplier value of 1.30); and
- A total **Value Added or GRP** (Gross Regional Product) economic impact of approximately \$3.7 million, comprising a direct GRP impact of \$1.9 million and a flow-on/multiplied GRP impact of \$1.8 million (overall multiplier value of 1.97). The total GRP economic impact figure indicates the real level of the contribution of the annual revenue operation in year 5 to overall economic activity in Napier-Hastings.



- 5.9 *Whether the above impacts represent net economic impact gains for Napier will depend on whether the retail development is a new external investment into the area or is an existing local operation relocating to a more suitable site. Given the prevailing general local economic and retail building/occupancy situation in Napier, the latter outcome is considered more realistic at the present time and hence there will only be limited net economic gains for the area (reflecting possibly increased sales turnover for the relocating retail outlet as a result of operating from a more advantageous location). However, the possibility does exist that the availability of the Council site for alternative use could attract new retail investment into Napier and this should be noted. Even given this situation though, if the new outlet is directly competing with another retail outlet(s) or attracting spending generally from other retailers in the City (particularly relevant in a low growth retailing environment), this will also limit the level of net economic impact gain for Napier.*
- 5.10 **Other Potential Retail Outlet Economic Benefits** – a potential new retail development on the site in question also has the potential to generate a number of flow-on economic gains for the City, such as providing further retail choice in the City, further real estate choice for local retailers seeking more appropriate and efficient operating locations, retaining the workforce in the central City area and strengthening the hand for local efforts to attract more external retailing investment to Napier.

## 6- Summary of Potential Net Economic Impacts

- 6.1 **Table 8** below summarises both the short-term construction stage and the ongoing annual operation net local economic impact gains, for the alternative land-use/development possibilities addressed in the above analysis. In terms of the annual operational economic impacts, the hotel impacts quantified relate to year 5 of its operation and the same timeframe is also assumed for the office and retail impacts. The annual hotel operation economic impacts indicated in the table below cover both its annual turnover operation and visiting hotel guest expenditure in Napier outside the facility.
- 6.2 The hotel economic impacts incorporate a 10% downward adjustment factor in order to take account of potential business diversion occurring for other local hotels, with the establishment and operation of the new hotel. The office block related economic impacts assume that 10% of total annual turnover in year 5 reflects the activities of commercial or Government entities attracted into the complex from outside the Napier-Hastings area. In the retailing case, the economic impact results assume potential use of the site in question by a locally relocating retail outlet (hence no net economic impact gain for the City) but account is taken of the potential opportunity for the outlet to improve its overall sales performance through operating from a more advantageous business location (estimated 5% for the purpose of this assessment).

**Table 8: Napier-Hastings Net Economic Impact Gains for Construction & Year 5 Operation of Alternative Commercial Developments in Napier**

Economic Impact Measure	Total Economic Impacts					
	Construction/Development			Annual Operation		
	Hotel	Office Block	Retail Outlet	Hotel	Office Block	Retail Outlet
<b>Total Revenue (\$M)</b>	95.37	12.33	11.89	34.80	5.24	0.39
<b>Net Household Income (\$M)</b>	16.06	2.22	1.97	6.38	1.16	0.04
<b>Total Employment (Persons/Jobs)</b>	331	46	41	228	32	1
<b>Gross Regional Product (\$M)</b>	31.66	4.36	3.85	14.53	2.44	0.18

- 6.2 The table indicates that the short-term construction stage related economic impacts are highest for the potential new hotel development. The year 5 annual operation economic impacts are also highest for the hotel.

**APPENDIX 1**

**ANALYSIS OF PROSPECTIVE NEW COMMERCIAL DEVELOPMENTS IN  
NAPIER CITY:**

**ECONOMIC IMPACTS FOR THE COMBINED NAPIER CITY & HASTINGS  
DISTRICT AREA**

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**August 2017**

## 1. INTRODUCTION

The possibility of the Napier City Council vacating its current operating site in central Napier due to seismic building issues has resulted in three potential options for future use of the site in question, namely a high-class visitor hotel, major new office block or a middle format retail development.

The gross economic impacts for all three options for the combined Napier City/Hastings District area are calculated below using a 106-sector economic model of the area for the year ended December 2016. The gross regional product (GRP) for the area for the December 2016 year is calculated at \$6.14 B or 88.3% of Hawke's Bay's GRP of \$6.95 B. This compares with the Napier-Hastings 88.6% share of regional employment and 86.5% of the total regional population. Clearly Napier/Hastings is a key part of the region's economic capability and therefore most of the economic impacts from the proposed development options will be realised within the Napier/Hastings region.

The economic impacts of the alternative land-use options cover construction impacts plus the ongoing economic activity generated by the annual operation of each development option.

## 2. HOTEL DEVELOPMENT & OPERATION

The economic impacts for the hotel development comprise the initial construction cost of \$36 m, the ongoing annual operation of the hotel estimated at \$11.93 m of hotel revenue in year 5 and the estimated hotel visitor spend (excluding hotel accommodation) in the Napier/Hastings economy estimated at \$6.42 m in year 5.

### CONSTRUCTION

As noted above, the \$36 m construction cost has been allocated over building costs including cost escalation and contingencies (\$28.1 m), furniture (\$1.69 m), white-ware, TVs etc. (\$1.69 m) and also consultancy fees (\$4.52 m). The direct and flow-on impacts for the four economic measures (revenue, net household income, employment as in Employment Count, and value added) are summarised in Table 1.

**TABLE 1: CONSTRUCTION IMPACTS FOR THE PROPOSED HOTEL DEVELOPMENT**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP* \$ m
Direct impacts from Hotel Construction	36.00	5.57	92	9.25
Flow-ons from supplier inputs & worker wages	59.37	10.49	239	22.41
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>95.37</b>	<b>16.06</b>	<b>331</b>	<b>31.66</b>
Napier/Hastings Economy Multiplier	2.65	2.88	3.60	3.42

\*GRP = Gross Regional Product the regional equivalent of Gross Domestic Product or GDP and comprises gross surpluses or profits of construction and other firms, gross wages of construction workers and workers in other firms, and depreciation on plant and machinery used in the construction process.

Note that if construction takes two years to complete, the Employment impact above can be interpreted as 331/2 or 165 persons employed (full or part-time) for two years of whom 46 would be employed at the construction site. The resulting multipliers are quite large but typical for construction projects in regional areas such as Napier/Hastings. Note that the Revenue multiplier at 2.65 shows that

every dollar of construction or fit-out cost engenders another \$1.65 of expenditure in the Napier/Hastings economy.

#### ONGOING ANNUAL OPERATIONS OF THE HOTEL

In year 5, total hotel revenue from rooms, food and other services is estimated to total \$11.93 m. For a modern hotel as proposed here, it is estimated that total staffing of 110 persons will be required for a gross payroll of \$3.63 m. After tax, super and other deductions, the direct net household income impact is estimated at \$3.63 x 0.7 or \$2.54 m annually. Note that gross wages and salaries average about \$33,000 annually for the 110 employees. Direct and flow-on impacts from ongoing hotel operations are summarised in Table 2.

**TABLE 2: ANNUAL IMPACTS FROM HOTEL OPERATION IN YEAR 5**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP \$ m
Direct impacts from Hotel operations	11.92	2.54	110	5.39
Flow-ons from supplier inputs & employee wages	13.18	1.71	40	4.64
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>25.10</b>	<b>4.25</b>	<b>150</b>	<b>10.03</b>
Napier/Hastings Economy Multiplier	2.10	1.67	1.36	1.86

The revenue multiplier at 2.10 shows that every dollar of hotel revenue generates another \$1.10 of expenditure (e.g. food and beverage supplies, electricity supply etc.) in the Napier/Hastings economy.

#### IMPACTS FROM VISITOR SPENDING BY HOTEL PATRONS

Visitors to the region staying at the proposed hotel will spend money in the Napier/Hastings economy away from the hotel on visits to attractions, cafes/restaurants and other retail expenditures. The total such visitor spend (excluding accommodation and hotel provided food/beverage and other services) has been estimated at \$6.42 m in year 5. This expenditure has been allocated to appropriate visitor spending industries within the Napier-Hastings economic impact model. The economic impacts from tourist spending are summarised in Table 3.

**TABLE 3: ANNUAL VISITOR SPENDING IMPACTS BY HOTEL PATRONS IN YEAR 5**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP \$ m
Direct impacts from other spending by hotel patrons	6.42	1.70	73	3.12
Flow-ons from supplier inputs & employee wages	7.15	1.14	30	2.99
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>13.57</b>	<b>2.84</b>	<b>103</b>	<b>6.11</b>
Napier/Hastings Economy Multiplier	2.11	1.67	1.41	1.96

Note that the multipliers for visitor spending in Table 3 are similar to those for hotel operations in Table 2.

### 3. DEVELOPMENT & OPERATION OF 3-STOREY OFFICE BLOCK

The construction cost of a 3-storey office block has been profiled as follows for the economic impact modelling work:

Non-Residential Building	\$2.82 m
Construction Services (fit-out)	\$1.86 m
Other Development Costs	\$0.32m
<b>Total Construction Cost</b>	<b>\$5.00m</b>

Economic impacts from the construction phase are summarised in Table 4.

**TABLE 4: CONSTRUCTION IMPACTS FOR THE PROPOSED OFFICE BLOCK DEVELOPMENT**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP* \$ m
Direct impacts from Office Block Construction	5.00	0.98	17	1.59
Flow-ons from supplier inputs & worker wages	7.35	1.23	29	2.75
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>12.35</b>	<b>2.21</b>	<b>46</b>	<b>4.34</b>
Napier/Hastings Economy Multiplier	2.47	2.26	2.68	2.73

\*GRP = Gross Regional Product the regional equivalent of Gross Domestic Product or GDP and comprises gross surpluses or profits of construction and other firms and gross wages of construction workers and workers in other firms plus depreciation of plant and machinery used up in the construction.

Direct employment in the new office block has been estimated at 205 workers. Sectors in the model seen as most likely tenants are *Legal & Accounting Services*, *Advertising & Market Research & Consulting* and *Government*. Using the 106-sector economic model for Napier-Hastings, total revenue generated by 205 direct employees is estimated at approximately \$29 m annually over all enterprises in the office complex. The economic impacts from these activities for the Napier/Hastings area are summarised in Table 5.

**TABLE 5: ANNUAL ECONOMIC IMPACTS FROM SERVICES OF TENANTS IN THE OFFICE BLOCK**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP \$ m
Direct impacts from business services in Office Block	28.60	7.68	205	14.13
Flow-ons from supplier inputs & employee wages	23.79	3.96	111	10.30
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>52.39</b>	<b>11.64</b>	<b>316</b>	<b>24.43</b>
Napier/Hastings Economy Multiplier	1.83	1.52	1.54	1.73

Note that the average gross salary of the 205 direct employees in the Office Block is just under \$54,000 annually. For the 111 flow-on workers, the annual average gross salary is just over \$51,000. These flow-on workers will be in sectors such as *Electricity Generation* as well as the normal household supplying sectors servicing the Office Block workers in the normal course of daily life.

#### 4. DEVELOPMENT OF MID-SCALE RETAIL OUTLET

This option for development is based on a single-level medium format retailing business occupying the entire site. The total construction cost estimated at \$5.2 m includes fit-out costs and will involve sectors such as *Non-Residential Building*, *Non-Building Construction* (as in parking lots, landscaping etc.), *Construction Services* and industries related to the fit-out component. Direct and flow-on impacts from construction are summarised in Table 6.

**TABLE 6: CONSTRUCTION IMPACTS FOR THE PROPOSED RETAIL DEVELOPMENT**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP* \$ m
Direct impacts from Retail Outlet Construction	5.20	0.84	15	1.36
Flow-ons from supplier inputs & worker wages	6.71	1.13	26	2.49
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>11.91</b>	<b>1.99</b>	<b>41</b>	<b>3.85</b>
Napier/Hastings Economy Multiplier	2.29	2.35	2.73	2.83

\*GRP = Gross Regional Product the regional equivalent of Gross Domestic Product or GDP and comprises gross surpluses or profits of construction and other firms and gross wages of construction workers and workers in other firms plus depreciation of plant and machinery used up in the construction.

The impact multipliers from construction are similar to those for the other proposed development options.

The retail outlet with 20 direct employees is estimated to generate annual sales of \$3.67m or about \$184,000 per employee. While this is significantly higher than average for retailing outlets, the scale of the proposed retail outlet and its central location should see it achieve higher than average sales. Annual ongoing impacts for the Napier/Hastings economy are summarised in Table 7.

**TABLE 7: ANNUAL ECONOMIC IMPACTS FROM RETAIL REVENUE AT PROPOSED OUTLET**

Impact Round	Revenue \$ millions	Net Household Income \$ m	Employment Persons	Value Added or GRP \$ m
Direct impacts from retail sales	3.67	0.48	20	1.85
Flow-ons from supplier inputs & employee wages	4.11	0.32	6	1.79
<b>Total Impacts for the Napier/Hastings Economy</b>	<b>7.78</b>	<b>0.80</b>	<b>26</b>	<b>3.64</b>
Napier/Hastings Economy Multiplier	2.12	1.67	1.30	1.97

The multipliers from ongoing operations at the retail outlet are slightly higher for all economic measures than the corresponding multipliers for the Office Block development in Table 5. Gross annual salaries for the 20 staff of the retail outlet average \$34,000 whereas those for the flow-on sectors such as *Electricity Generation* average \$76,000.

#### 5. SUMMARY

It remains to summarise the total or gross GDP and employment economic impacts for each of the three potential options for future use of the Council site. Construction impacts are summarised in Table 8 and ongoing annual operational impacts in Table 9.

**TABLE 8: TOTAL CONSTRUCTION RELATED GDP IMPACTS FOR THE NAPIER/HASTINGS ECONOMY**

Proposed Development	GRP in \$ millions	Employment in Persons
Premier Hotel	31.66	331
Office Block	4.36	46
Retail Outlet	3.85	41

The hotel development is of course the most extensive and has the greatest construction impact on the Napier/Hastings economy encompassing the direct construction cost plus flow-on impacts from the supplying sectors. The retail outlet is the least costly of the three options.

The comparative annual ongoing GDP impacts from the three developments are summarised in Table 9. This ongoing impact is an important economic impact measure to input to the overall decision-making on potential future use of the central Napier site in question.

**TABLE 9: ONGOING ANNUAL GDP IMPACTS FOR THE NAPIER/HASTINGS ECONOMY**

Proposed Development	GRP in \$ millions	Employment in Persons
Premier Hotel	16.14	253
Office Block	24.43	316
Retail Outlet	3.65	26



## APPENDIX 2

### Dr WARREN R HUGHES – AUTHOR PROFILE

The author is Cambridge, NZ born and a graduate of the University of Auckland and Indiana University in the USA, where he completed his doctorate in Business Economics and Public Policy in 1970.

Since that time, he has taught in the areas of econometrics, forecasting, financial economics and managerial strategy at The University of New South Wales in Sydney (1970 – 1978) and most recently at The University of Waikato (1978 – 2007). At various times, he has taught in MBA programmes at the University of Florida in Gainesville and in the Graduate School of Management at the University of California at Irvine. Dr Hughes retired from the University of Waikato in 2007 and was appointed an Honorary Fellow in Economics in 2008. At the present time, he works as an independent economic consultant based in Auckland.

The author has published extensively, mainly as single-authored articles in international journals such as *Decision Sciences*, *Theory and Decision*, *The Journal of Business*, *Mathematical & Computer Modelling*, *Environment & Planning*, *Australian Journal of Management*, *Forest Science*, *Australasian Journal of Regional Studies* and, most recently in April 2009, *OMEGA*, the international journal of management science and again in September 2010 in the *Chinese Business Review*. Other articles on theoretical and applied economics have been published by the author in *NZ Economic Papers* and Australia's *Economic Record*. He is a former member of the Advisory Board for the Wiley journal *Managerial and Decision Economics* and maintains a continuing interest in the latest developments in economic theory as it relates to management and business. The author has developed a particular expertise in the area of impact and regional analysis. He was the Editor/Manager of the *Regional Economic Bulletin*, which focused on topical issues relevant to the business and wider communities, mainly but not exclusively, in the Waikato and Bay of Plenty regions. The *Bulletin*, which was a complimentary publication of the University of Waikato, ceased publication in 2008.

The author has acted as a consulting economist for *Economic Solutions Limited*, *Environment Waikato*, *Carter Holt Harvey Limited*, *Contact Energy*, *Norske Skog Tasman Limited*, *Port of Tauranga Limited*, *Port of Napier*, *Feltex Carpets Limited*, *Man'O War Farm Limited*, *Refining NZ Limited*, *Zespri International*, *Waikato Innovation Park*, *Property Council of NZ*, *Creative Napier*, *Katolyst*, *Priority One BOP*, *Vision Manawatu*, *Enterprise Franklin*, *Venture Taranaki*, various District Councils in the Waikato, Bay of Plenty, Hawke's Bay and other regions and for events such as Tauranga's *Montana Jazz Festival*, Hamilton's *Balloons Over Waikato* and Napier's *Art Deco Weekend*.

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# **Market Supply & Demand and Financial Feasibility Study for Proposed Napier Hotel**



**Prepared for  
Napier City Council**

**10 Feb 2017**



**A member of Crowe Horwath International**



## TABLE OF CONTENTS

<b>1</b>	<b>INTRODUCTION .....</b>	<b>3</b>
1.1	YOUR REQUIREMENTS .....	3
1.2	SCOPE OF WORK .....	3
1.3	DISCLAIMERS .....	4
<b>2</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>6</b>
<b>3</b>	<b>HAWKE'S BAY REGION .....</b>	<b>8</b>
3.1	NAPIER CITY .....	8
3.2	AIR ACCESSIBILITY .....	8
3.3	DESTINATION MARKETING .....	9
3.4	NAPIER MEETING AND FUNCTION FACILITIES .....	9
3.5	NAPIER ROOM SUPPLY .....	10
3.6	THE COUNTY HOTEL NAPIER ("COUNTY") .....	12
3.7	THE CROWN HOTEL NAPIER ("CROWN") .....	13
3.8	SCENIC HOTEL TE PANIA ("SCENIC") .....	14
3.9	ART DECO MASONIC HOTEL ("MASONIC") .....	15
3.10	THE BLUEWATER HOTEL ("BLUEWATER") .....	16
<b>4</b>	<b>NAPIER VISITOR DEMAND .....</b>	<b>18</b>
4.1	EVENT RELATED DEMAND .....	18
<b>4.2</b>	<b>VISITOR NIGHT DEMAND .....</b>	<b>21</b>
4.3	COMMERCIAL ACCOMMODATION DEMAND .....	24
4.4	HOTEL DEMAND .....	27
<b>5</b>	<b>HAWKE'S BAY VISITOR DEMAND PROJECTIONS .....</b>	<b>29</b>
5.1	CHANGES IN DEMAND .....	29
5.2	FORECAST GROWTH IN DEMAND .....	29
5.3	PROJECTED ROOM RATE .....	34
5.4	PROJECTED REVENUE PER AVAILABLE ROOM (REVPAR) .....	35
<b>6</b>	<b>HOTEL OPERATING PROJECTIONS .....</b>	<b>36</b>
6.1	HOTEL SIZE .....	36
6.2	AVERAGE ROOM RATE .....	36
6.3	PROJECTED AOR, ADR AND REVPAR PERFORMANCE .....	37
<b>7</b>	<b>HOTEL FINANCIAL PROJECTIONS .....</b>	<b>39</b>
7.1	DEPARTMENTAL REVENUES .....	39
7.2	DEPARTMENTAL EXPENSES .....	40
7.3	UNDISTRIBUTED OPERATING EXPENSES .....	41
7.4	TOTAL PAYROLL .....	42
7.5	GROSS OPERATING PROFIT .....	43
7.6	MANAGEMENT FEES .....	43
7.7	FIXED CHARGES (OWNERSHIP COSTS) .....	43
7.8	NET OPERATING PROFIT .....	44
7.9	RETURN ON INVESTMENT – ROI .....	44
	<b>APPENDIX 1: OPERATING PROJECTIONS .....</b>	<b>45</b>



## 1 INTRODUCTION

Napier City Council ("Council", or "you") has commissioned Horwath HTL Limited to prepare a hotel market supply and demand and hotel feasibility study for a proposed new hotel ("Hotel") in Napier.

### 1.1 YOUR REQUIREMENTS

Council is investigating the potential for a new Hotel for Napier, and Council is willing to assist in facilitating the development of such a Hotel. This could potentially include taking a minority investment interest in the Hotel, or a contribution in kind.

Council believes that it is currently an opportune time for hotel development in Napier, with a strong increase in visitor numbers since the introduction of the Jetstar service between Auckland and Napier in December 2015, and consequent reduction in airfares to the region. There is also evidence that Napier hotel demand is currently strong and that hotel room rates are rising.

You have advised that Council would prefer to see a relatively high standard of hotel (eg: 4.5 star) of reasonable scale (subject to feasibility), operated under an internationally recognised brand, in order to support further development of the Napier visitor industry.

### 1.2 SCOPE OF WORK

The extent of this assignment and Scope of Work was set out in our letter of engagement dated 8 November 2016, which divided the work into three stages:

- Stage One: Issues and Options Analysis
- Stage Two: Hotel Market Supply and Demand Study
- Stage Three: Hotel Feasibility Study.

The Stage One deliverable was completed and submitted to you on 22 December 2016, and we received confirmation to proceed with Stages Two and Three on 9 January this year.

The Scope of work for Stages Two and Three is as follows:

#### **Stage Two: Hotel Market Supply and Demand Study**

- review the potential concept, market positioning and site of the Hotel in discussion with you, and evaluate the relative competitive advantages and implications for the Hotel's ADR and AOR performance
- build a supply and demand model for Napier:
  - identify the number, size, and standard, of the existing hotel inventory in Napier as a subset of the Hawkes Bay region





- based on data for the Hawkes Bay region and the limited data available for Napier, estimate the number of visitor nights, and commercial accommodation nights, currently spent in Napier
- estimate the recent occupancy performance of existing Napier hotels
- identify new hotel supply proposed / announced in Napier
- examine trends in visitors to Hawkes Bay and New Zealand in recent years and the outlook in relation to numbers, international and domestic mix, countries of origin and types of traveller (eg: group, independent, business, leisure, conference)
- estimate the annual growth in international and domestic visitors, visitor nights and hotel room nights in Napier for the first 5 years of the proposed Hotel's operation
- based on the agreed concept (ie: style, size and marketing positioning) prepare projections of Average Occupancy Rate ("AOR") and Average Daily Rate ("ADR") for the Hotel's five years' operation (assuming it opens in 2020), in the context of the Napier hotel market.

### Stage Three: Hotel Feasibility Study

- based on the agreed concept, undertake financial projections down to net operating cashflow level for the Hotel's first five years of operation (assuming it opens in 2020) including:
  - rooms revenue based on our estimated AORs and ADRs from Stage Two
  - non-rooms revenue (eg: restaurant, bar, activities, etc.)
  - departmental and undistributed operating expenses based on our knowledge of the New Zealand hotel market
  - 'ownership' costs (eg: building insurance, rates, leased assets, FF&E Reserve, etc.) based on our knowledge of the New Zealand hotel market
- if required, we can undertake a Return on Investment calculation based on a capital cost estimate supplied by you.

## 1.3 DISCLAIMERS

This summary report is based on certain assumptions, estimates and other information available to us (the sources of which are stated in our report) and our knowledge of the tourism industry in New Zealand, Hawke's Bay and Napier. We did not carry out an audit or verification of the information supplied to us during the engagement, except to the extent stated in this report.



Some assumptions and forward looking statements inevitably will not materialise, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the period covered by our analysis may vary from those described in our report (including forward looking statements and projections) and the variations may be material.

Our summary report is intended for the use of Napier City Council, and not for inclusion in a private offering, prospectus or public offering for equity and / or debt raising purposes or other reasons. Neither the report nor its contents, nor any reference to our firm, may be included or quoted in any offer document, prospectus, valuation or other document without our prior written consent and input.

We reserve the right to (i) review any document for consistency with our report, where there is a reference to our report, or inclusion of any part, and (ii) suggest amendments to your document. This may result in additional engagement by our firm, and therefore additional fees.

Horwath HTL Ltd owes a duty of care to Napier City Council, as our client and cannot be held responsible for any loss suffered by a third party as a result of that party relying on our report. The potential liability of Horwath HTL Ltd under this engagement, or in any way associated with the services rendered, will be limited to the extent of our fees paid to Horwath HTL Ltd in relation to this engagement.



## 2 EXECUTIVE SUMMARY

As a visitor destination, Hawke's Bay region has considerable potential to grow in terms of volume of demand, especially in the case of certain sectors of the international visitor mix.

Napier is the administrative, business and economic centre for the region, with a busy provincial airport, an international-standard port facility, and a wide range of visitor attractions, including its major tourism drawcard, its Art Deco heritage.

However, in terms of tourism, both the region and Napier are currently heavily reliant on the domestic visitor market, which accounts for over 70% of total annual visitor nights.

According to the Commercial Accommodation Monitor (the CAM), Napier has 78% of the region's hotel accommodation, 55% of the region's motel room stock, 67% of the region's backpacker accommodation, and 36% of the region's holiday park capacity. Therefore the performance of the Napier accommodation industry has a major influence on the overall performance of the region.

While visitor numbers and spend have grown over the last 7 years, they have not kept pace with the national average rate of growth in visitors, and therefore the region's market share of visitor nights and spending has fallen slightly.

Much of the region's destination marketing focuses on domestic visitors, particularly from Auckland. Hawke's Bay Tourism, the Regional Tourism Organisation ("RTO") responsible for marketing the destination, manages a number of specific marketing initiatives across the year, many of them event-based, aimed at the domestic market. However, as is the case with most visitor destinations, the majority of the region's domestic visitor nights are not spent in commercial accommodation, with holiday homes and other alternative forms of private accommodation (eg: bed-and-breakfast establishments) absorbing the bulk of domestic visitor night demand.

On an annual basis, the average occupancy rates of commercial accommodation providers in the region are slightly lower compared with other leading tourism destinations, but Napier's accommodation industry achieves significantly higher occupancy percentages than the rest of the region.

Similarly, the room rates which appear to be being charged suggest there is a wide variation in room rates being achieved between the existing hotels, with most room rates being below the averages being achieved in some other destinations. This may also be partially attributable to the average age of the properties and their dated or more limited facilities.

Notwithstanding the identified challenges, our research and consultation indicates that an opportunity does exist for a new hotel if it is well located in central Napier.

Key success factors / criteria for such a new hotel are:



- size – it needs to be large enough to handle group tours and mid-scale conferences, but not so large that it creates an over-supply of rooms, especially during the off-peak season
- close proximity to the town centre and the Art Deco hub
- a focused marketing strategy for shoulder and low season business
- a well-recognised international brand appropriate for its market positioning.

The appropriate market positioning for the hotel is in the 4–4+ star range, and the initial inventory should not exceed approximately 120 rooms.

A well-recognised international brand is important, both to differentiate the new hotel from the existing inventory and to provide clear brand recognition in the growing international visitor market.

A new hotel development would need to be undertaken on the basis that it forms part of a long-term investment strategy, because we believe it could take a number of years for the Hotel to achieve an optimal level of profitability and operational cashflow.

Full forecast growth and financial projections are included in the body of this report, but the summary of financial performance is shown below in Table 1.1.

**Table 1.1: Summary of Financial Performance**

For the year ending December	2020		2021		2022		2023		2024	
NZ\$000s	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Keys	120		120		120		120		120	
Occupancy %	66.7%		72.7%		74.7%		76.7%		78.6%	
Average Room Rate	\$190.0		\$201.9		\$207.9		\$214.2		\$220.6	
RevPAR	\$126.7		\$146.7		\$155.3		\$164.3		\$173.4	
Total Revenue	8,760	100.0%	10,057	100.0%	10,687	100.0%	11,282	100.0%	11,920	100.0%
Departmental Profit	4,692	53.6%	5,615	55.8%	6,153	57.6%	6,605	58.5%	7,075	59.4%
Gross Operating Profit	2,631	30.0%	3,316	33.0%	3,724	34.8%	4,098	36.3%	4,488	37.6%
Adjusted Gross Operating Profit	2,421	27.6%	3,051	30.3%	3,426	32.1%	3,770	33.4%	4,129	34.6%
EBITDA	\$1,938	22.1%	\$2,519	25.0%	\$2,864	26.8%	\$3,179	28.2%	\$3,506	29.4%

(Source: Horwath HTL)

Based upon an assumed total development cost of \$300,000 per key, overall Return on Investment is shown below in Table 1.2.

**Table 1.2: Forecast Return on Investment**

Total development cost assumed at		\$300,000 per key
Total investment		\$36 million
Return on Investment	Year 1	5.4%
	Year 2	7.0%
	Year 3	8.0%
	Year 4	8.8%
Return on Investment	Year 5	9.7%

(Source: Horwath HTL)





### 3 HAWKE'S BAY REGION

Hawke's Bay Region is made up of four Territorial Local Authorities, Hastings District, Napier City, Wairoa and Central Hawke's Bay District.

**Boundary Map of Hawke's Bay Region**



(Source: Statistics New Zealand)

#### 3.1 NAPIER CITY

Napier City, (population approximately 58,000), is the leading centre of the region. Road access to Napier is via by 3 state highways, from the north by SH 2/5 from Taupo and Gisborne, and from the south by SH2 and SH50, connecting to Palmerston North and Wellington. There is a further route via the "Gentle Annie" road through to State Highway 1 south of Waiohuru.

Driving times and distances from Napier to Auckland are around 5 hours and 410 kms, and to Wellington, 4½ hours and 315 kms respectively.

#### 3.2 AIR ACCESSIBILITY

Hawke's Bay Airport is located on the northern outskirts of Napier. It is owned by Hawke's Bay Airport Limited, which itself is owned by the Crown, (50%), Napier City Council, (26%), and Hastings District Council, (24%). It had approximately 24,000 aircraft movements last year.

Air New Zealand provides daily direct services, using modern turbo-prop aircraft, to Auckland, Wellington and Christchurch. Jetstar operates daily direct services to Auckland, and Sounds Air operates direct flights to Blenheim 3 days a week.

Two local companies, Air Napier and Skyline Aviation, also provide charter services.

The Airport has experienced strong growth in passenger numbers over the last few years, with a record 566,000 passengers for the year ending 30 June 2016, up from 476,000 for the previous year.



### 3.3 DESTINATION MARKETING

Destination marketing is undertaken by the Regional Tourism Organisation (RTO), Hawke's Bay Tourism, (HBT) which is jointly funded by Hawke's Bay Regional Council and Hawke's Bay Tourism Industry Association, the representative body of the local tourism industry.

Hawke's Bay Tourism's mission statement is:

- *To ensure Hawke's Bay becomes significantly more attractive to New Zealanders and international visitors as a place to do business, visit and live*
- *To become a highly competitive player within the New Zealand tourism industry, increasing Hawke's Bay's market share of both domestic and international visitors and therefore economic contribution to the wider region.*

HBT has a limited budget, so most of its focus is currently on the domestic market, as that produces the majority of its visitors. While international visitor numbers continue to grow, a number of these source markets are growing at slower rates than the national average, the three most productive overseas markets being Australia, the UK and Germany, with the USA in fourth place.

The region has a wide range of tourism attractions, including the Art Deco architecture of Napier City, its food and wine, art and culture, its beaches and outdoor activities, and it is developing a popular network of cycle trails. However, HBT's ability to increase its marketing activity in the international arena is very dependent upon the support it gets from Tourism New Zealand, and it is also hampered by its relatively small number of iconic international attractions.

The presence of the internationally renowned golf course and the Farm at Cape Kidnappers lodge has increased levels of awareness within the American market, due to its American ownership, but the lack of any global hotel brand presence in the District remains a handicap to greater international recognition.

### 3.4 NAPIER MEETING AND FUNCTION FACILITIES

The District and Napier City are popular for weddings and conferences, due to the choice of stunning locations, the generally favourable weather and the wide range of activities available.

There is a wide range of meeting venues to choose from that also provide accommodation, as well as a number of theatres, wineries and dedicated function and event centres.

The largest dedicated meeting venue is the Napier Conference Centre. This venue is coming to the end of a comprehensive upgrade and expansion, with the addition of a new exhibition hall.



The larger hotels provide meeting and functions facilities, and there is a wide range of other meeting facilities also available.

Table 3.1 shows a summary of the largest meeting / function space in the main Napier hotels

**Table 3.1: Main Napier Meeting and Function Venues with accommodation**

Venue	Theatre	Banquet
Art Deco Masonic Hotel	80	140
Black Barn Vineyards	80	110
Bluewater Hotel	60	150
East Pier Hotel	250	250
Kennedy Park	80	120
Mission Estate	180	220
The Crown Hotel	80	55
The Farm at Cape Kidnappers	40	90

(Source: HBT and hotel websites)

Table 3.2 shows the maximum theatre and banquet style seating capacity of the largest room at each of the other main meeting and function venues.

**Table 3.2: Main Meeting and Function Venues without accommodation**

Venue	Theatre	Banquet
Church Road Winery	100	120
MTG Hawke's Bay	330	50
Napier Conference Centre	330	266
Napier Municipal Theatre	989	100
National Aquarium of NZ	60	100
Shed 2	120	220
The Silky Oak Chocolate Company	60	60

(Source: HBT and websites)

### 3.5 NAPIER ROOM SUPPLY

According to the Commercial Accommodation Monitor ("CAM"), published by Statistics NZ, there are currently nine hotels in Napier comprising 389 rooms (an average of 43 rooms per property). The hotel supply in 2016 represented about 18% of the total commercial accommodation units available in Napier.

The CAM reports also show that there are 32 motels in Napier, with a combined inventory of 693 units, which represent about 32% of the total 2016 Napier commercial accommodation supply. Backpackers and Holiday Parks accommodation capacity represent a further 25% each.

There are currently seven 4–5 star hotels in Napier (including the Quest), which between them comprise 348 rooms. These hotels are referred to in this report



as Category A and B, and currently represent 90% of the total Napier hotel room supply.

None of these hotels carry internationally recognisable hotel brands.

We are not aware of any plans for the construction of other new hotel facilities in Napier, although there are a number of sites that have been identified in the past as potential new hotel development sites.

The newest hotel accommodation in the wider Hawke's Bay region, which opened in November 2016, is the self-rated 5 star Porters Boutique Hotel in Havelock North, which has 42 rooms.

Table 3.3 shows the total supply of the main Napier hotels, star ratings and respective room inventories that we have identified.

**Table 3.3: Napier Hotels and Room Inventory (2016)**

Hotel	Rooms	Star	Area
County Hotel	18	5*	Napier
The Crown Hotel Napier	43	4.5	Ahuriri
Scenic Hotel Te Pania	109	4	Napier
Art Deco Masonic Hotel	42	4*	Napier
Bluewater Hotel	49	4*	Ahuriri
Expressotel (former VR / Viceroy)	40	4*	Napier
Quest	47	4*	Napier
Westshore Beach Inn & Econolodge	18	3.5	Westshore
East Pier Hotel, Ahuriri	21	3.5*	Ahuriri
	387		

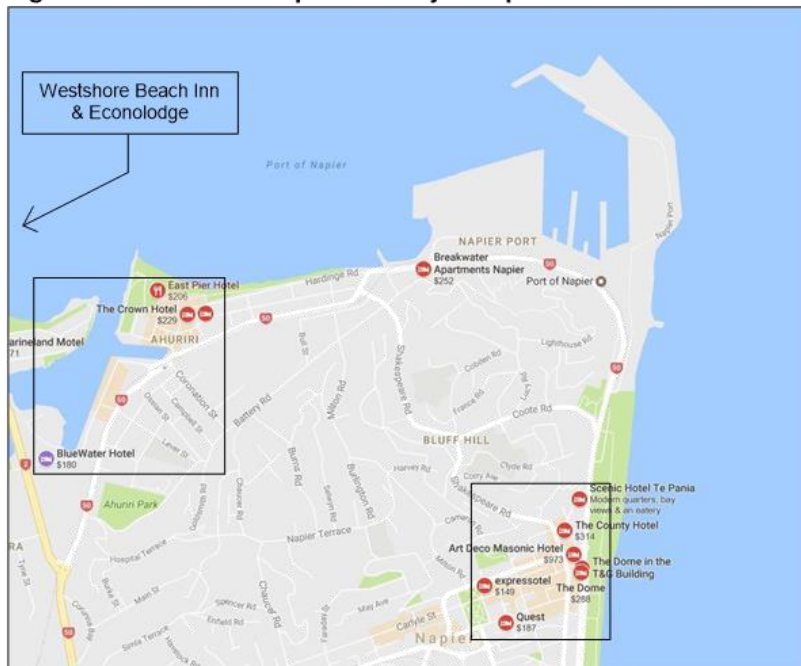
Note: \*: these hotels do not have a Qualmark rating  
(Source: hotel websites, TripAdvisor, Qualmark)

Figure 3.1 shows the location of each of these Napier hotels relative to the Port and City Centre.





**Figure 3.1: Location Map of the Major Napier Hotels**



(Source: Google Maps)

Sections 3.6 to 3.9 contain a brief description of each of these Napier hotels, including a summary of room types, key facilities and meeting and function facilities.

### 3.6 THE COUNTY HOTEL NAPIER (“COUNTY”)



(Source: tripadvisor.com)

The 18-room boutique County Hotel is located on Browning Street, on the edge of the Art Deco Quarter, close to the MTG Hawke’s Bay and one street back from Marine Parade. The building, guest rooms and fine dining are in line with Napier’s Art Deco style.

The County positions itself as Napier’s premier hotel and has a range of suites and luxury rooms. It is not currently a member of Qualmark.

The County is an independently owned and managed hotel.



The County claims to have four meeting rooms, however it also utilises the New Zealand Wine Centre which is located in the former AMP building opposite for hosting larger meetings and conferences.



(Source: hotel website)

The hotel's facilities include:

- restaurant (Wine Street)
- champagne bar (Churchill's)
- library.

The County has a TripAdvisor score of 4.5/5.

### 3.7 THE CROWN HOTEL NAPIER ("CROWN")

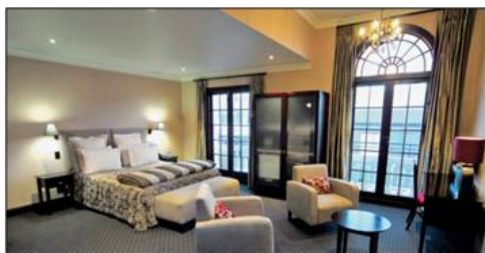


(Source: thebesthotels.org, tripadvisor.com)

The 42 room Crown Hotel Napier is located in the historical village of Ahuriri, at a distance of 2.7 kms from the Napier City Centre. It is an independently owned and managed hotel.

The Crown includes a modern annex with ocean facing apartments, the restored 1932 hotel building which contains the luxury heritage suites and conference facilities, and two 2 bedroom apartments above converted woolsheds across the road from the Crown.

5 star accommodation options include studio rooms, 1-bedroom and 2-bedroom apartments, premium suites, heritage suites and loft apartments. The guest rooms range from 26m<sup>2</sup> upward.



(Source: hotel website)



The Crown's facilities include:

- restaurant (Milk and Honey)
- fitness centre.

Meeting and function facilities include a larger room, which seats up to 80 theatre-style, a second smaller room, and two boardrooms.

**Table 3.4: Crown Meeting and Function Facilities**

Meeting Rooms	m <sup>2</sup>	Theatre	Banquet
Vautier	121	80	55
Northumberland	45	35	20
Executive Boardroom 301 & 302	27	15	10

(Source: hotel website)

The Crown has a TripAdvisor score of 4.5/5.

### 3.8 SCENIC HOTEL TE PANIA ("SCENIC")



(Source: hotel website)

The 109 room Scenic Hotel is located opposite the Napier Convention Centre on Marine Parade.

It is approximately 1.1km from the City Centre and only a 3 minute walk from the MTG Hawke's Bay and Art Deco Centre.





This hotel is managed by the Scenic Hotel Group.

Its 4 star Qualmark rated accommodation options include superior guest rooms and suites, suited for either single or twin share requirements.

Facilities at Scenic Hotel Te Pania include:

- restaurant
- bar / lounge
- fitness centre.

Scenic Hotel Te Pania has a TripAdvisor score of 4/5.

### 3.9 ART DECO MASONIC HOTEL (“MASONIC”)



(Source: hotel website)

The Art Deco Masonic Hotel is located in the heart of the Art Deco precinct, opposite the MGT Hawke’s Bay and one street back from Marine Parade. The hotel is within easy walking distance from the City Centre.

The hotel is independently owned and operated with the current owners receiving Awards for Excellence including “Supreme Award – Overall Winner” and “Best Accommodation” in 2015, and “Best New/Redeveloped Accommodation Hotel” in 2014 following a major interior refurbishment involving all 42 guest rooms.

The guest rooms include a combination of standard rooms, studios, suites, and apartments.



The hotel also has a variety of spaces for conferences and functions. Table 3.6 is a summary of these facilities.

**Table 3.5: Art Deco Meeting and Function Facilities**

# of Meeting Rooms	Theatre	Cocktail	Banquet
6	80	250	140

(Source: hotel website)

Other facilities at Art Deco Masonic include:

- restaurant / bar (Emporium)
- Irish pub

The Art Deco Masonic Hotel has a TripAdvisor score of 4.5/5.

### 3.10 THE BLUEWATER HOTEL (“BLUEWATER”)



(Source: tripadvisor.com)

The Bluewater Hotel is located in the inner harbour area, overlooking the Napier Sailing Club and Ahuriri marina.



At 2.8 km from the Napier City Centre and nearly 4 km from the MTG Hawke's Bay and Art Deco Centre, the hotel is not within an easy walking distance of Napier's cultural attractions.

Its 3.5 star accommodation options include studio, 1, 2 and 3-bedroom units, and 2-bedroom apartments.



(Source: tripadvisor.com)

Bluewater's other facilities include:

- restaurant
- sports bar with full T.A.B facilities
- mini golf

Bluewater has three small meeting spaces which seat up to 60 theatre style. Table 3.8 is a summary of these facilities.

**Table 3.6: Bluewater Hotel Meeting and Function Facilities**

# of Meeting Rooms	Theatre	Cocktail	Banquet
3	60	200	150

(Source: hotel website)

Bluewater has a TripAdvisor rating of 3.5/5.





## 4 NAPIER VISITOR DEMAND

### 4.1 EVENT RELATED DEMAND

Napier hosts a number of major events each year, which include the Mission Estate and Black Barn concerts, the Art Deco week and some significant food and wine-based activities.

Some of these events may also fall under the categories of activity covered by the quarterly Convention Activity Survey (the “CAS”) published by MBIE. These categories of event (often referred to as the “MICE” market) are defined as follows:

- Meetings / Seminars
- Incentive Activities
- Conferences / Conventions
- Trade shows / Exhibitions
- Special Occasion activities (eg: gala dinners, balls, birthday and wedding parties, etc).

Table 4.1 summarises the activity for all categories of event in the 13 regions in New Zealand recorded in the CAS for the year ended September 2016.

**Table 4.1: Summary of national event activity YE September 2016 – all categories**

Region	Total Events	Market Share	Total Delegates (all events)	Market Share	Total Delegate Days	Market Share
Auckland	13,189	30.7%	1,288,092	37.5%	1,596,194	37.1%
Hamilton & Waikato	4,550	10.6%	270,307	7.9%	315,763	7.3%
Bay of Plenty	2,035	4.7%	138,290	4.0%	158,547	3.7%
Rotorua	1,936	4.5%	126,540	3.7%	197,762	4.6%
Taupo	1,354	3.2%	49,325	1.4%	76,990	1.8%
Hawkes Bay	1,083	2.5%	63,680	1.9%	69,905	1.6%
Manawatu	2,955	6.9%	225,826	6.6%	262,130	6.1%
Wellington	6,466	15.1%	681,884	19.9%	875,902	20.3%
Marlborough	538	1.3%	27,841	0.8%	43,188	1.0%
Nelson	1,370	3.2%	76,993	2.2%	100,962	2.3%
Christchurch & Canterbury	4,789	11.1%	314,917	9.2%	378,821	8.8%
Dunedin	1,311	3.1%	103,299	3.0%	115,234	2.7%
Queenstown	1,384	3.2%	67,315	2.0%	115,377	2.7%
<b>Total</b>	<b>42,960</b>	<b>100.0%</b>	<b>3,434,309</b>	<b>100.0%</b>	<b>4,306,775</b>	<b>100.0%</b>

(Source: CAS (MBIE))

Hawke's Bay's market share of total events, at 2.5%, ranked it as second lowest, above Marlborough. In terms of market share by total delegate numbers for all events (1.9%) Hawke's Bay ranked 3<sup>rd</sup> from the bottom and in total delegate days (1.6%) it also ranked 2<sup>nd</sup> from the bottom. Table 4.1 also indicates that the vast majority of event activity in Hawke's Bay was of only one day's duration.



Hawke's Bay's attraction for events lies more strongly in activities and outdoor events, rather than in conference / convention events, of which we believe that it has lost market share in recent times, due in much part to the closure of the Napier Convention Centre for renovation.

Table 4.2 shows the national breakdown of single and multi-day conferences by market share. Hawke's Bay had the second-lowest figure for Single Day and the lowest figure for Multi-day conferences in 2016.

**Table 4.2: Summary of delegate days YE September 2016**

Region	Delegate Days			
	Single Day	Market Share	Multi-day	Market Share
Auckland	85,233	41.4%	335,742	39.1%
Hamilton & Waikato	12,488	6.1%	46,881	5.5%
Bay of Plenty	8,936	4.3%	24,457	2.8%
Rotorua	9,376	4.6%	77,735	9.0%
Taupo	3,071	1.5%	18,575	2.2%
Hawkes Bay	1,589	0.8%	5,197	0.6%
Manawatu	8,940	4.3%	43,927	5.1%
Wellington	45,373	22.0%	164,019	19.1%
Marlborough	941	0.5%	12,024	1.4%
Nelson	3,804	1.8%	19,086	2.2%
Christchurch & Canterbury	17,484	8.5%	65,996	7.7%
Dunedin	3,646	1.8%	14,335	1.7%
Queenstown	4,954	2.4%	31,334	3.6%
<b>Total</b>	<b>205,835</b>	<b>100.0%</b>	<b>859,308</b>	<b>100.0%</b>

(Source: CAS (MBIE))

Table 4.3 compares the key conference and delegate statistics for Hawke's Bay between the 2015 and 2016 September year ends. The drop-off in numbers in 2016, especially in multi-day events, is significant.

**Table 4.3: Conferences and delegate days YE September 2015 and 2016**

Hawke's Bay	Duration			Delegate days	
	One day	Two days	> 2 days	Single day	Multi-day
Y/e September 2015	44	20	22	1,784	12,954
Y/e September 2016	37	22	54	1,589	5,197

(Source: CAS (MBIE))

We would expect that with the re-opening of the newly renovated Napier Convention Centre, there will be a significant improvement in these numbers from 2017 going forward.



Table 4.4 summarises the number of conference and event activities hosted by Hawke's Bay analysed by size, based on the CAS categories. As in other centres, the highest level of activity in all event categories was in the smaller sized events.

**Table 4.4: Summary of Hawke's Bay event sizes YE September 2016**

Event size	10-30	31-60	61-100	101-200	200+
Conferences/conventions	49	16	5	10	<5
Meetings/seminars	553	131	37	10	6
Incentive activities	5	8	(61+) <5		
Trade shows/Exhibitions	<5	<5	<5	<5	<5
Special Occasions	88	66	44	22	<5

(Source: CAS (MBIE))

58% of Hawke's Bay conferences and conventions were attended by between 10 and 30 delegates, 19% between 31 and 60 delegates and 23% above 60 delegates.

75% of Hawke's Bay's meetings and seminars were attended by between 10 and 30 delegates, 18% for between 31 and 60 delegates, and the remaining 7% for 61 or more delegates in size.

The conference market in New Zealand is dominated by local and domestic delegates, who accounted for over 96% of all delegates attending multi-day conferences in the September 2016 year-end. The three main centres that attracted overseas delegates were Auckland, Rotorua and Queenstown.

Table 4.5 shows the source of those delegates who attended regional multi-day conferences in New Zealand and Hawke's Bay by origin.

**Table 4.5: Multi-day conference delegates by origin – Y/e September 2016**

Origin of multi-day delegates	National	Hawke's Bay
Local	1,652,692	36,446
Domestic	537,751	7,987
Australia	39,982	268
Australia	43,924	557
Total delegates	2,274,349	45,258

(Source: CAS (MBIE))

Hawke's Bay's numbers in Table 4.5 are small by comparison, but follow the same trend in breakdown.

These numbers indicate that, despite its central North Island location, its surrounding attractions and activities, Hawke's Bay is under-performing in terms of market share. Some of this under-performance may be attributable to the relatively small size of the Hawke's Bay (and Napier) accommodation inventory and conference facilities, not helped by the closure of the Napier Convention Centre, but constraints on air access and competition from its regional neighbours



the Manawatu, Rotorua and, to a lesser degree, Taupo, would also appear to be contributing factors.

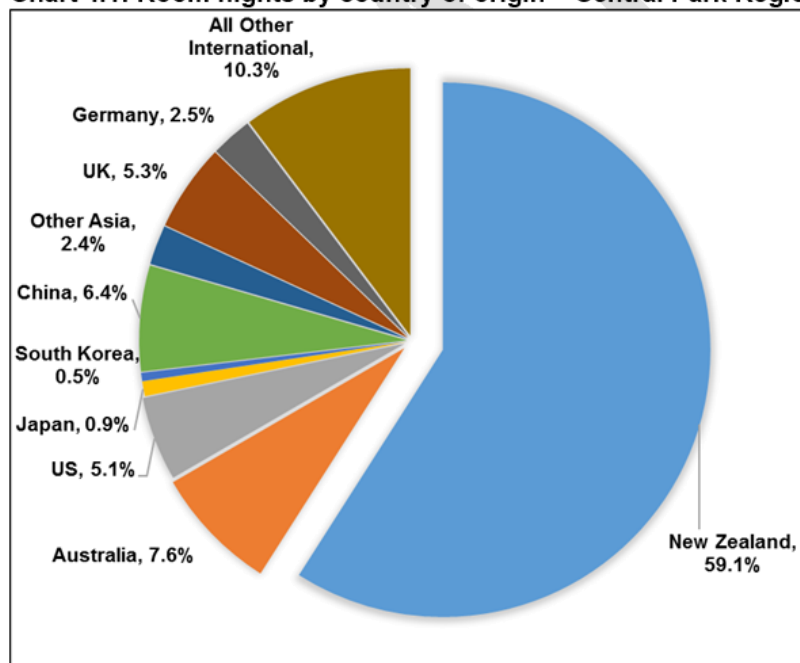
#### 4.2 VISITOR NIGHT DEMAND

Hawke's Bay is predominantly a domestic visitor destination. Based on an analysis of visitor nights, the domestic market is more than three times the size of the international market.

There are no reliable statistics available on the country of origin of international visitors specifically relating to Hawke's Bay, but the Tourism Industry Association ("TIA"), through its participating hotel statistics programme, provides confidential analysis in respect of occupied room nights for the wider Central Park Region, which includes Napier as well as Taupo, the Central Plateau and Gisborne. The Napier hotels account for 22% of the rooms represented in this analysis.

Chart 4.1 shows the analysis of visitor nights by country of origin in the Central Park Region for the calendar year ending December 2016. The ratio of overseas room nights to domestic room nights increased by almost 10% compared with 2015.

**Chart 4.1: Room nights by country of origin – Central Park Region YE Dec 2016**



(Source: TIANZ statistics)

Chart 4.1 shows that 41% of the hotel room usage in Central Plateau was by overseas visitors, with Australia accounting for 19% of these visitors, China 15.6%, the UK 12.9% and the USA 12.4%. A comparison with the breakdown of international visitor spend in Hawke's Bay shown in Chart 4.4 below shows the relative percentage of spend in Hawke's Bay at 32% Australia, 17% UK, 13% USA, and China only 3%. These variations could be an indication that Hawke's



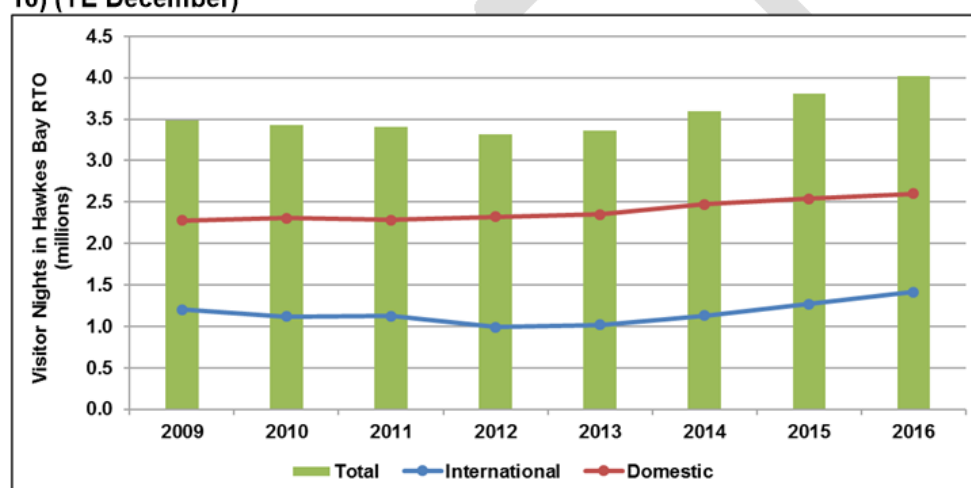


Bay's share of the China market is much less than Central Plateau as a whole, and this is certainly something that our discussions with industry stakeholders in Napier has confirmed. Hawke's Bay does not appear to be as attractive to the China market as the other major New Zealand destinations, despite its wide array of visitor attractions.

New Zealand's total visitor numbers over the last 7 years have grown strongly, but Hawke's Bay has lost market share in terms of its visitor arrivals compared with the national figures. However, Hawke's Bay's total underlying visitor nights, both domestic and international, have continued to rise over this period.

Chart 4.2 shows our estimate of how visitor nights in Hawke's Bay have changed between 2009 and 2016 based on trends indicated by the Regional Tourism Estimates ("RTEs"), the Monthly Regional Tourism Estimates ("MRTEs") and the Commercial Accommodation Monitor ("CAM").

**Chart 4.2: Total International and Domestic Visitor Nights in Hawke's Bay (2009–16) (YE December)**



(Source: New Zealand Regional Tourism Estimates (2006 to 2011), MRTEs, CAM, Horwath HTL)

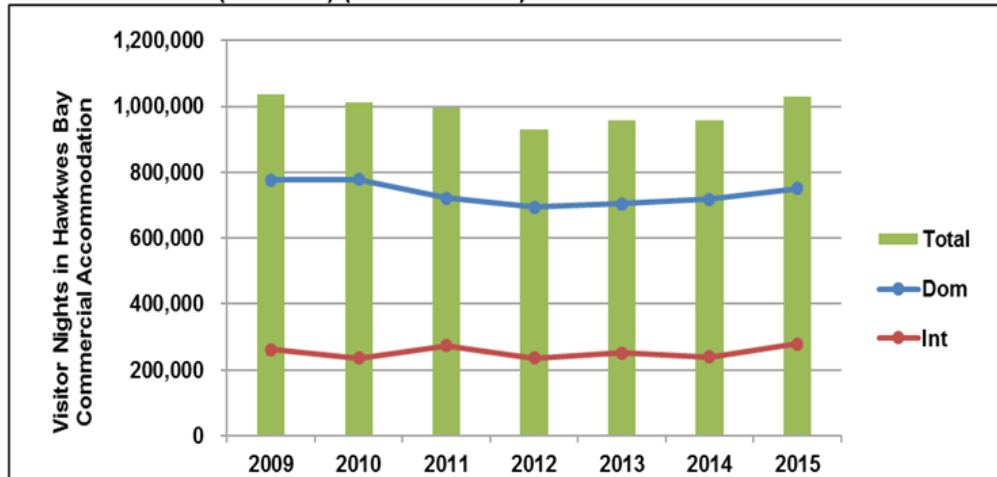
Most visitors do not stay in commercial accommodation. For example, in the 2015 calendar year, while there were an estimated 3.4 million visitor nights spent in total in Hawke's Bay, only 1 million, or less than a third, were spent in commercial accommodation. This is a reflection of the much larger size of the domestic market, and the presence of a significant number of holiday homes, timeshare and other forms of accommodation that do not fall into the commercial categories.

Chart 4.3 shows the number of visitor nights which were spent in all forms of Hawke's Bay commercial accommodation (including hotels, motels, backpackers and holiday parks) between 2009 and 2015.





**Chart 4.3: International and Domestic Visitor Nights in Hawke's Bay Commercial Accommodation (2009–15) (YE December)**



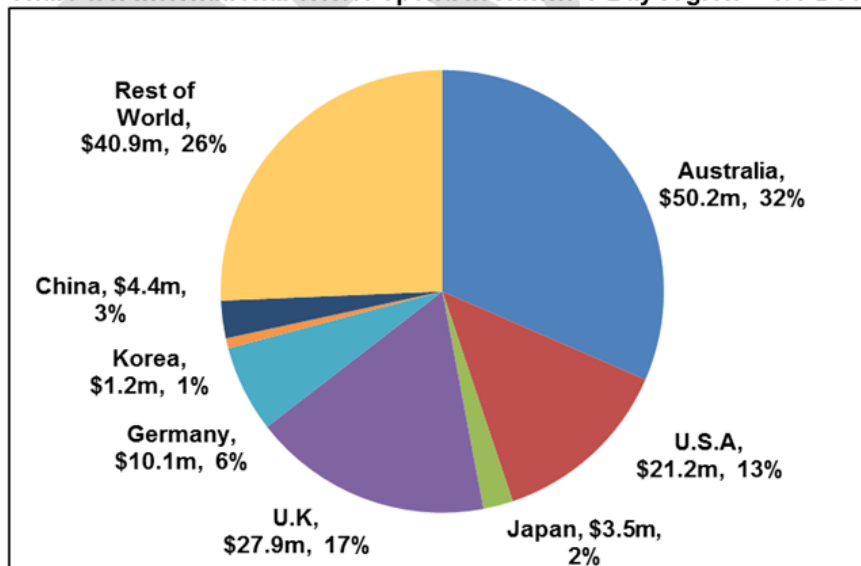
(Source: CAM, Statistics New Zealand)

International visitor nights in Hawke's Bay commercial accommodation grew by 18% between 2012 and 2015. During the same period, domestic visitor nights grew by 8%.

Domestic visitor nights comprised 73% of all commercial accommodation nights in Hawke's Bay in 2015.

In terms of visitor spend, Chart 4.4 shows the breakdown of estimated expenditure by major visitor source country in Hawke's Bay region, based on the MRTE year-end December 2016 data.

**Chart 4.4: International visitor spend in Hawke's Bay region – Y/e December 2016**

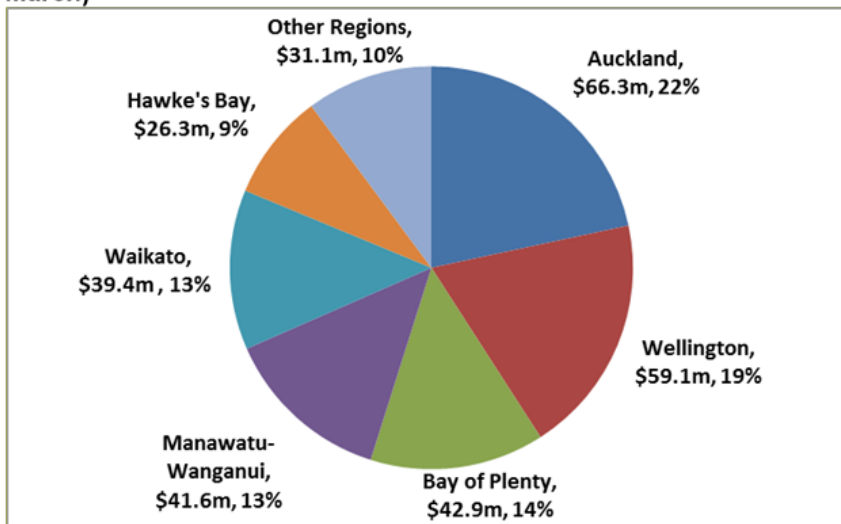


(Source: MBIE MRTEs)



While there is no reliable available data for the regional origin of domestic visitors staying in Hawke's Bay commercial accommodation, Chart 4.5 shows the domestic visitor spend in Hawke's Bay by region of origin for the year ended March 2015. The data is sourced from the MRTes.

**Chart 4.5: Domestic Visitor Spend in Hawke's Bay by Region of Origin (2015 YE March)**



(Source: RTEs)

Over 90% of domestic visitor spending in Hawke's Bay was attributable to residents of the North Island.

### 4.3 COMMERCIAL ACCOMMODATION DEMAND

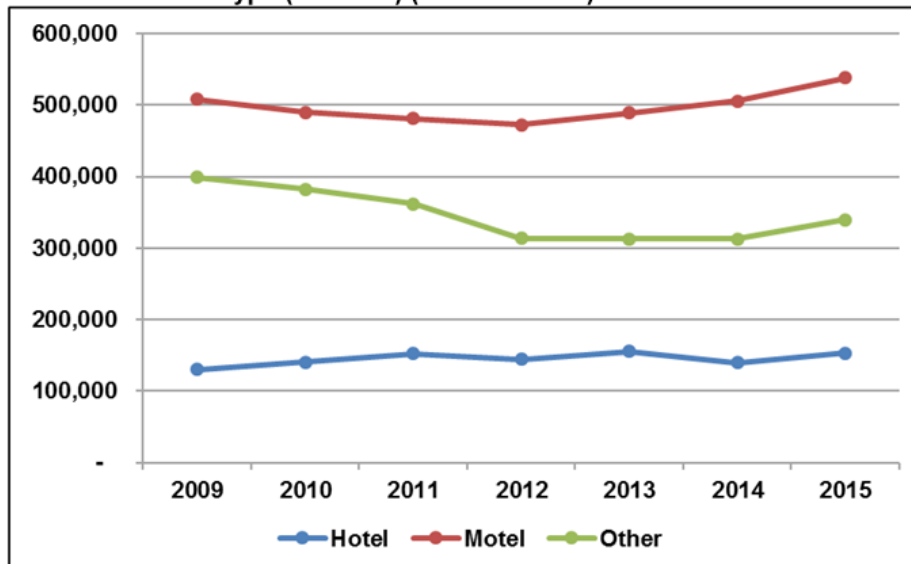
In 2015, Hawke's Bay had a total of 1.6 million commercial Room Nights Available ("RNA"). The single largest category within this commercial accommodation was the Holiday Park sector, which accounted for over 39% of the total. This was followed by Motels at 30.2%, Backpackers at 19.2% and Hotels at 11.6%.

Chart 4. shows the number of actual guest nights in all forms of Hawke's Bay commercial accommodation by accommodation type for the seven years ended December 2015. The "Other" category comprises Holiday Parks and Backpackers combined.

Motels accounted for 52.2% of total guest nights, followed by Hotels at 14.9%, and Backpackers and Holiday Parks combined at 32.9%.



**Chart 4.6: Guest Nights in Commercial Accommodation in Hawke's Bay by Accommodation Type (2009–15) (YE December)**

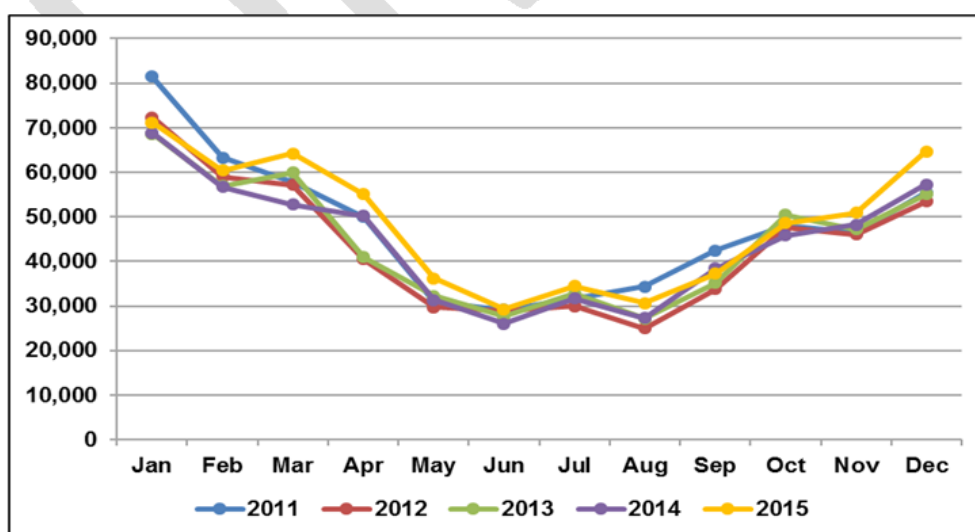


(Source: CAM, Statistics New Zealand)

The monthly pattern of occupancy in Hawke's Bay has been relatively consistent over the last 6 years, with demand for commercial accommodation peaking in January, and the lowest demand in May and June. The overall pattern of demand is strongly influenced by the timing of school holidays and the Easter long weekend.

Chart 4. shows the seasonality by month in guest nights in all forms of Hawke's Bay commercial accommodation between 2011 and 2015.

**Chart 4.7: Guest Nights in Hawke's Bay Commercial Accommodation (2011–15)**

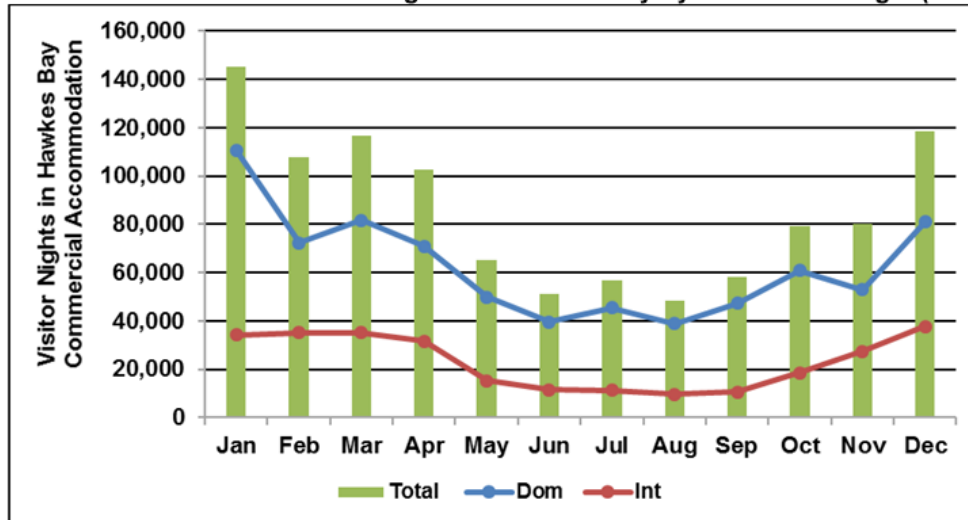


(Source: CAM, Statistics New Zealand)



**Chart 4.** Charts 4.8 and 4.9 show the seasonality in guest nights in all forms of Hawke's Bay commercial accommodation in calendar year 2015 and calendar year 2016 year-to-date to October, analysed by international and domestic visitor nights in Hawke's Bay.

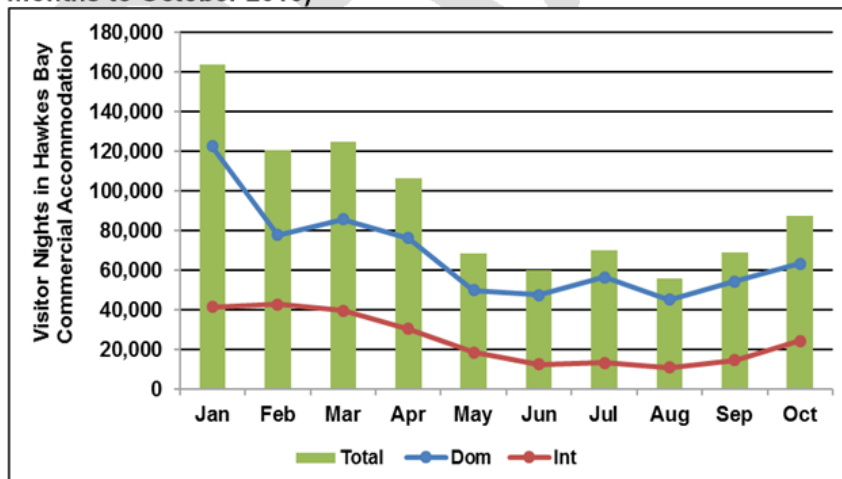
**Chart 4.8: Commercial Guest Nights in Hawke's Bay by Month and Origin (2015)**



(Source: CAM, Statistics New Zealand)

The monthly guest night pattern for 2016 to October, while consistently higher, follows the previous year very closely.

**Chart 4.9: Commercial Guest Nights in Hawke's Bay by Month and Origin (10 months to October 2016)**



(Source: CAM, Statistics New Zealand)

International visitor night demand is highest over the summer months (December to March) and lowest over winter (June to August).



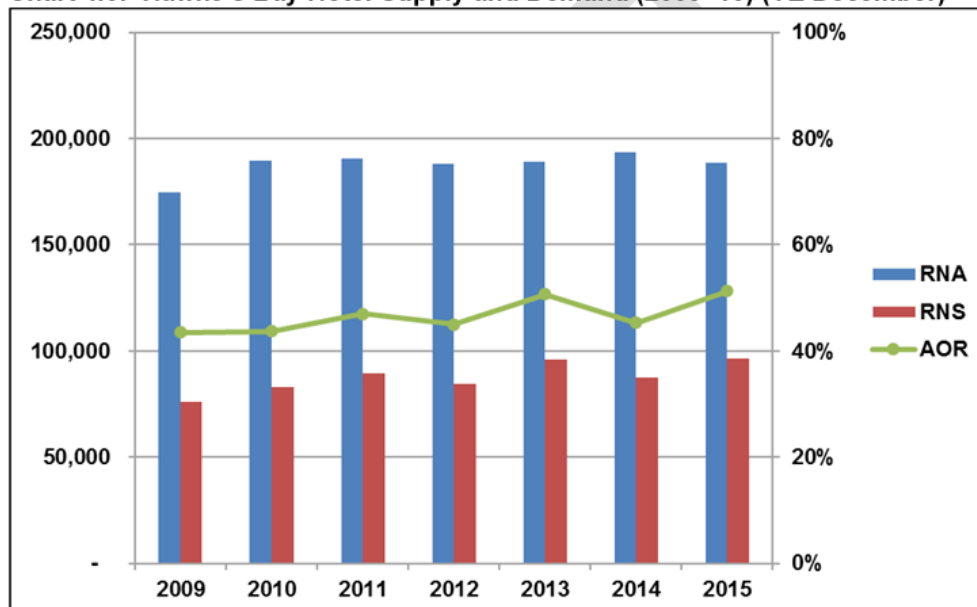
Domestic demand is more variable, with secondary peaks in the school holiday months of April, July and October.

#### 4.4 HOTEL DEMAND

Hotel guest nights in Hawke's Bay have increased steadily over the past seven years, albeit with some fluctuation. Hotel guest nights comprised 15% of all commercial accommodation nights in Hawke's Bay in 2015, up from 14.5% in 2014.

Chart 4.6 summarises the performance of Hawke's Bay hotels over the past seven years to 2015, according to the Commercial Accommodation Monitor.

**Chart 4.6: Hawke's Bay Hotel Supply and Demand (2009–15) (YE December)**



RNA = Room Nights Available (ie: hotel supply)  
 RNS = Room Nights Sold (ie: hotel demand)  
 AOR = Average Occupancy Rate (= RNS ÷ RNA)  
 (Source: CAM)

Chart 4.6 shows that between 2012 and 2015, hotel room nights sold in Hawke's Bay increased by 6%. During the same period the supply of hotel rooms remained relatively constant.

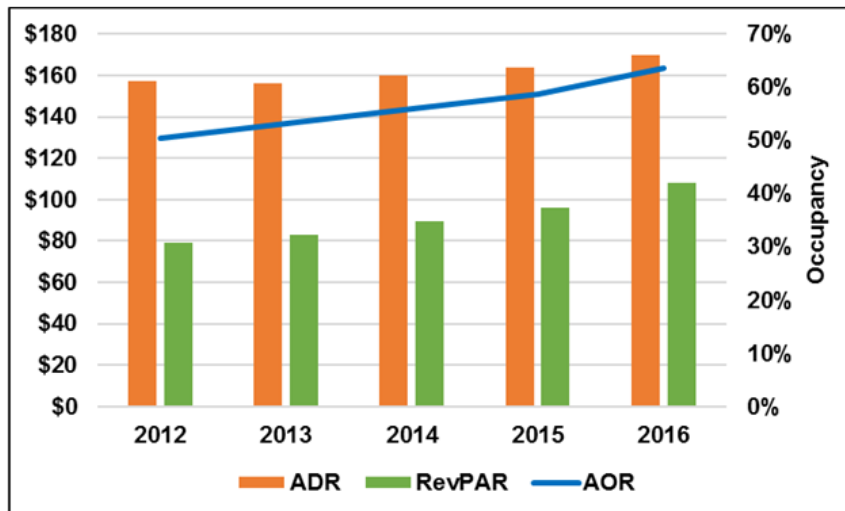
The combined effect was a 6% increase in the average occupancy of Hawke's Bay hotels, from 45% in 2012 to 51% in 2015.

Napier is part of the Central Park Region in the Tourism Industry Association ("TIA") hotels division statistics. Contributing hotels in Napier are the Scenic Te Pania Hotel and the Crown Hotel. These two hotels comprise 22% of the Central Park room supply included in these TIA statistics.



Chart 4.7 shows the performance of the major Central Park Region hotels over the past five calendar years (ended December).

**Chart 4.7: Central Park Hotel ADR, RevPAR & AOR data (YE December 2012–16)**



AOR = Average Occupancy Rate  
 ADR = Average Daily Rate  
 RevPAR = Revenue Per Available Room = AOR x ADR  
 (Source: TIA – Hotels Division)

The Central Park hotels have achieved a 26% increase in AOR over the past five years, with an 8% increase in ADR over the same period. The combined effect of this was a 36% increase in RevPAR over this time. Between 2012 and 2015, the AOR increased by 16%.

Based on comparison of the 2012 – 2015 occupancy figures, it would appear that Hawke's Bay overall has not kept pace with the rest of the Central Park hotels in terms of the rate of increase in occupancy.



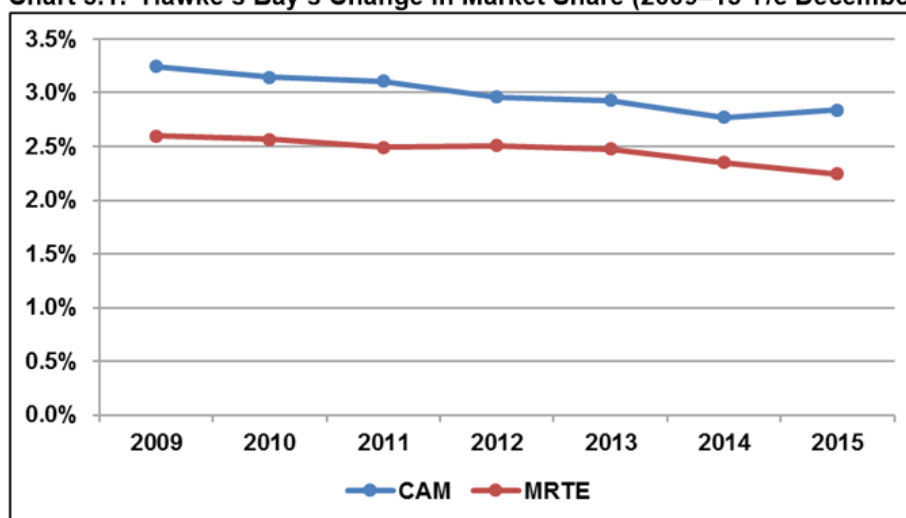


## 5 HAWKE'S BAY VISITOR DEMAND PROJECTIONS

### 5.1 CHANGES IN DEMAND

Chart 5.1 summarises changes in Hawke's Bay's market share of total New Zealand guest nights in commercial accommodation<sup>1</sup> (combined international and domestic visitors) and total New Zealand visitor expenditure<sup>2</sup> (international and domestic visitors).

Chart 5.1: Hawke's Bay's Change in Market Share (2009–15 Y/e December)



(Source: Statistics NZ, MBIE)

Despite achieving growth in the number of commercial accommodation guest nights, Hawke's Bay has lost market share over the past seven years because the rate of growth in nights has not kept up with growth nationally.

Similarly, while Hawke's Bay has achieved growth in visitor spend, it has lost market share of visitor spending over the same period.

### 5.2 FORECAST GROWTH IN DEMAND

While this trend suggests that Hawke's Bay could continue to lose market share to other New Zealand destinations, it does not mean that commercial accommodation occupancy and visitor expenditure will not continue to grow.

Our projections show that demand for hotel accommodation in Hawke's Bay will continue to rise. Regaining some lost market share resulting in generating more incremental visitor nights could contribute to additional hotel nights, including for the proposed Hotel.

<sup>1</sup> Source: CAM (Statistics NZ)

<sup>2</sup> Source: Monthly Regional Tourism Estimates of expenditure (MBIE)

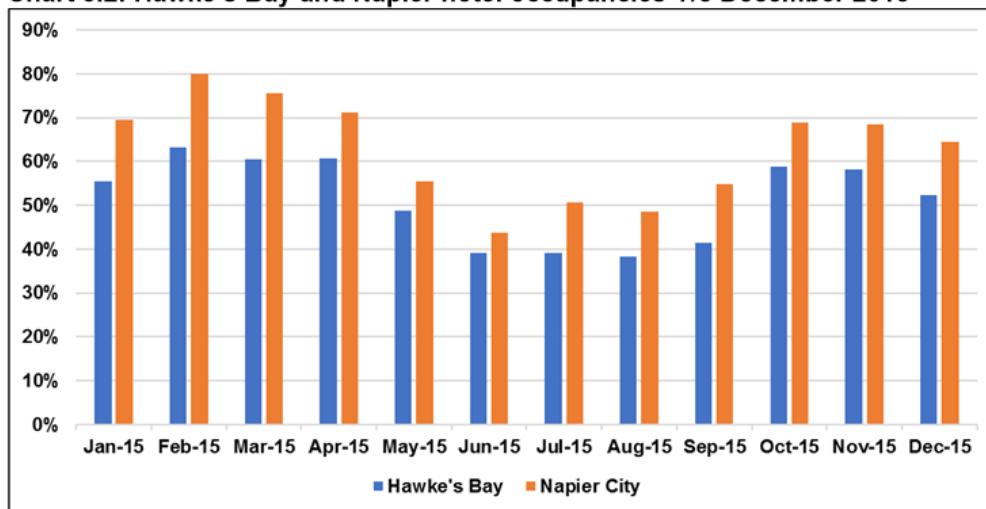




As at September 2016, the CAM statistics show that of the total of 17 hotels recorded in Hawke's Bay, 9 were in Napier. Of the total inventory of 496 rooms, 387, or 78%, were in Napier.

Napier not only dominates in terms of available rooms, but also in achieved occupancy. Chart 5.2 shows actual hotel occupancy for all Hawke's Bay hotels compared with Napier for the calendar year 2015.

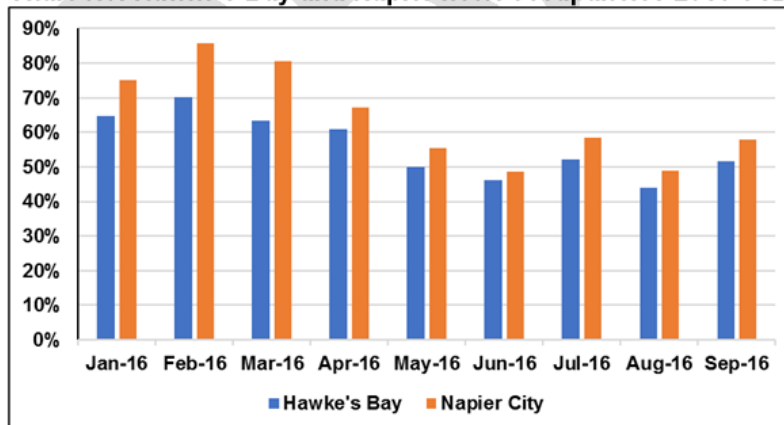
**Chart 5.2: Hawke's Bay and Napier hotel occupancies Y/e December 2015**



(Source CAM, Horwath HTL)

Chart 5.3 shows the same comparison for the calendar 2016 to end September.

**Chart 5.3: Hawke's Bay and Napier hotel occupancies 2016 YTD September**



(Source CAM, Horwath HTL)

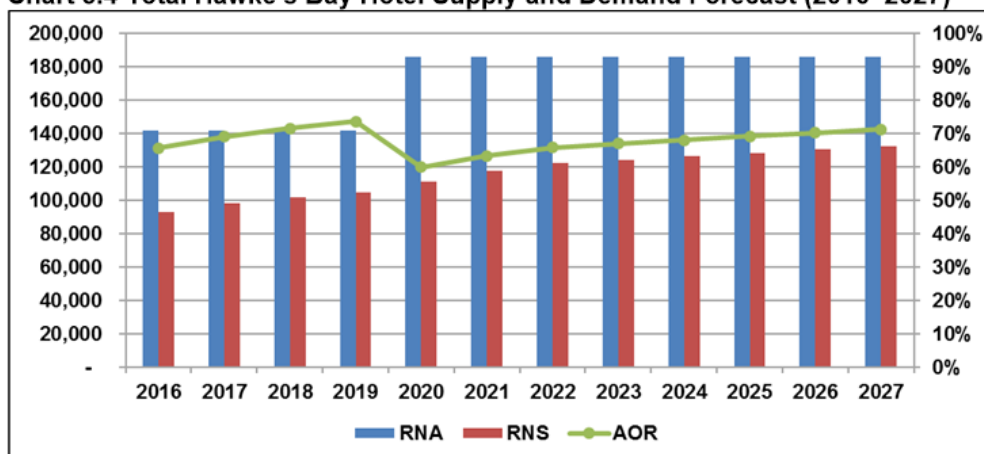
Chart 5. shows the room night supply (RNA) and demand (RNS) projected for all Hawke's Bay hotels between 2016 and 2027.

Hotel demand (RNS) is forecast to grow steadily over the period. The occupancy rate reduction shown in 2020 would be due to the opening of the new Hotel, which



has been assumed to contain 120 rooms. This forecast assumes no other increase in hotel room supply over this period, but it also highlights the sensitivity on overall occupancy of the introduction of a significant new room inventory into a relatively small existing room stock.

**Chart 5.4 Total Hawke's Bay Hotel Supply and Demand Forecast (2016–2027)**



(Source: Horwath HTL)

For our forecasting purposes, we have broken down the existing hotels in Napier City into three Categories, A, B and C, to reflect their respective market positioning and competitive sets.

Table 5.1 lists these hotels and their respective room inventories.

**Table 5.1: Napier hotels and room inventories**

Napier City Hotel Categories		Rooms
<b>Category A Hotels (4.5 star)</b>		
County Hotel	18	61
The Crown Hotel Napier	43	
<b>Category B Hotels (4 star)</b>		
Scenic Hotel Te Pania	109	287
Art Deco Masonic Hotel	42	
Bluewater Hotel	49	
Expressotel (former VR / Viceroy)	40	
Quest	47	
<b>Category C Hotels (3-3.5 star)</b>		
Westshore Beach Inn & Econolodge	18	39
East Pier Hotel, Ahuriri	21	
<b>Total rooms - all categories</b>		<b>387</b>

(Source: hotel websites, Horwath HTL)



Our starting occupancy forecasts for 2016 are based on the latest CAM statistics to September 2016 and research and discussion within the Napier hotel sector. Allowances have been made for the last three months of 2016 to arrive at blended rates for the three categories.

The starting assumption of AOR in 2016 is as follows:

- Category A: 76.0%
- Category B: 64.7%
- Category C: 60.0%
- Average AOR: 65.7%

The two Category A hotels are estimated to achieve a 76% occupancy in 2016, but as they only represent 61 rooms in the Napier market, their standard, style and location would all contribute to supporting this estimate. However, to achieve this level of average occupancy over the year means that during the high season, these two hotels would have been very full indeed, needing to achieve well over 80% in the peak summer months.

Between 2016 and 2019, these two hotels are forecast to grow average occupancy to over 80%, given current demand growth expectations and no increase in supply over this period.

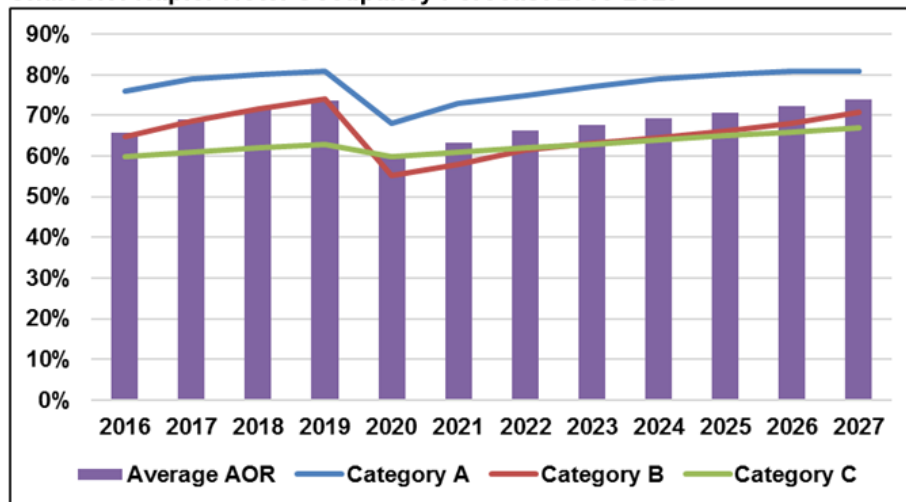
A new 120 room hotel of a 4-4.5 star standard arriving in 2020 would increase the overall hotel room availability in Napier by nearly 36%, but would increase supply in Category A by nearly 97%.

The arrival of this new Hotel would have an effect on occupancy in both the existing Category A and B hotels, but because Category A represents a smaller part of the total Napier inventory, it will probably have a more significant impact on the occupancy of the hotels in Category B.

Category A occupancy will drop below 70% in 2020, but will start to rise again as underlying demand continues to grow. While it may take 5 or 6 years for overall average Category A occupancies to recover to their pre-2020 levels, it could take some years longer than this for the category B hotels to get back to their pre-2020 levels.

Category B will take longer to recover because the new Hotel will be offering modern, internationally branded hotel rooms and facilities strategically located close to the City Centre and the Art Deco Quarter, at room rates not much higher than the Category B room rates. This is a proposition that will continue to take market share from Category B until demand growth has fully caught up again.

Chart 5.5 shows this forecast impact on AOR across all three categories.

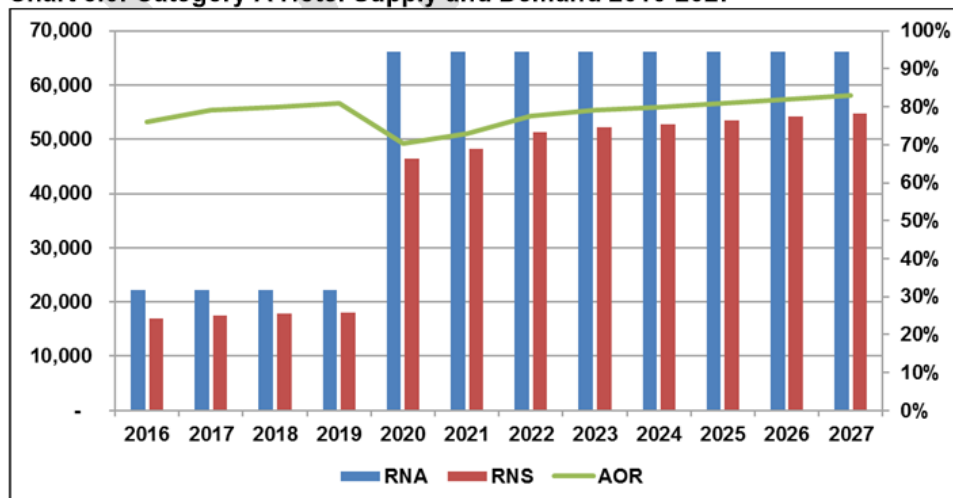
**Chart 5.5: Napier Hotel Occupancy Forecast 2016-2027**

(Source: Horwath TL)

Based on the assumption that there will be no other additions to the Napier hotel inventory over the time-frame covered by these forecasts, and that the demand forecast growth shown in Chart 5.4 is achieved, the likelihood is that not only will peak summer occupancy continue to grow in line with current expectations, but there will be a significant improvement in the shoulder and low season occupancies as well.

This will require a significant focus on promoting Hawke's Bay as a conference and events destination in the shoulder and low seasons, taking full advantage of the refurbished Napier Conference Centre and the increasing array of events, venues and other attractions currently under development.

Chart 5.6 shows the impact of the arrival of the new Hotel on supply, demand and occupancy within the Category A hotels.

**Chart 5.6: Category A Hotel Supply and Demand 2016-2027**

(Source: Horwath HTL)



### 5.3 PROJECTED ROOM RATE

In order to forecast room rates, it is necessary to make certain assumptions about the rates currently achieved by Napier hotels, as there is no publicly available data in this regard. Our starting forecasts for 2016 are based on research and discussion within the Napier hotel sector, industry knowledge, an analysis of publicly quoted room rates available during 2016, and allowances for GST, commissions (travel agents, Online Travel Agents etc.), to arrive at blended rates for the three categories.

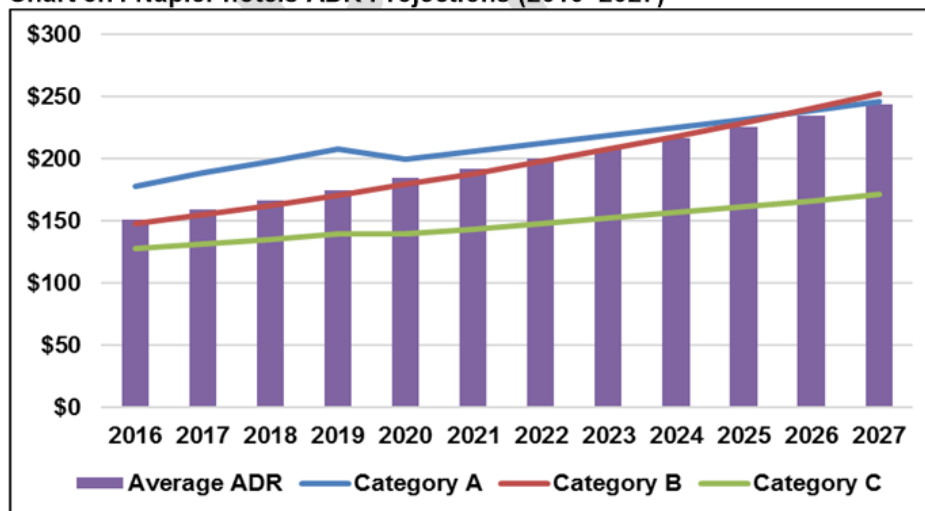
The starting assumption of ADR in 2016 is as follows:

- Category A: \$178
- Category B: \$148
- Category C: \$128
- Average ADR: \$151

ADR for category A hotels is forecast to exceed \$200 by 2019, but will fall in 2020 with the arrival of the new 120 Category A rooms. Due to the different style of the two original hotels in this category, they will be under less pressure to discount their room rates when this happens, but the new Hotel will have a rate structure that will sit below theirs anyway, given its different profile.

Chart 5.7 shows our projected ADR performance for all three categories between 2016 and 2027.

**Chart 5.7: Napier hotels ADR Projections (2016–2027)**



(Source: Horwath HTL)

As forecast in the previous section, the Category B hotels are likely to experience a significant drop in occupancy in 2020, but if they seek to compensate for the arrival of the new Hotel by cutting their rates, they will compound the adverse effects on their business, as we comment on in the following Section 5.4.





#### 5.4 PROJECTED REVENUE PER AVAILABLE ROOM (REVPAR)

These forecasts indicate that while the impact of the arrival of the new Hotel will have an effect on room rate within Category A, it will have a greater effect on occupancy in Category B.

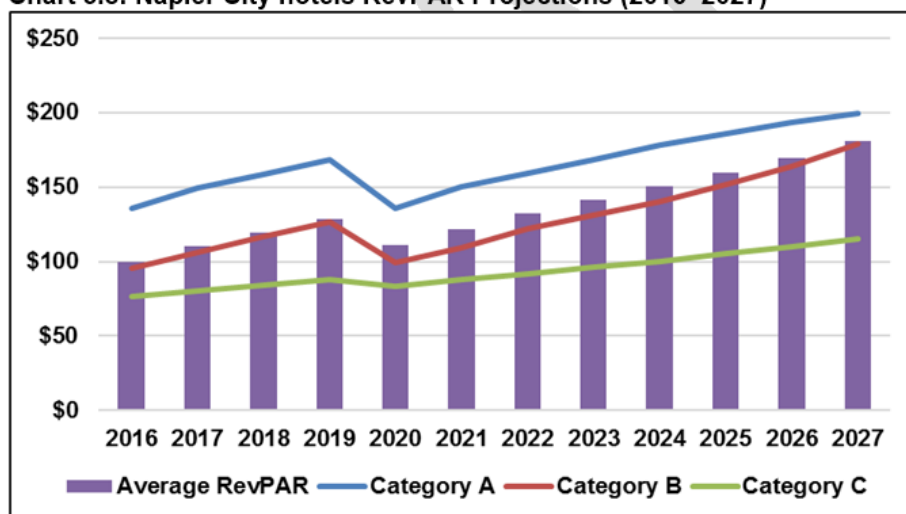
Our rationale for this is that of the two current Category A hotels, one is located within the Art Deco Quarter, but the other is some distance away from the CBD. Conversley, most of the Category B hotels, particularly the Scenic Te Pania, are closer to or within the CBD and the Art Deco Quarter, like the new Category A Hotel, so the competition will arise more from the location than the price.

The RevPAR is a factor of the AOR and ADR. Based on our assumptions, in 2016 the respective RevPAR of each category would be as follows:

- Category A: \$135
- Category B: \$96
- Category C: \$77
- Average RevPAR: \$99

Chart 5.8 shows our projected RevPAR performance for all three categories between 2016 and 2027.

**Chart 5.8: Napier City hotels RevPAR Projections (2016–2027)**



Source: Horwath HTL)

The RevPAR of the Category A hotels is projected to grow reasonably strongly from 2021 onwards, despite falling from \$168.59 in 2019 to \$136.00 in 2020 as a result of the opening of the new Hotel.

The RevPAR of the Category B hotels will also fall in 2020, but if they seek to compete with the new hotel through any form of aggressive price cutting, they will compound the drop in RevPAR and greatly worsen their position.





## 6 HOTEL OPERATING PROJECTIONS

### 6.1 HOTEL SIZE

The feedback from our consultation regarding the potential for new hotel accommodation in Napier indicates that there could be potential demand for a new 4–4.5 star hotel, if it is operated under a recognised international brand.

The current average achieved level of occupancy in Napier's existing hotels is lower than we would normally consider as indicating the need for significant new hotel investment. However, some of the room inventory is reasonably dated, the inventory is not all centrally located, and there are no recognised international brands.

Therefore, a well located new property with the appropriate brand and room configuration will have a strong competitive advantage.

Critical success factors for such a new hotel are:

- size – large enough to handle group tours and mid-scale conferences, but not so large that it creates over-supply,
- proximity to the town centre and the Art Deco District,
- a focused marketing strategy for shoulder and low season business and
- a recognisable brand appropriate for its market positioning.

Taking these factors into consideration indicates that an initial inventory of approximately 120 rooms, with meeting and conference facilities for up to 250 people, would be appropriate.

The location should be within easy walking distance of the City Centre, ideally with some view of the sea, and the site would ideally need to be large enough to accommodate the necessary car parking on site.

### 6.2 AVERAGE ROOM RATE

There is no publicly available data on the average daily room rates achieved by the hotels in Napier. We have collated information from a range of sources to arrive at an estimate of the current ADR of the existing Category A hotels, which has been used as the starting point for our supply and demand model going forward.

The blended ADR estimated for all hotels in 2016 is \$151, and the ADR for the Category A hotels has been estimated at \$178. This would represent an average rate payable by the hotel guest, inclusive of GST, of \$205, net of commissions.

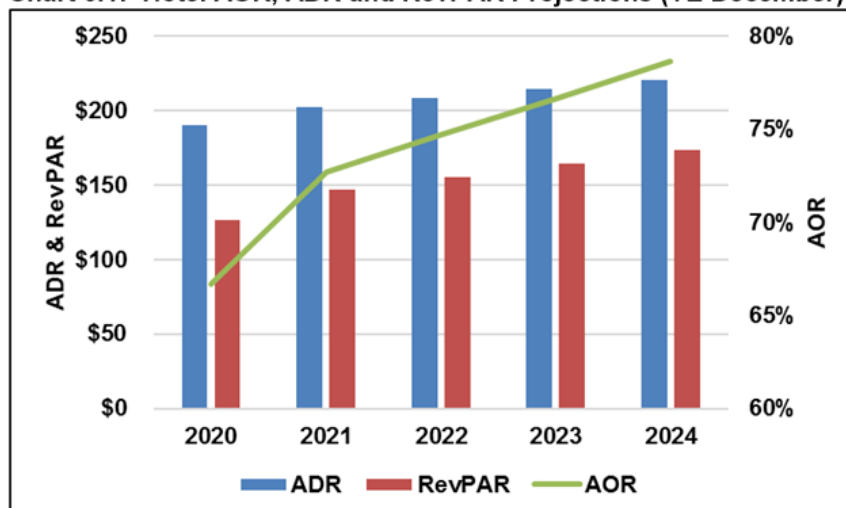
We have projected the Category A ADR forward to 2019 to \$208, dropping to \$200 in the following year with the arrival of the new Hotel in 2020, for which we have assumed an opening ADR of \$190.



### 6.3 PROJECTED AOR, ADR AND REVPAR PERFORMANCE

Chart 6.1 shows the projected performance of the proposed Hotel over the first five years of its operation, assuming it opens with 120 rooms in 2020.

**Chart 6.1: Hotel AOR, ADR and RevPAR Projections (YE December)**



(Source: Horwath HTL)

The Hotel is projected to achieve an AOR of 66.7% in year one, increasing to 78.6% by year 5.

The Hotel's ADR is projected to increase steadily from \$190 in year one to \$221 in year five. The resulting RevPAR increases from \$127 in year one to \$173 in year five.

Table 6.1 shows the new Hotel's projected performance compared to all the Category A hotels in Napier City on the following measures:

- Fair Market Share ("FMS"):  $\text{new Hotel Room Nights Available ("RNA")} \div \text{all Category A hotels RNA}$
- Actual Market Share ("AMS"):  $\text{new Hotel Room Nights Sold ("RNS")} \div \text{all Category A hotels RNS}$
- Market Penetration Index ("MPI"):  $\text{new Hotel AOR} \div \text{all Category A hotels AOR} = \text{AMS} \div \text{FMS}$
- Average Rate Index ("ARI"):  $\text{new Hotel ADR} \div \text{all Category A hotels ADR}$
- Revenue Generation Index ("RGI"):  $\text{new Hotel RevPAR} \div \text{all Category A hotels RevPAR} = \text{MPI} \times \text{ARI}$

**Table 6.1: Hotel Projections Relative to All Napier City Category A Hotels**

	2020	2021	2022	2023	2024
Category A (4-5 star) AOR	68.0%	73.0%	75.0%	77.0%	79.0%
Category A (4-5 star) ADR	\$200	\$206	\$212	\$219	\$225
Category A (4-5 star) RevPAR	\$136	\$150	\$159	\$168	\$178
New Hotel AOR	66.7%	72.7%	74.7%	76.7%	78.6%
New Hotel ADR	\$190	\$202	\$208	\$214	\$221
New Hotel RevPAR	\$127	\$147	\$155	\$164	\$173
<b>Market performance measures vs all Category A hotels:</b>					
Fair Market Share (FMS)	0.663	0.663	0.663	0.663	0.663
Actual Market Share (AMS)	0.650	0.660	0.660	0.660	0.660
Market Penetration Index (MPI)	0.980	0.996	0.996	0.996	0.996
Average Rate Index (ARI)	0.950	0.980	0.980	0.980	0.980
Revenue Generation Index (RGI)	0.931	0.976	0.976	0.976	0.976

(Source: Horwath HTL)

The MPI shows that the Hotel is projected to achieve 98% of the projected Category A occupancy in year one, reaching just under parity from Year 3 onwards

The ARI shows that, in 2020, the Hotel is projected to achieve 95% of the projected room rate of all Napier City Category A hotels, rising to 98% of the average of the category from Year 2. Given the boutique nature of its Category A competitors, and the more conventional room configurations of the new Hotel, it is likely that the other two hotels will still be able to hold their room rate structures above those of the new Hotel.

The RGI shows the combined impact of the AOR and ADR, with the Hotel achieving 93% of the Napier City Category A RevPAR in Year 1, with its performance improving to 98% from Year 3 onwards.



## 7 HOTEL FINANCIAL PROJECTIONS

Table 7.1 shows the estimated summary financial performance of the hotel for its first 5 years of operation, down to the level of earnings before interest, taxes, depreciation and amortisation ("EBITDA").

**Table 7.1: Summary of Financial Performance**

For the year ending December	2020		2021		2022		2023		2024	
NZ\$000s	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Keys	120		120		120		120		120	
Occupancy %	66.7%		72.7%		74.7%		76.7%		78.6%	
Average Room Rate	\$190.0		\$201.9		\$207.9		\$214.2		\$220.6	
RevPAR	\$126.7		\$146.7		\$155.3		\$164.3		\$173.4	
Total Revenue	8,760	100.0%	10,057	100.0%	10,687	100.0%	11,282	100.0%	11,920	100.0%
Departmental Profit	4,692	53.6%	5,615	55.8%	6,153	57.6%	6,605	58.5%	7,075	59.4%
Gross Operating Profit	2,631	30.0%	3,316	33.0%	3,724	34.8%	4,098	36.3%	4,488	37.6%
Adjusted Gross Operating Profit	2,421	27.6%	3,051	30.3%	3,426	32.1%	3,770	33.4%	4,129	34.6%
EBITDA	\$1,938	22.1%	\$2,519	25.0%	\$2,864	26.8%	\$3,179	28.2%	\$3,506	29.4%

(Source: Horwath HTL)

The full Statement of Estimated Cash Flow from Operations is attached as Appendix 1 to this report.

### 7.1 DEPARTMENTAL REVENUES

#### Rooms Revenue

The combined projected AOR and ADR, generates a total of \$5.5 million of rooms revenue in Year 1, increasing to \$7.6 million in Year 5.

#### Food and Beverage Revenue

Food and beverage consumption is projected to generate just over a third of total revenue, adding \$2.0 million to revenue in Year 1 and \$2.8 million in Year 5.

This revenue is based on an assumed average daily expenditure per occupied room of \$70 on food and \$28 on beverage in Year 1, rising to \$81 and \$32 respectively by Year 5. These assumptions are inclusive of functions and casual F&B sales.

#### Telecommunications Revenue

We have assumed that the Hotel will provide guests with a free Wi-Fi allowance and free local calls. We have projected a small amount of additional telecommunications revenue from the sale of additional internet packages and toll calls. Telecommunications Revenue totals \$58,000 in Year 1, increasing to \$70,000 in Year 5.

#### Rentals & Other Income



Projected Rentals & Other Income totals \$292,000 in Year 1 rising to \$365,000 in Year 5.

## **7.2 DEPARTMENTAL EXPENSES**

### **Rooms Expenses**

We have projected \$1.8 million of Rooms expenses in Year 1, increasing to \$2.0 million in Year 5.

Rooms department expenses include salaries / wages (and payroll costs) for:

- reception / front office staff
- reservations / back office staff
- housekeeping staff
- concierge / airport shuttle drivers
- duty managers.

Other rooms expenses include:

- cleaning
- laundry
- guest supplies
- stationery
- linen
- staff uniforms
- movies
- airport shuttle fuel, cleaning and other operating costs
- reservations fees – relating to bookings via the global distribution system
- travel agent commissions (excluding online travel agents).

### **Food and Beverage**

Overall F&B costs have been assumed to improve from 78.5% in Year 1 to 72.3% by Year 5.

Food costs have been assumed to improve from 34% in Year 1 to 30.6% by Year 5. Beverage costs have been assumed to improve from 34% in Year 1 to 31.7% by Year 5. Payroll costs have been assumed to improve from 38% in Year 1 to 35% by Year 5.

### **Telecommunications Expenses**

We have estimated telecommunications expenses at 80% of departmental revenue.





## Departmental Profit

The overall Departmental Profit margin is projected to improve from 53.6% to 59.4% of Total Revenue over the 5-year period.

## 7.3 UNDISTRIBUTED OPERATING EXPENSES

These are operating expenses that cannot be directly attributable to individual departments.

We have projected \$2.06 million of undistributed operating expenses in Year 1, rising to \$2.6 million in Year 5. This represents 23.5% of Total Revenue in Year 1, falling to 21.7% in Year 5.

### Administration & General

We have projected \$650,000 of Administration and General Expenses in Year 1 (7.4% of Total Revenue), increasing to \$762,000 in Year 5 (6.4% of Total Revenue).

Administration & General expenses include \$300,000 of staff costs in Year 1 relating to management, administrative and finance staff, and also include general expenses such as:

- accounting fees
- bank charges
- credit card commissions
- IT systems maintenance and operation
- communications
- printing, stationery, postage, etc.
- recruitment
- staff training.

### Sales & Marketing

We have projected \$534,000 of Sales & Marketing Expenses in Year 1, rising to \$644,000 in Year 5.

Sales and marketing expenses include:

- brochures, websites and other on-line media
- local and national advertising (consumer media, directories, trade, internet & email, etc.)
- promotions
- sponsorship





- payroll.

Any franchise, loyalty programme or brand affiliation fees, if applicable, would also be included in this section, and would be provided for within the current estimates.

### **Energy Costs**

We have projected \$438,000 of electricity / gas / water usage in Year 1. This represents a cost per occupied room in Year 1 of \$15, falling slightly, assuming increasing operating efficiency with experience, to \$14.9 by Year 5.

### **Property Operation & Maintenance**

We have projected \$263,000 of Property Operation & Maintenance costs in Year 1, increasing to \$431,000 in Year 5. This cost is relatively lower in Years 1 and 2 whilst the Hotel is relatively new and some repairs are covered by building warranties.

Property Operation & Maintenance costs include:

- waste removal
- air conditioning maintenance
- building maintenance and repairs
- hygiene contract
- lift maintenance
- electrical maintenance
- fire safety systems contract
- grounds & landscaping maintenance
- swimming pool maintenance
- pest control
- plumbing maintenance
- communications equipment maintenance
- all other repairs and maintenance costs.

## **7.4 TOTAL PAYROLL**

Wages and salaries costs are based on a 24 hour, 365 day per year operation. Total projected payroll costs represent 34.6% of Total Revenue in Year 1, falling to 30.4% of Total Revenue in Year 5.



## 7.5 GROSS OPERATING PROFIT

The Gross Operating Profit ("GOP") before Ownership Expenses is \$2.6 million in Year 1, increasing to nearly \$4.5 million in Year 5. This represents 30% of Total Revenue in Year 1, increasing to 37.6% in Year 5.

## 7.6 MANAGEMENT FEES

It is assumed that the Hotel will be operated by an internationally recognised professional hotel management company, under a standard management agreement that provides for both a base management fee and a performance-based incentive fee structure.

Included in the GOP is the hotel management company's Base Management Fee, which has been assumed at 2% of Total Revenue. A further Incentive Fee of 8% of the GOP has been included to arrive at the Adjusted Gross Operating Profit (AGOP).

These fee percentages are for illustrative purposes only at this stage, and should not be construed as the final fee structure.

## 7.7 FIXED CHARGES (OWNERSHIP COSTS)

These expenses are costs incurred by virtue of ownership of the property, and are not directly linked to the operation of the Hotel. They include property rates, building and contents insurance and certain equipment leases, but exclude finance charges or debt repayment.

### Property Rates

Local authority property rates are assumed at \$120,000 in Year 1, rising to \$143,000 in Year 5.

### Insurance

We have allowed for \$100,000 of insurance in Year 1, with insurance costs increasing to \$122,000 in Year 5. This coverage includes asset replacement, contents and motor vehicle insurance and business interruption insurance.

### FF&E Reserve

We have allowed for provisioning of an FF&E Reserve fund for the future replacement of furniture, fittings and equipment ("FF&E") at 3% of Total Revenue. At this stage, we have not provided for any increase in this rate going forward, something that is usually covered during the negotiations with the hotel management company over the management agreement.



## 7.8 NET OPERATING PROFIT

Projected Net Operating Profit (or Earnings Before Interest, Taxes, Depreciation and Amortisation (“EBITDA”)) is calculated as AGOP less deductions for Fixed Charges. Projected EBITDA is \$1.94million in Year 1 (22.1% of Total Revenue) increasing to \$3.58 million in Year 5 (29.5% of Total Revenue).

## 7.9 RETURN ON INVESTMENT – ROI

In order to arrive at an estimate of the ROI, it is necessary to make some assumptions on the total cost of development. We have therefore assumed a total development cost of \$300,000 per key, based on a full-service 4–4+ star standard 120-room hotel built with double-loaded corridors to the bedrooms, located on a level, geologically uncomplicated, site within the Napier CBD. An appropriate provision for the cost of the land is assumed within this number.

Based on an assumed total investment of \$36 million (ie. \$300,000 per room), the cashflow return on investment is 5.4% in Year 1, increasing to 8.0% in Year 3 and 9.7% in Year 5. The assumed \$36 million capital cost includes the following:

- land
- buildings
- all building fit-out costs including rooms, kitchen and F&B outlets, pool area leisure facilities, reception and other public facilities
- all preliminary expenses including consultants, design and other professional fees, consent fees, etc.
- all pre-opening costs, including recruitment and training costs prior to opening, and pre-opening sales and marketing costs.

These costs should be subject to review based on professional advice from a suitably experienced quantity surveyor.

The capital cost does not include the funding of initial working capital requirements for the hotel operation.

Table 8.3 summarises the ROI at the EBITDA level for Years 1-5 based on this inventory of 120 rooms.

**Table 8.3: Summary of Return on Investment at \$300,000 per key**

Total development cost assumed at		\$300,000 per key
Total investment		\$36 million
Return on Investment	Year 1	5.4%
	Year 2	7.0%
	Year 3	8.0%
	Year 4	8.8%
Return on Investment	Year 5	9.7%

(Source: Horwath HTL)



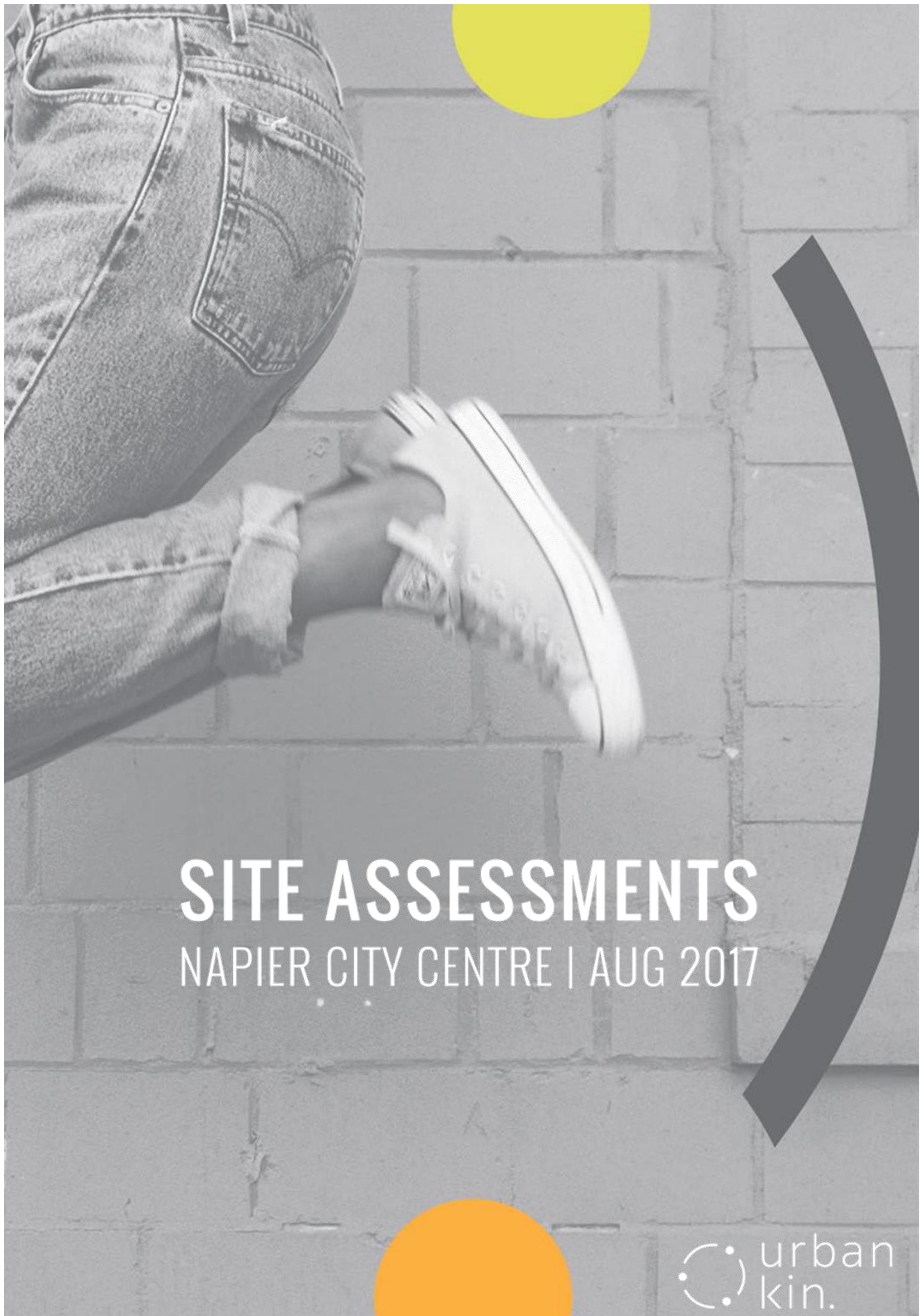
## APPENDIX 1: OPERATING PROJECTIONS

### Napier 4-4.5 Star Hotel

Statement of Estimated Cash Flow From Operations Before Debt Service, Taxes & Depreciation  
(Expressed In Thousands Of Current NZ\$)

For the year ending December	2020		2021		2022		2023		2024	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Keys	120		120		120		120		120	
Occupancy %	66.7%		72.7%		74.7%		76.7%		78.6%	
Room Nights Available	43,800		43,800		43,920		43,800		43,800	
Room Nights Sold	29,201		31,829		32,808		33,595		34,427	
Annual Increase (%)			9.0%		3.1%		2.4%		2.5%	
Average Room Rate	\$190.0		\$201.9		\$207.9		\$214.2		\$220.6	
Annual Increase (%)			6.3%		3.0%		3.0%		3.0%	
RevPAR	\$126.7		\$146.7		\$155.3		\$164.3		\$173.4	
<b>REVENUES</b>										
ROOM REVENUE	5,548	63.3%	6,426	63.9%	6,822	63.8%	7,195	63.8%	7,595	63.7%
FOOD	2,044	23.3%	2,317	23.0%	2,472	23.1%	2,620	23.2%	2,779	23.3%
BEVERAGE	818	9.3%	927	9.2%	989	9.3%	1,048	9.3%	1,112	9.3%
TELECOMMUNICATIONS	58	0.7%	64	0.6%	66	0.6%	68	0.6%	70	0.6%
RENTALS & OTHER INCOME	292	3.3%	323	3.2%	338	3.2%	351	3.1%	365	3.1%
<b>TOTAL</b>	<b>8,760</b>	<b>100%</b>	<b>10,057</b>	<b>100%</b>	<b>10,687</b>	<b>100%</b>	<b>11,282</b>	<b>100%</b>	<b>11,920</b>	<b>100%</b>
<b>DEPARTMENTAL COSTS AND EXPENSES</b>										
ROOMS	1,775	32.0%	1,928	30.0%	1,910	28.0%	1,943	27.0%	1,975	26.0%
FOOD AND BEVERAGE	2,246	78.5%	2,463	75.9%	2,571	74.3%	2,680	73.1%	2,814	72.3%
TELECOMMUNICATIONS	47	80.0%	51	80.0%	53	80.0%	54	80.0%	56	80.0%
<b>TOTAL</b>	<b>4,069</b>	<b>46.4%</b>	<b>4,442</b>	<b>44.2%</b>	<b>4,534</b>	<b>42.4%</b>	<b>4,677</b>	<b>41.5%</b>	<b>4,844</b>	<b>40.6%</b>
<b>DEPARTMENTAL PROFIT (LOSS)</b>	<b>4,692</b>	<b>53.6%</b>	<b>5,615</b>	<b>55.8%</b>	<b>6,153</b>	<b>57.6%</b>	<b>6,605</b>	<b>58.5%</b>	<b>7,075</b>	<b>59.4%</b>
<b>UNDISTRIBUTED OPER. EXPENSES</b>										
ADMINISTRATIVE AND GENERAL	650	7.4%	675	6.7%	700	6.5%	730	6.5%	762	6.4%
SALES & MARKETING	534	6.1%	603	6.0%	620	5.8%	632	5.6%	644	5.4%
PROPERTY OPER. & MAINTENANCE	263	3.0%	342	3.4%	415	3.9%	423	3.8%	431	3.6%
ENERGY COSTS	438	5.0%	478	4.8%	481	4.5%	496	4.4%	513	4.3%
BASE MANAGEMENT FEE	175	2.0%	201	2.0%	214	2.0%	226	2.0%	238	2.0%
<b>TOTAL</b>	<b>2,060</b>	<b>23.5%</b>	<b>2,299</b>	<b>22.9%</b>	<b>2,429</b>	<b>22.7%</b>	<b>2,507</b>	<b>22.2%</b>	<b>2,588</b>	<b>21.7%</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,631</b>	<b>30.0%</b>	<b>3,316</b>	<b>33.0%</b>	<b>3,724</b>	<b>34.8%</b>	<b>4,098</b>	<b>36.3%</b>	<b>4,488</b>	<b>37.6%</b>
INCENTIVE FEE (8% OF GOP)	211	2.4%	265	2.6%	298	2.8%	328	2.9%	359	3.0%
<b>ADJUSTED GROSS OPERATING PROFIT</b>	<b>2,421</b>	<b>27.6%</b>	<b>3,051</b>	<b>30.3%</b>	<b>3,426</b>	<b>32.1%</b>	<b>3,770</b>	<b>33.4%</b>	<b>4,129</b>	<b>34.6%</b>
<b>FIXED CHARGES (OWNERSHIP COSTS)</b>										
RATES	120	1.4%	125	1.2%	131	1.2%	137	1.2%	143	1.2%
INSURANCE (BUILDING, CONTENTS)	100	1.1%	105	1.0%	110	1.0%	116	1.0%	122	1.0%
FF&E RESERVE	263	3.0%	302	3.0%	321	3.0%	338	3.0%	358	3.0%
<b>TOTAL</b>	<b>483</b>	<b>5.5%</b>	<b>532</b>	<b>5.3%</b>	<b>562</b>	<b>5.3%</b>	<b>591</b>	<b>5.2%</b>	<b>622</b>	<b>5.2%</b>
<b>EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION &amp; AMORTISATION (EBITDA)</b>	<b>\$1,938</b>	<b>22.1%</b>	<b>\$2,519</b>	<b>25.0%</b>	<b>\$2,864</b>	<b>26.8%</b>	<b>\$3,179</b>	<b>28.2%</b>	<b>\$3,506</b>	<b>29.4%</b>





# SITE ASSESSMENTS

NAPIER CITY CENTRE | AUG 2017





# SITE ASSESSMENTS COMMERCIAL



## Disclaimer

This document (Report) has been produced independently by Urban Kin (The consultant) on the request of the Napier City Council (Client) for the City Centre Trifecta project.

The information, statements, statistics and commentary (together the 'Information') contained in this Report have been prepared from publicly available material, research and analysis by the consultant and from discussions held with stakeholders. The consultant does not express an opinion as to the accuracy or completeness of the information provided, the assumptions made by the parties that provided the information or any conclusions reached by those parties.

The consultant has based this Report on information received or obtained, on the basis that such information is accurate and, where it is represented to the consultant as such, complete. The information contained in this Report has not been subject to an audit.

FINAL 22ND AUG



# URBAN DESIGN ASSESSMENTS | COMMERCIAL SITES

## BRIEF

Napier Council (The Council) is preparing a Statement of Proposal under the LGA 2002 for options for the future of its Civic and Library building sites. The Council requires an urban design assessment of its current Civic and Library site. The Council wants to investigate:

### Question 1

*Identify, from an urban design perspective, which of the two sites that currently host the Council buildings would be most suited to a commercial activity.*

## METHOD

In order to provide an opinion from an urban design perspective on the suitability of the two assessment sites for commercial activities we have:

1. Assessed Sites A & B and their surroundings.
  - Mapping
  - Site Summary A / B
  - Comparison Site A / B
2. Examined the city centre context and urban structure (Appendix 1) and how the assessment sites relate to:
  - Destinations and retail areas
  - Urban spatial structure and Walkability

Urban Kin uses a place-based methodology which blends urban design processes to form an overall view of a place. The four areas are: City life, Space and networks, Buildings, Cultural and creative expression.

This method was used for analysis of the city centre in the City Vision Framework in 2015. We have not restated mapping which was undertaken for the CV (e.g. a breakdown of the types of open space in the city, or mapping vegetation) - instead we highlight the most important urban design issues required to assess commercial potential of the sites.

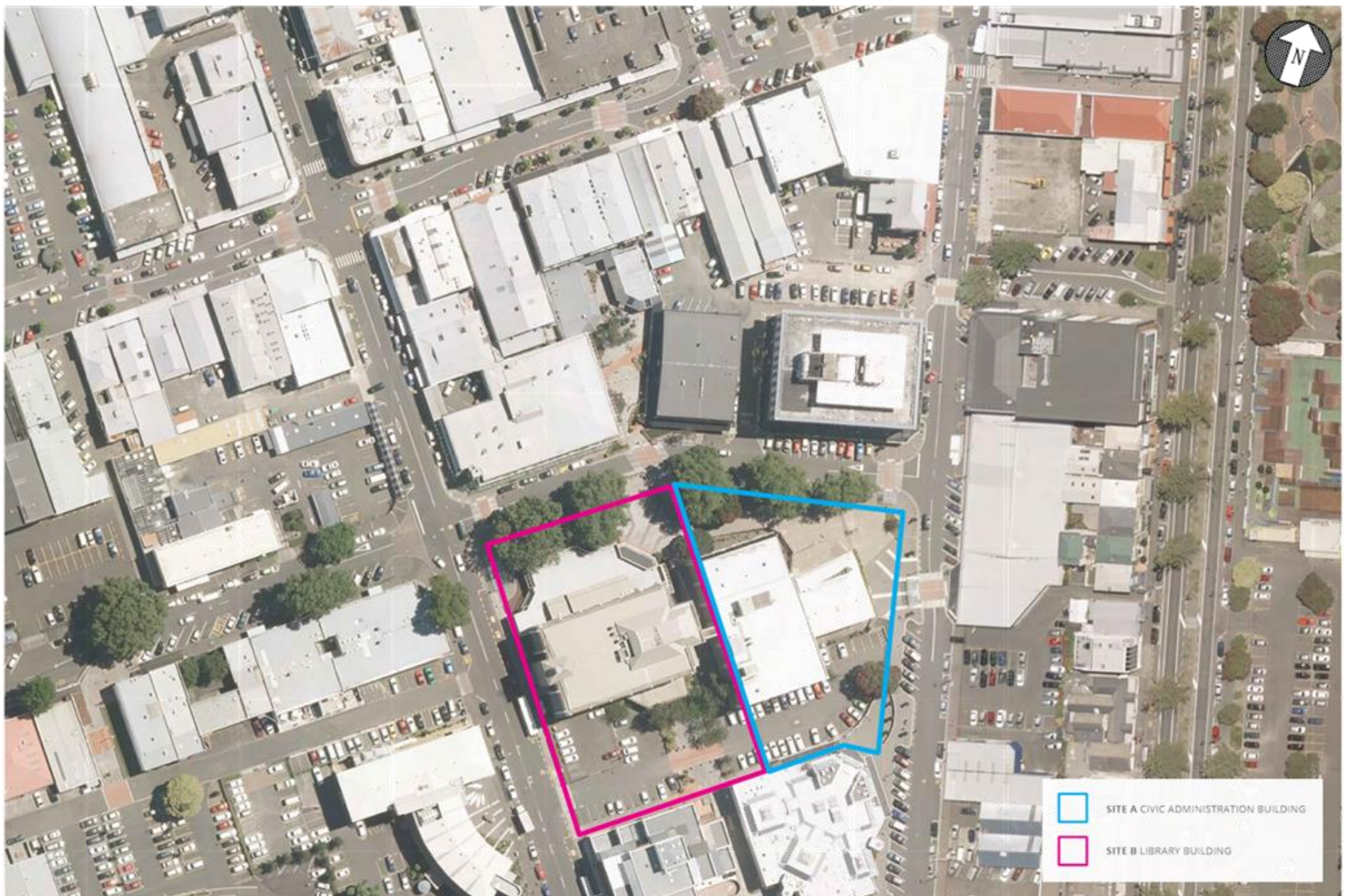
## ASSUMPTIONS

- No substantive changes to the city centre structure has occurred since 2015's City Vision assessment of the City Centre.
- Important changes in use and development in the city centre since 2015 are: Conference centre upgrade, Marine Parade Foreshore Reserve redevelopment, new commercial buildings on the corner of Albion, Hastings, and Marine Parade.
- A spatial planning exercise for Council services has established that all Council functions can be accommodated on Site B.
- A separate economic impact assessment will evaluate which of three types of commercial activity are the most feasible and provide the greatest benefit to Napier.

## ASSESSMENT SITES INFO

	SITE A CIVIC ADMINISTRATION BUILDING	SITE B LIBRARY BUILDING
Area	2,815m <sup>2</sup>	3,647m <sup>2</sup>
Existing site coverage	Approx. 50%	Approx. 54%
Street frontage	Hastings St approx. 68m Station St approx. 65m	Dalton St approx. 85m Station St approx. 53m
Zone	Fringe Commercial	Fringe Commercial
Notes		Includes lane between existing buildings on Site A and B

## ASSESSMENT SITES A AND B - SITE BOUNDARIES





# URBAN DESIGN ASSESSMENT | CONCLUSIONS

## SUMMARY OF ASSESSMENT

Urban Kin has evaluated Sites A and B in the context of the city centre's patterns of commercial activity, locations of destinations, and compared the Sites' attributes and surroundings. We have formed the following opinion on Question 1:

1. Site A offers more potential than Site B for commercial development as an extension of the Core Retail Area along Hastings Street.
2. Both Sites A and B would benefit from an increased mix of uses. In particular, to activate the ground floor frontages on Station and Hastings Streets and to 'repair' the current urban environment's dysfunctional conditions.
3. Carefully designed and integrated public spaces and streets on Station Street and Hastings Street will be critical for both sites because the existing public spaces:
  - Form an important and successful part of the area's character,
  - Affect how the sites' function as multi-use destinations and pedestrian connections within the city centre.
4. The potential for basement car parking on Site A due to the height difference from Dalton to Hastings Streets is a bonus. Good street edge conditions to Station and Hastings Streets and increased vehicle accessibility can both be achieved.

	<b>SITE A CIVIC ADMINISTRATION BUILDING</b>	<b>SITE B LIBRARY BUILDING</b>
PRO	<ul style="list-style-type: none"> <li>• Located on a Primary retail Street - Hastings Street</li> <li>• Acceptable walking distance from Emerson Street</li> <li>• Large, Prominent corner Site</li> <li>• Potential for basement level car-parking</li> <li>• Potential views to coastline</li> <li>• Short walk to waterfront</li> <li>• Recent commercial development nearby on Cnr Hastings and Albion Streets.</li> </ul>	<ul style="list-style-type: none"> <li>• Acceptable walking distance from Emerson Street</li> <li>• Large, Prominent corner Site</li> <li>• Flat site</li> <li>• Successful public space on site with favourable micro-climate</li> </ul>
CON	<ul style="list-style-type: none"> <li>• Opposite Rebel Sport's long blank wall</li> </ul>	<ul style="list-style-type: none"> <li>• Located on a Secondary retail Street - Dalton Street</li> <li>• Surrounded by non-retail uses (government), and the recent Police Station development reinforces non-retail character.</li> </ul>







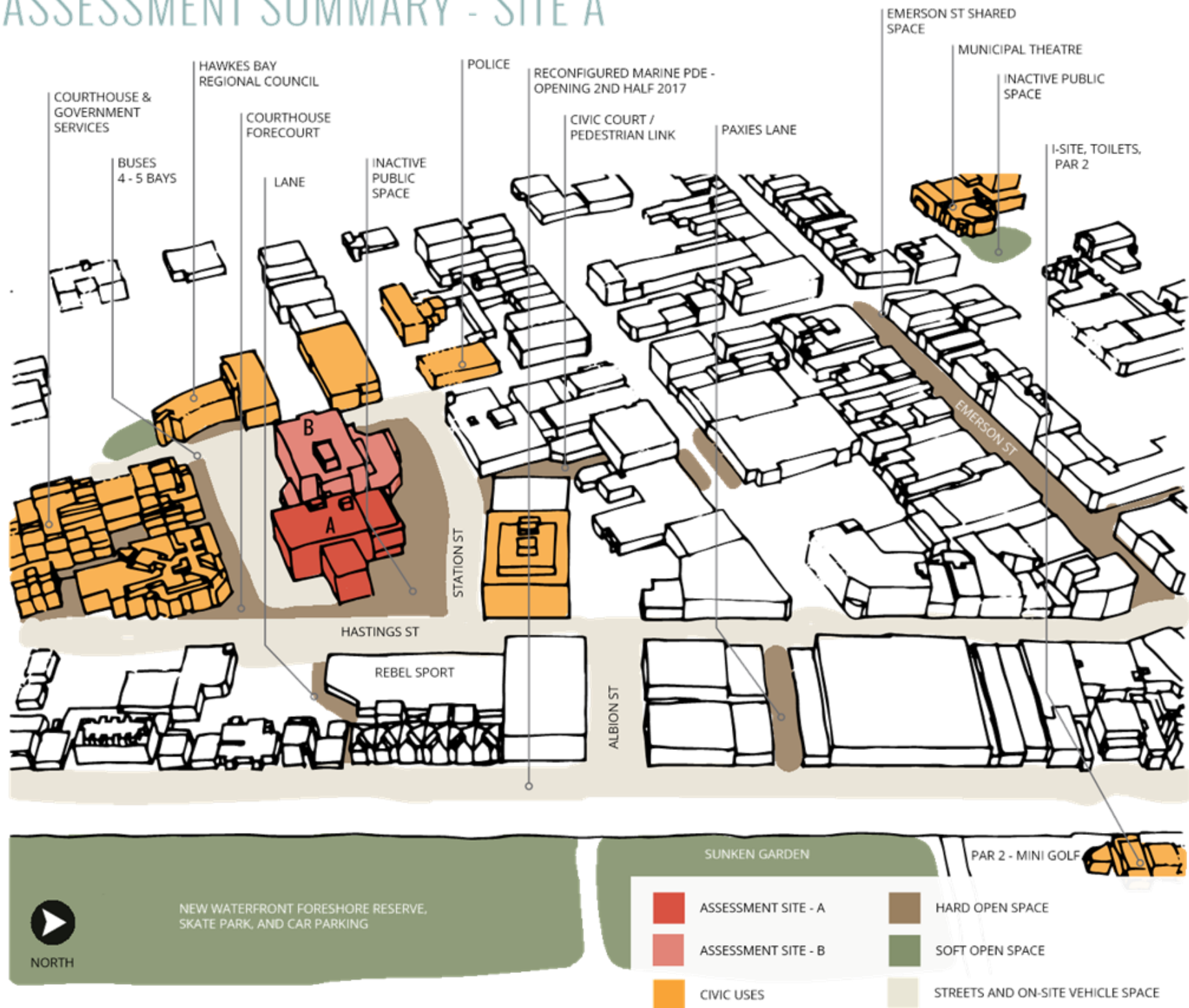








## ASSESSMENT SUMMARY - SITE A



### BUILDINGS

Site A is part of the most intensely developed area in the city centre. Buildings are human scale<sup>1</sup> with an upper limit of 5 stories.

Recent developments on Hastings St / Albion St / Marine Pde (3 storeys) reinforce a higher intensity of development in comparison to the Art Deco area centered on Emerson Street.

Buildings in the CBD are built to the street edge, often with chamfered corners. Site A is a 'compositional building' set back from the street edge and designed to sit in space rather than reinforce the 'street wall'. The result is an inactive street frontage and infrequently used public spaces. Surveillance<sup>2</sup> of the public spaces from Site A buildings is poor. Lack of surveillance and blank frontages generally contributes to a negative perception of an area by users and perceptions of safety, but this has not been assessed for this report.

### SPACE & NETWORKS

Site A has frontage to Hastings St and Station Street - the public space is fragmented by multiple level changes which lead to the building entrance.

A smaller public space is located to the south of Site A - at the Courthouse entrance. A small service lane links Site A to the waterfront.

Off-street parking is located behind the building. The Hastings St frontage is approximately 1 storey higher than the middle of Station Street and the parking area to the South - basement level car parking is an option.

The primary retail along Hastings St abruptly finishes at Station St due to the inactive public space and blank frontages of the Civic Building and Rebel sports.

The secondary retail terminates at the Police, Library building, Hawkes Bay Regional Council, and two corner office buildings which have inactive frontages and do not support street activity.

Bus service infrastructure is located in this area but is surrounded by inactive facades - this raises CPTED issues.

### CITY LIFE

The public space on Hastings St hosts almost no activity - the design of Site A, and Rebel Sport significantly contributes to this space failing.

Site A is at the edge of the walkable catchment from Emerson St- Hastings Street intersection (the 200m radius ends at Albion St).

The government offices (orange) provide a stable employment base - a resource for commercial activity. Several other government agencies are clustered in the area in privately owned office buildings in close proximity to Site A.

In general the primary retail streets are busier than the secondary retail streets.

The waterfront is busiest on pockets of the foreshore reserve and near the i-site. The redeveloped Foreshore Reserve and skate park are showing signs of greatly increased activity from the previous car-parking use.

The Library is the only community destination in the assessment area and located on the Station St edge of Site B.

### CULTURAL EXPRESSION

The buildings and site are an expression of civic values from the post-war modernist period (the era when they were constructed). Unfortunately, this type of architecture has proven to be deficient in most places in creating good urbanism and capturing citizens hearts or spurring imagination.

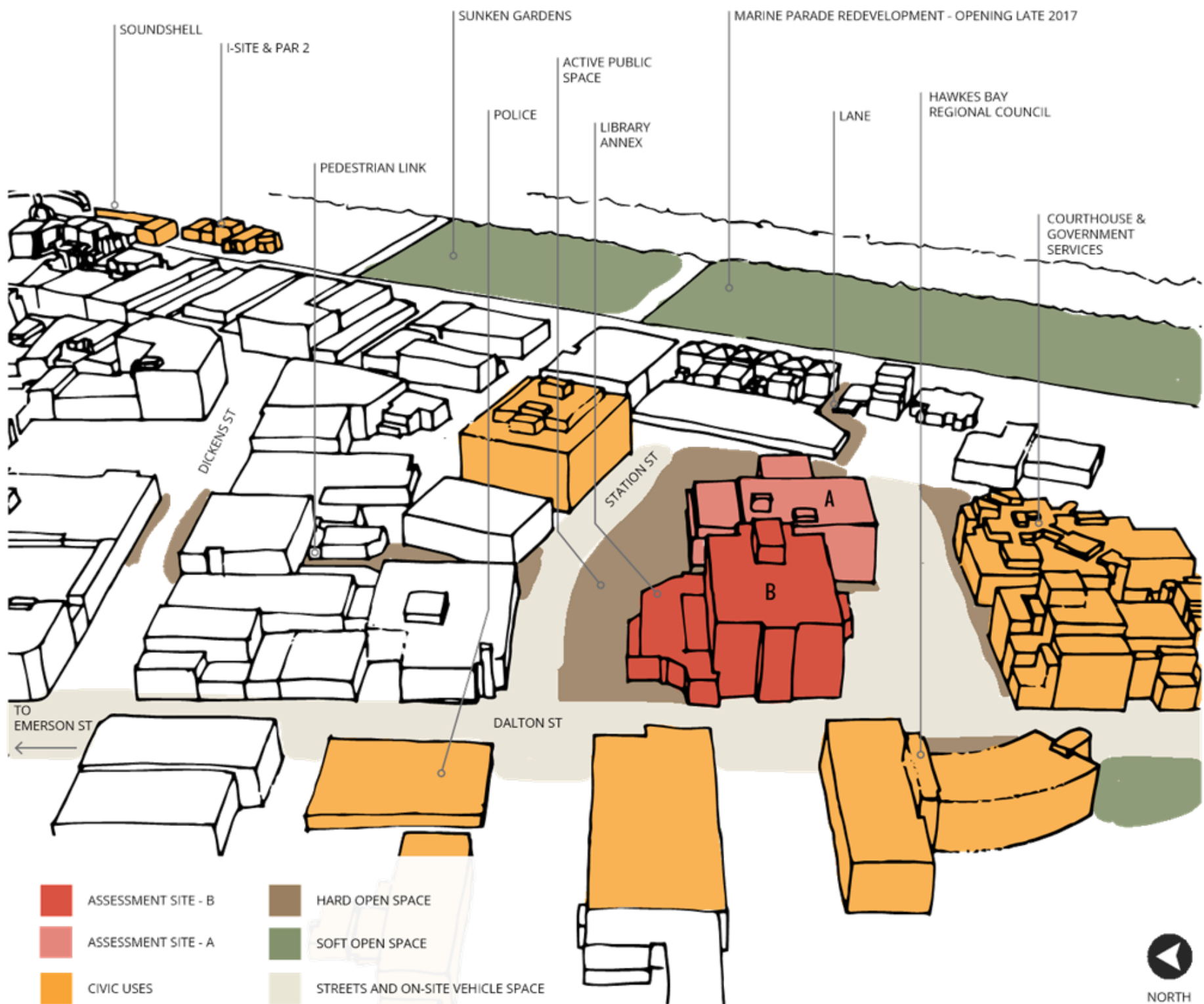
The civic area is separated by two blocks to the historic Art Deco focused Emerson Street. The new creative culture from the City Vision project has several successful projects clustered around the Civic area. Site A hosts two large street art murals facing Hastings Street.

<sup>1</sup> Assessed using Gehl's methodology - Cities for People, 2011

<sup>2</sup> Passive surveillance is a Crime Prevention for Environmental Design (CPTED) principle for designing safer environments.



## ASSESSMENT SUMMARY - SITE B



### BUILDINGS

Site B is part of the most intensely developed area in the city centre. Buildings are human scaled within the city centre.

Recent development (the Police Station) reinforces a lower intensity of development similar to the Art Deco area centered on Emerson St.

Buildings in the area are built to the street edge and street corners. Site B has a set-back a compositional pavilion with a complex facade (the Library Annex) with a shallow and landscaped set-back from street with a low-rise tower behind. A rooftop garden is located on the Library Annex, this garden was recently upgraded.

### SPACE & NETWORKS

The streets around Site B comprise a secondary retail area with some active frontages, other areas with no retail focus and inactive frontages. The latter conditions begin at the intersection of Station and Dalton Street.

The Library entrance is located mid-block on Station Street on a forecourt area with pedestrian connection to Emerson Street through Civic Court and Ocean Boulevard arcade.

Off-street parking is located to the rear of Site B and accessed from Dalton Street.

Dalton Street from Station Street to Vautier Street forms a government precinct. However, only the Police and HBRC have entrances onto this area. The street design is basic and doesn't highlight it as a special area.

Bus service infrastructure is located along the western edge of Site B on Dalton Street. Dalton Street links Site B to Emerson Street.

A small public space is located to the south of the HBRC building, while large amounts of off-street parking is located west and south of HBRC.

### CITY LIFE

Mid-block Library plaza and Civic Court attracts daily activity as a meeting and lunchtime spot with activities provided in the Library Forecourt - giant chess and ping pong.

Bus service users wait and arrive along the eastern edge of Dalton Street.

The site is at the edge of the walkable catchment from Emerson St. The government offices provide a stable employment base - a resource for commercial activity. Additionally, government agencies are tenants in several privately owned buildings in close proximity to Site B.

### CULTURAL EXPRESSION

The buildings and site are an expression of civic values from the post-war modernist period when they were constructed. Unfortunately, this type of architecture has proven to be deficient in most places in creating good urbanism and capturing citizens hearts or spurring imagination.

The Library Annex was designed by a prominent local architect - Guy Natusch. The new culture of the City Vision project has several successful projects clustered around the Civic area, in particular, a cluster of activation projects in the Library plaza and street art on large walls.



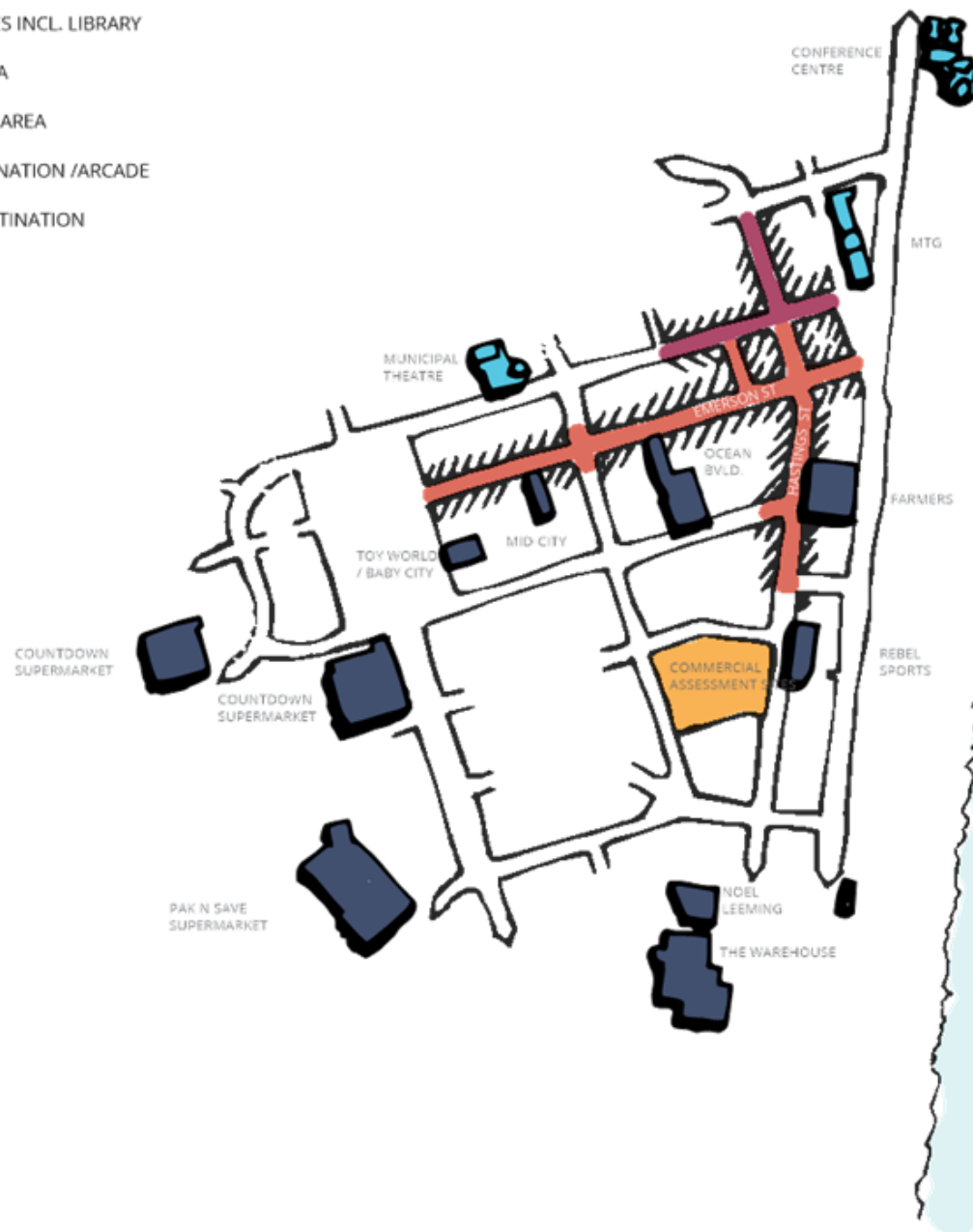
## COMPARISON - SITE A / SITE B

COMMERCIAL CONCLUSIONS - SITE A	COMMERCIAL CONCLUSIONS - SITE B
<p><b>X-FACTOR</b></p> <ul style="list-style-type: none"> <li>Site A has good proximity to the Foreshore Reserve (100 - 150m) and views of the coastline are possible from 3-plus storeys.</li> <li>'You're fired!' - The area does not do the 'job' for the city that it's supposed to do. There's an opportunity to 'hire' a development with a new identity, function, and design to allow this part of the City to deliver more value.</li> <li>Site A is under-utilised - site coverage is 50% and has long street frontages with set back buildings.</li> </ul>	<p><b>X-FACTOR</b></p> <ul style="list-style-type: none"> <li>Potential to do something BIG, and to do it well (opportunity for large floor areas on each level).</li> </ul>
<p><b>LOCATION</b></p> <ul style="list-style-type: none"> <li>Development at Site A will strengthen the existing urban structure as it will provide a strong destination at each end of Hastings Street. An entertainment precinct is being developed at the northern end of the city centre on Hastings and Tennyson Streets.</li> <li>Because Site A is at the periphery of the primary retail area a mix* of commercial uses is important rather than a single commercial use because it will need to function as a destination to encourage people to walk along Hastings Street. Redevelopment of Site A would need a new identity to create a break from the previous Civic identity.</li> <li>Site A is a short walk to the waterfront, and an acceptable 10 min walk to the Conference centre, and a 1 -10 min walk to restaurants. This provides choice to customers if accommodation is considered within a mix of commercial uses.</li> <li>A longer walk or short cycle south through the redeveloped Foreshore Reserve to the National Aquarium is also likely to be an attractive option for many visitors.</li> </ul>	<p><b>LOCATION</b></p> <ul style="list-style-type: none"> <li>Site B is located at the southern end of the retail strip on Dalton Street. This is one of the weakest city centre urban structures, because it is a secondary retail area, and has had the least investment in public space.</li> <li>Site B is at the outer limit of the walkable catchment from Emerson St. The combination of peripheral location, a secondary retail street (Dalton St), and inactive building frontages in the surrounding area challenge Site B's potential attractiveness as a commercial destination.</li> </ul>
<p><b>CONTEXT</b></p> <ul style="list-style-type: none"> <li>Site A is in one the most intensely developed areas of the city centre - a similar density of development (3-5 storeys) is necessary to retain the existing scale and form of the built environment, and to produce a large enough impact on the urban environment to compensate for potential loss of public space.</li> <li>Single-storey, internalised development, such as at Rebel Sport, would lack impact and miss opportunities that the site provides. This is not an acceptable outcome for land which was previously public space.</li> <li>Employment density in the area (within the walkable catchment of Emerson Street) should be reinforced with ongoing intensification to support the Core Retail Area (see Appendix).</li> <li>Commercial development on Site A is challenged by Rebel Sport's long inactive frontage (55m), this is an additional opportunity for a complementary re-development that will activate the eastern side of this section of Hastings Street, and for a shorter, more direct route to the waterfront.</li> <li>Recent private commercial development on Hastings Street is complementary to the development of Site A for Commercial use. Redevelopment of Site A to include an active frontage may encourage additional development.</li> </ul>	<p><b>CONTEXT</b></p> <ul style="list-style-type: none"> <li>Site B is located at the transition from secondary retail to a government services precinct.</li> <li>The bus service is located adjacent to Site B to the south-west.</li> <li>Recent development of the Police Station (2 Storey frontage) reinforces a lower scale of development and strengthens the Civic / Government precinct identity of Dalton Street .</li> <li>Views from Site B to the coastline and ocean are compromised by Site A.</li> <li>Site B hosts the Library which attracts more visitors than the Customer Service centre on Site A, and a large building (in Napier's context) which is associated with a Civic purpose.</li> </ul>
<p><b>SITE &amp; BUILDINGS</b></p> <ul style="list-style-type: none"> <li>The site is prominent and on one of the main retail streets in Napier. It has two street frontages to the East and North, a lane way, and service access to the south, with potential for basement car parking. The site is large which provides flexibility for design.</li> <li>Redevelopment provides an opportunity to resolve the existing level changes of the site, particularly in relation to the street frontages.</li> <li>The existing buildings do not maximise the potential of the site. Multiple small tenancies built to street edge with highly transparent frontages will minimise risk of MFR or LFR dominating the area and maximise the viability of office or hotel development. A medium format retail anchor could be accommodated behind small retail tenancies on the ground level or on the first storey provided that it does not have long blank frontages to the street. Station Street level change of approx. 1 floor provides design options.</li> <li>The next threshold of human scale buildings (between 6-10 stories) may be considered if stepped back behind a street edge facade of 3-4 storeys.</li> </ul>	<p><b>SITE &amp; BUILDINGS</b></p> <ul style="list-style-type: none"> <li>Site A is a large rectangle with street frontages to the north and west, lane frontage to the east, and a service area and off-street car-parking to the south. The site allows great flexibility in design.</li> <li>The site is basically flat, and level with the surrounding streets which provides excellent pedestrian access.</li> <li>The existing buildings are challenging to good urbanism, so are an opportunity for the City: <ul style="list-style-type: none"> <li>The Library Annex has inactive frontages to the corner of Station and Dalton Streets and the building's form represents a conceptualisation of libraries which is no longer relevant (i.e. internalised, single use). The entrance on to the mid-block plaza (Library Forecourt) shows the potential for a cultural building combined with public space to create visible public life for a city (an evaluation of the Library Annex's architectural and cultural values vs. urban design is outside the scope of this assessment).</li> </ul> </li> <li>The tower behind the library building is prominent and one of the tallest buildings in the city centre - yet, despite its prominence, it is not a landmark. It also has an inactive frontage on Dalton St.</li> </ul>
<p><b>OPEN SPACE</b></p> <ul style="list-style-type: none"> <li>Open space on Site A currently does not work and is intimidating. This open space can be consolidated around the already successful Civic Court entrance on Station Street, and the existing forecourt in front of the Courthouse Building on Hastings Street. These two spaces add diversity to the types of public spaces in the city, are associated with civic uses, and should be retained.</li> </ul>	<p><b>OPEN SPACE</b></p> <ul style="list-style-type: none"> <li>The Library Forecourt is located mid-block on Station Street with good proximity to Civic Court. A unified design would reinforce the area as a destination for employees in the surrounding area. It has a pleasant micro-climate, orientation, and receives favourable sunlight during busy parts of the day. The forecourt provides a point of difference to parks, parklets, lanes, plazas edged with streets, and the exposed Foreshore Reserve.</li> <li>Development on Site B would need to include an upgrade to the quality of the streetscape to form a distinct entrance and to strengthen Dalton Street's role in the city centre's urban structure.</li> </ul>
<p><b>ACCESS</b></p> <ul style="list-style-type: none"> <li>Site A is serviced by on-street car-parking, a short walk to buses and off-street parking, as well as on-site car parking accessed from Dalton Street. This offers great potential for the site.</li> <li>Orientation of entrances - redevelopment allows an active frontage and building entrance oriented to the successful Library forecourt on Station Street with good connection to Civic Court.</li> </ul>	<p><b>ACCESS</b></p> <ul style="list-style-type: none"> <li>Site B is serviced by on-street car-parking, a short walk to buses and off-street parking, as-well-as on-site car parking accessed from Dalton Street. This offers great potential for the site.</li> <li>Orientation of entrances - redevelopment offers the opportunity to introduce active frontages and building entrances which are oriented to the Library Forecourt, and corner of Dalton and Station Streets.</li> </ul>

# APPENDIX | CONTEXT - RETAIL AREAS

## CITY CENTRE RETAIL AREAS AND DESTINATIONS

- ASSESSMENT SITES INCL. LIBRARY
- CORE RETAIL AREA
- ENTERTAINMENT AREA
- LFR RETAIL DESTINATION / ARCADE
- COMMUNITY DESTINATION



### CORE RETAIL AREA

The 'Core Retail Area' extends from the intersection of Hastings and Emerson St approximately one block north, two blocks to the south, and two blocks to the west along Emerson St where it terminates at Clive / Memorial Square.

An additional block north, east and west of the intersection of Hastings and Tennyson St is an emerging entertainment precinct where associated public space investment is planned for 2017/18 (see diagram top right).

### LARGE FORMAT RETAIL & ARCADES

Large format retail (LFR) is distributed around the periphery of the city centre to the south and west. Two arcades (Ocean Boulevard and Mid-city) are located in the City centre between Emerson and Dickens Streets, these arcades have been reduced in size from their peak. A medium sized retail site is adjacent to the Assessment Sites on Hastings Street, with Farmers a short walk to the north.



## APPENDIX | CONTEXT - DESTINATIONS

### CITY CENTRE DESTINATION LOCATIONS

-  CITY CENTRE DESTINATION
-  WATERFRONT RESERVE
-  PUBLIC SPACE - PARK
-  PUBLIC SPACE - PLAZA



### DESTINATIONS

The following community destinations are distributed to the north of the Core Retail Area:

- MTG (Museum, Theatre, Gallery)
- War memorial conference centre (recently expanded)
- Municipal Theatre

The Library is located on the assessment Site B and is the only community destination south of the Core Retail Area.

A variety of destination public spaces are distributed throughout the city centre:

- Clive & Memorial Squares (separated by Emerson St)
- Waterfront Foreshore Reserve - multiple destinations - Long Lawn, Soundshell, Sunken Gardens, Par 2, new skate park and parkland, foreshore shared pathway.
- Municipal Theatre 'park' and forecourt.
- Civic Court and Library forecourt
- Cathedral Square.

Civic Court and Library Plaza are the only public spaces south of the Core Retail Area which attract significant use.

Additional public spaces which are infrequently used, and therefore not considered public space destinations, are:

- A green space located to the South of Hawkes Bay Regional Council on the corner of Vautier and Dalton Streets.
- Civic building forecourt on cnr Hastings / Station Streets
- Courthouse forecourt on Hastings Streets.

All of these sites share the same characteristic - they are surrounded by inactive building frontages.

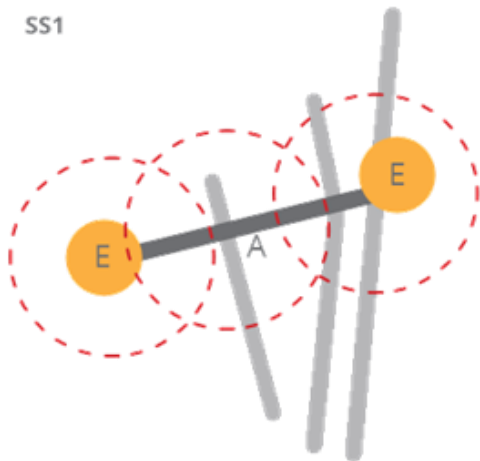


# APPENDIX | CONTEXT - SPATIAL STRUCTURE / WALKABILITY

## SPATIAL STRUCTURE BREAKDOWN

- 200M RADIUS WALKABLE CATCHMENT FROM EMERSON STREET (NOTIONAL)
- DESTINATION (E)
- LINK (A)

SPATIAL STRUCTURE 1 (SS1)  
THE MAIN STREET

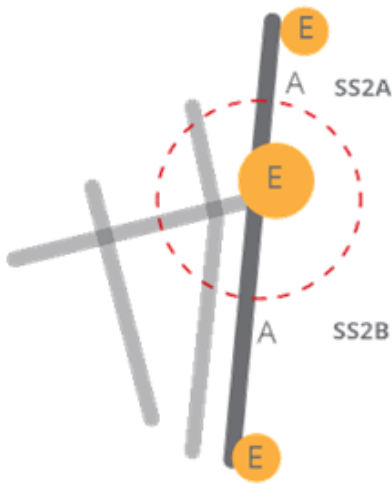


- SS1**
- [E] Clive & Memorial Squares
  - [A] Emerson St
  - [E] Waterfront 'Piazza'



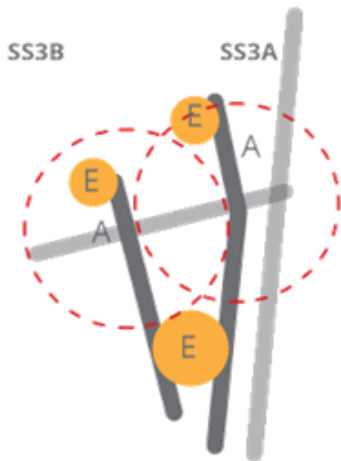
NORTH

SPATIAL STRUCTURE 2 (SS2)  
THE WATERFRONT



- SS2A**
- [E] Conference Centre
  - [A] Marine Pde / Waterfront
  - [E] Waterfront 'Piazza' Soundshell
- SS2B**
- [E] I-site / Par 2
  - [A] Marine Pde/ Waterfront Parkland
  - [E] Skate park

SPATIAL STRUCTURE 3 (SS3)  
THE 'WEDGE'



- SS3A**
- [E] Cathedral / Park / Wine Centre
  - [A] Hastings Street
  - [E] Civic Buildings / plaza
- SS3B**
- [E] Municipal Theatre / Park / Church
  - [A] Dalton Street
  - [E] Library Buildings / Forecourt / Civic Building

## WALKABILITY

The City centre is walkable - based on an theoretical 5-min walk. Multiple 'walkable' catchments are created using a 200m radius which highlight areas which can be walked end-to-end in 5 minutes (this calibration of a smaller catchment matches the real world conditions more closely in Napier than the theoretical 400m radius). The most relevant 200m catchments for assessing the commercial potential of Site A and Site B are centered on two intersections. Emerson and Hastings Streets (the centre of Core Retail Area), and Emerson and Dalton Streets. Because of the simple street structure and relationship of the Assessment Sites to the centre of each catchment. A detailed analysis to create the actual walkable catchment is unnecessary.

Block lengths and widths are acceptable and do not cause barriers which would undermine the grid structure and a comfortable walking distance. Many street crossings in the central city have pedestrian priority (raised courtesy crossings or painted pedestrian crossings). Emerson Street has been a 'shared space' street since the 1990s - a combination of a pedestrian priority space and a street. In addition, a number of lanes further subdivide the grid and increase the number of walking routes for pedestrians.

## SPATIAL STRUCTURE

Napier's City Centre is a deformed grid and has a number of key spatial structures (see diagrams). <sup>1</sup> The spatial structures - a link between two destinations are the most basic characteristic of urbanism (and is also the basis for shopping mall design), and therefore, relevant to this assessment about retail potential. Changing the location of destinations (public spaces or special buildings) changes the characteristics of the links between them. The relevant spatial structures are shown in the diagrams above. The Spatial Structure 3 (SS3) forms a 'wedge' shape, and the Assessment Sites are located to the south of this 'wedge'. The convergence of the two street Hastings and Dalton contributes an area of concentrated development as distances between Hastings and Dalton St are compressed.

<sup>1</sup> Armature [A] and Enclave [E] are specific types of basic urban elements. For example, a street or linear park (e.g. a waterfront) is an Armature which links one destination to another and flows (such as pedestrians) move along it. A plaza or park surrounded by buildings forms an Enclave, these can have specialised functions (such as a school), and usually create important destinations for cities. The form of Armatures and Enclaves depends on the era in which they were established. The most basic A-E shape connects destinations like a dumbbell; O---O.

## Risk Assessment – Divestment/lease of Site A

IMPACT CATEGORY	LIKELIHOOD	CONSEQUENCE	RISK LEVEL	MITIGATION	RE-SCORE	FURTHER MITIGATION
<b>ENVIRONMENTAL</b>						
<ul style="list-style-type: none"> <li>The site is located within an area known to have been occupied prior to 1900, and therefore may contain an archaeological site.</li> </ul>	Possible C	Major	High	Archaeological assessment & obtain authority	Medium	Archaeological authority requires supervision from archaeologist
<ul style="list-style-type: none"> <li>The site may hold special cultural values or significance.</li> </ul>	Possible C	Moderate	High	Pre-demolition consultation with iwi/hapu	Low	
<ul style="list-style-type: none"> <li>The developer may request that some/all of the large London Plane trees in Station Street be removed.</li> </ul>	Likely B	Minor	Medium	Consult with community	Medium	
<ul style="list-style-type: none"> <li>The building may contain asbestos, and the necessary containment measures will need to be employed to avoid contamination of the soil/grounds.</li> </ul>	Possible C	Severe	Extreme	Either NCC carries out testing on buildings to determine if asbestos is present, and issues tender for demolition on the basis of results, or NCC requires contractor to test for asbestos If asbestos found, then measures undertaken to contain.	Medium	
<b>FINANCIAL</b>						
<ul style="list-style-type: none"> <li>Demolition costs could be higher than anticipated</li> </ul>	Likely B	Moderate	High	Highly qualified QS to review and test the market, comparison of tenders (industry est.), refined tender processes, provide complete information	Medium	
<ul style="list-style-type: none"> <li>Seismic strengthening and refurbishment costs of the Library Building could be higher than anticipated</li> </ul>	Likely B	Moderate	High	Highly qualified QS to review and test the market, comparison of tenders (industry est.), refined tender processes, provide complete information	Medium	
<ul style="list-style-type: none"> <li>A risk that ground conditions or materials are not as expected which may impact on the integrity of adjacent sites/infrastructure (impact on costs).</li> </ul>	Unlikely D	Moderate	Medium	Geotechnical assessment will determine ground conditions of the site.	Low	
<ul style="list-style-type: none"> <li>Level of interest in purchasing the site, and therefore sale price could be lower than anticipated</li> </ul>	Possible C	Moderate	High	Testing the market, promotion. Careful of our restrictions on sale &	Low	



				purchase, partnering with developer		
<ul style="list-style-type: none"> <li>Developer may request that Council provide a reduction in levies and contributions for the development of the site.</li> </ul>	Unlikely D	Minor	Low	This matter could be raised at the time of negotiation		
<b>HEALTH AND SAFETY</b>						
<ul style="list-style-type: none"> <li>Demolition health and safety risks in general</li> </ul>	Rare E	Severe	High	A comprehensive health and safety plan would be required and reviewed prior to any work commencing. Contractors will be selected based on a number of factors, including their track record.	High	
<ul style="list-style-type: none"> <li>Risk of Asbestos being present in the building</li> </ul>	Possible C	Severe	Extreme	Presence of asbestos could be determined prior to any contract being awarded. Full health and safety requirements if asbestos is possible.	Medium	
<ul style="list-style-type: none"> <li>Risk of site being contaminated</li> </ul>	Unlikely D	Moderate	Medium	Soil could be tested prior to work commencing. Mitigation measures implemented if found to be contaminated.	Low	
<b>ICT, ASSETS/INFRASTRUCTURE</b>						
<ul style="list-style-type: none"> <li>Underground NCC services are located across both sites. There is a risk that these could be damaged during demolition.</li> </ul>	Unlikely D	Major	High	Plans are proofed with location technology prior to contract being awarded. Location of services clearly marked on all plans and potentially physically marked on the ground	Low	
<ul style="list-style-type: none"> <li>There is a risk that the underground services may not be located where they are expected (position and depth).</li> </ul>	Unlikely D	Major	High	There is a risk that the underground services may not be located where they are expected (position and depth).	Low	
<ul style="list-style-type: none"> <li>Underground Fibre and electricity/gas services may be located across both sites. There is a risk that these could be damaged during demolition.</li> </ul>	Possible C	Major	High	Contact service providers and locate services. Location of services clearly marked on all plans and potentially physically marked on the ground	Low	
<ul style="list-style-type: none"> <li>Closure of roads or loss of carparks during demolition</li> </ul>	Unlikely D	Minor	Low			





<ul style="list-style-type: none"> <li>A risk that ground conditions or materials are not as expected which may impact on the integrity of adjacent sites/infrastructure (impact on infrastructure).</li> </ul>	Unlikely D	Moderate	Medium	Geotechnical assessment will determine ground conditions of the site.	Low	
<ul style="list-style-type: none"> <li>Damage to roads/adjacent buildings</li> </ul>	Rare E	Moderate	Medium	Construction methodology to be considered as part of awarding contract to Contractors. Safety measures put in place during construction.	Low	
<b>LEGISLATIVE COMPLIANCE</b>						
<ul style="list-style-type: none"> <li>Risk that the necessary legislative requirements haven't been met in making the decision to divest or lease Site A.</li> </ul>	Rare E	Moderate	Medium	Extensive scoping of legislative requirements prior to contract being awarded Seek legal advice	Low	
<ul style="list-style-type: none"> <li>Risk of not obtaining the necessary consents/permits required for the demolition of the building, or in a timely manner.</li> </ul>	Rare E	Moderate	Medium	Extensive scoping of legislative requirements prior to contract being awarded Legal peer review	Low	
<ul style="list-style-type: none"> <li>Risk of not complying with other legislation in relation to Health and Safety, Local Government Act etc.</li> </ul>	Rare E	Moderate	Medium	Extensive scoping of legislative requirements prior to contract being awarded Legal peer review	Low	
<b>REPUTATION/IMAGE</b>						
<ul style="list-style-type: none"> <li>The public may not approve of the process being undertaken (eg insufficient consultation and/or feedback mechanisms) or the decision being made.</li> </ul>	Possible C	Minor	Medium	Seek legal opinion on consultation meeting legal requirements. Seek advice and input from qualified consultation specialists	Medium	
<ul style="list-style-type: none"> <li>The media may report incorrect information or be biased in its reporting of the facts and opinions expressed.</li> </ul>	Possible C	Minor	Medium	Maintain close contact with media and provide information in a timely manner	Medium	
<ul style="list-style-type: none"> <li>The public may believe that the decision is pre-determined.</li> </ul>	Possible C	Minor	Medium	Demonstrate evidence of consideration of all options Separate out decision-making – Councillors to make decisions	Medium	
<b>SERVICE DELIVERY</b>						
<ul style="list-style-type: none"> <li>Despite carrying out spatial planning, NCC may find that all administrative functions cannot be accommodated within the existing/refurbished (or new) Library Building or within Site B, which compromises the delivery of services to the community.</li> </ul>	Rare E	Moderate	Medium	Comprehensive review of spatial analysis & planning	Low	



				Allow for some 'fat' to accommodate growth and unexpected changes		
<ul style="list-style-type: none"> <li>The developers of Site A may choose to ignore the advice of NCC's planners in relation to achieving good design outcomes, which may result in opportunities to re-activate the southern part of the city and improve amenity and connections being lost.</li> </ul>	Unlikely D	Minor	Low	Make these matters part of the negotiation process with the developer		
<ul style="list-style-type: none"> <li>If the decision is made to not divest Site A for commercial interests, the opportunity to re-activate the southern part of the city, achieve better urban design, grow the economy, and improve the reputation for Napier as a tourist destination may be lost.</li> </ul>	Possible C	Moderate	High	Present a comprehensive business case with sufficient information for Council to make the an informed decision	Medium	
<ul style="list-style-type: none"> <li>The developer chooses to develop the site differently to what is expected, or on-sells the site to another developer, with no consideration given to urban design principles or good planning outcomes.</li> </ul>	Unlikely D	Moderate	Medium	Add clauses in contract to prevent this Partner with develop to achieve good design outcomes Provide incentives to achieve good design outcomes Make our expectations clear during negotiations	Low	



### 13.4.1 Likelihood

All areas within Napier City Council will use the likelihood rating system for analysing risks shown in the table below.

Table 1: Likelihood Rating Matrix

Likelihood Rating	Continuous Time Based (eg project duration or financial year)	Annual Return Period	Activity/Frequency Based	Probability
Almost Certain A	80-100% probability that the event will occur in the time period being considered.	Likely to occur at least once in every 1 to 1 ¼ years.	The event is likely to occur almost every time the activity is carried out or the organisation is exposed to the hazard.	Over 0.8 (> 4:5)
Likely B	50-79% probability that the event will occur in the time period being considered.	Likely to occur once every 1 ¼ years to 2 years.	The event is likely to occur more often than not when the activity is carried out or the organisation is exposed to the hazard.	0.5 - 0.79 (1:2 - 8:10)
Possible C	25-49% probability that the event will occur in the time period being considered.	Likely to occur once every 2 years to every 4 years.	The event is likely to occur less often than not when the activity is carried out or the organisation is exposed to the hazard.	0.25 - 0.49 (1:4 to 1:2)
Unlikely D	2-24% probability that the event will occur in the time period being considered.	Likely to occur once every 4 years to every 50 years.	The event is seldom likely to occur when the activity is carried out or the organisation is exposed to the hazard.	0.02 - 0.24 (1:50 to 1:4)
Rare E	0-2% probability that the event will occur in the time period being considered.	Not likely to occur more than once in 50 years.	The event is not likely to occur when the activity is carried out or the organisation is exposed to the hazard.	0 - 0.02 (< 1:50)

### 13.4.2 Consequence

As with likelihood, for risk assessments to be effective there needs to be a structured approach across the council to assessing consequence. Refer Appendix C for detailed Consequence criteria by rating.

Table 2: Consequence Rating Matrix

Consequence Rating	Description
Insignificant	Effect is minimal
Minor	Event requires minor levels of resource and input for easy remediation
Moderate	Some objectives affected
Major	Some important objectives affected or cannot be achieved



Consequence Rating	Description
Severe	Disaster with potential to lead to collapse or having a profound effect

### 13.4.3 Determining the Overall Risk Level/Score

To determine the overall risk level for a particular risk, the likelihood and consequence scores for the risk can be plotted in a matrix, as shown below.

Table 3: Risk Scoring Matrix

Likelihood	Consequence				
	Insignificant	Minor	Moderate	Major	Severe
Almost Certain	Medium	Medium	High	Extreme	Extreme
Likely	Medium	Medium	High	Extreme	Extreme
Possible	Low	Medium	High	High	Extreme
Unlikely	Low	Low	Medium	High	Extreme
Remote	Low	Low	Medium	Medium	High

Identified risks are to be assessed against all Risk Categories. Because it is not practical to give a risk multiple ratings, the highest consequence rating against the Risk Category is used; this is illustrated in the table below (for revised risk assessment/with controls).

Table 4: Calculating Risk Level against Risk Categories

Risk Name	Likelihood	Risk Category	Consequence	Risk Level
Injury from manual handling	Possible	Accreditation/Legislative Compliance	Moderate	High
		Asset/Infrastructure	Minimum	
		Consumer/Customer/Community Concern	Minimum	
		Employee/Visitor/Contractor Event	Moderate	
		Environmental/Service Event	Minimum	
		Financial	Moderate	
		Patient/Resident	Minor	
		Reputation/Image	Minor	

It should be noted that the Sycle Risk Module currently being used at NCC automatically calculates the risk level based on Consequence and Likelihood ratings.

NCC determines the risk level for inherent risk i.e. without controls. In risk management this is also sometimes identified as the Potential Exposure (PE) i.e. the plausible maximum impact arising from a risk if all current controls fail. The risk is then reassessed (revised risk) with controls factored in.

#### 13.4.4 Controls

Controls are those policies, procedures, plans, processes and systems that have been designed and implemented over time in response to risks/issues that have occurred. Most risks identified will not be new or unique and there may be some controls already in place to manage them.

Controls typically fit into three distinct types:

1. **Preventative Controls** - aimed at preventing the risk occurring in the first place. They include policies, procedures, plans processes and systems
2. **Detective Controls** - used to identify when a risk has become an issue/incident. They include audits, stocktakes, reviews, etc.
3. **Mitigating Controls** - aimed at minimising the consequences that arise from the issue/incident. They include Business Continuity Plans, Disaster Recovery Plans, personal protective equipment, etc.

## Appendix C: Consequence Criteria and Rating

Impact Category	Insignificant	Minor	Moderate	Major	Severe
<b>Environmental</b>	Negligible damage that is contained on-site. AND The damage is fully recoverable with no permanent effect on the environment or the asset, it will take less than 6 months for the resource to fully recover.	Minor damage to the environment or heritage asset or area that is immediately contained on-site. It will take less than 2 years for the resource or asset to fully recover or it will only require minor repair. OR Disturbance to scarce or sensitive environmental or heritage asset or area.	Moderate damage to the environment or a heritage listed asset or area, which is repairable. The resource or asset will take up to 10 years to recover.	Irreversible and extensive damage is caused to a non-Heritage Listed area or asset but that has heritage values. OR Irreversible and extensive damage is caused to a non-environmentally significant area or asset. OR Significant damage is caused to a Heritage Listed area or asset that involves either extensive remediation or will take more than 10 years to recover. OR Significant damage is caused to an environmentally significant area or asset from which it will take more than 10 years to recover.	Irreversible and extensive damage is caused to a World Heritage Listed Area, a National Heritage Listed Site, a Register of the National Estate Site or a Council Heritage Listed area or asset. OR Irreversible and extensive damage is caused to a Matter of National Environmental Significance under the Act (e.g. endangered species, RAMSAR wetland, marine environment).
<b>Financial</b>	Minimal financial impact requiring no action or approval within local authority levels. Less than \$10,000.	A financial loss that can be managed within existing department budget. \$10,000 to less than \$100,000.	A financial loss that can be managed within existing organisational budget. \$100,000 to less than \$1M.	A financial loss resulting in potential reduction in a service. \$1M to less than \$5M.	A critical financial loss resulting in closure or significant reduction in a service. Greater than \$5M.
<b>Health and Safety</b>	Minor injury or ailment that does NOT require medical treatment by a physician or a qualified first aid person.	Injuries or illness requiring medical attention with no long-term effects. OR Exposure of public and staff to a hazard that could cause minor injuries or minor adverse health effects	One or more injuries or illness requiring hospitalisation with some long-term effects. OR Public or staff exposed to a hazard that could cause injuries or moderate adverse health effects	One or more serious casualties or illness with long-term effects. OR Public or staff exposed to a hazard that results in major surgery or permanent disablement.	One or more fatalities or life threatening injuries or illness. OR Public or staff exposed to a severe, adverse long-term health impact or life-threatening hazard.

Impact Category	Insignificant	Minor	Moderate	Major	Severe
<b>ICT, Assets/Infrastructure</b>	Some damage where repairs are required however facility or infrastructure is still operational. Loss of utilities/systems resulting in minor IT disruption to a service for up to 12 hours.	Short term loss or damage where repairs required to allow the infrastructure to remain operational using existing internal resources. Loss of utilities/systems resulting in minor IT disruption to a service (>12 hours - 24 hours).	Short to medium term loss of key assets and infrastructure where repairs required to allow the infrastructure to remain operational. Cost outside of budget allocation. Loss of utilities/systems resulting in IT disruption to a department for up to 12 hours.	Widespread, short term to medium term loss of key assets and infrastructure. Where repairs required to allow the infrastructure to remain operational. Cost significant and outside of budget allocation. Loss of utilities/systems resulting in serious IT disruption to several services or more than 1 department for up to 12 hours.	Widespread, long term loss of substantial key assets and infrastructure. Where infrastructure requires total rebuild or replacement. Failure of utilities/systems resulting in the loss of function for several departments (> 12 hours).
<b>Legislative Compliance</b>	Minor technical breach but no damages. No monetary penalty AND/OR Internal query.	Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. AND/OR Special audit by outside agency or enquiry by Ombudsman.	Compliance breach of regulation with investigation or report to authority with prosecution and/or possible fine. AND/OR Non-compliance with Corporate/Council Policy	Major compliance breach with potential exposure to large damages or awards. Prosecution with 50% to maximum penalty imposed. District or Environmental court. OR Multiple compliance breaches that together result in potential prosecution with 50% to maximum penalty imposed	Serious compliance breach with potential prosecution with maximum penalty imposed. High Court or criminal action. OR Multiple compliance breaches that together result in potential prosecution with maximum penalty imposed
<b>Reputation/Image</b>	Customer complaint. AND/OR Not at fault issue, settled quickly with no impact.	Non-headline community media exposure. Clear fault. Settled quickly by NCC response. Negligible impact.	Negative local (headline) and some regional media coverage. Council notification. Slow resolution.	Negative regional (headline) and some national media coverage. Repeated exposure. Council involvement. At fault or unresolved complexities impacting public or key groups.	Maximum multiple high-level exposure. Sustained national media coverage. Direct Council intervention. Loss of credibility and public / key stakeholder support.

## NCC Risk Management Strategy

Impact Category	Insignificant	Minor	Moderate	Major	Severe
<b>Service Delivery</b>	Some non-essential tasks will not be able to be achieved. AND/OR Unable to provide service for <1 business day. AND/OR Major Project in progress delay for < 1 month.	Less than 5% of essential tasks will not be achieved. AND/OR Unable to provide service for 1-3 business days. AND/OR Major Project in progress delay for 1 - 2 months.	5% - 10% of essential tasks will not be achieved AND/OR Unable to provide service for 3-10 business days. AND/OR Major Project in progress delay for 2-3 months.	10% - 20% of essential tasks will not be achieved. AND/OR Unable to provide service for 10-20 business days. AND/OR Major Project in progress delay for 3-6 months.	Greater than 20% of essential tasks will not be achieved. AND/OR Unable to provide service for >20 business days. AND/OR Major Project in progress delay for > 6 months.



## NCC Risk Management Strategy

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## High Level Engagement Plan – Council Buildings Options

The purpose of engagement on the options for the two Council Buildings is to provide opportunities for the public to give feedback on what is best for the Napier Civic and Library buildings.

Planned engagement activities and tools will ensure key stakeholders and the community are provided appropriate and relevant opportunities to give feedback.

A draft engagement plan has been developed. This focuses on encouraging people to participate in the Special Consultative Procedure being undertaken for this project. The engagement activities largely take a promotional approach to raise awareness of the process for providing feedback.

The table below summarises planned engagement activities and tools for each.

Engagement Activities	Tools
<b>Letters to primary stakeholders with information and offer of meeting (eg, Hoteliers, neighbours in CBD, Tourism HB, Art Deco Trust, Business HB, Napier City Business Inc, etc)</b>  <b>Meetings with Iwi/Māori, Napier Disability Advisory Group, Youth Council, Community Network</b>	<ul style="list-style-type: none"> <li>• Letter</li> <li>• Presentation</li> <li>• Web content</li> <li>• Newspaper advertisement</li> </ul>
<b>Napier residents – information about project and engagement opportunities</b>  <b>Email to People's Panel</b>	<ul style="list-style-type: none"> <li>• Digital screens</li> <li>• Social media</li> <li>• Media release</li> <li>• Email to panel</li> <li>• Newspaper advertisement</li> <li>• Event 'Future on the Forecourt' – lunchtime presentation with voting boxes</li> </ul>

An engagement summary will be prepared, outlining engagement activities, key themes, and issues for consideration.

## 2. LOAN RAISING 2017/18

<b>Type of Report:</b>	<i>Procedural</i>
<b>Legal Reference:</b>	<i>Local Government Act 2002</i>
<b>Document ID:</b>	<i>371199</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Ian Condon, Revenue and Treasury Manager</i>

### 2.1 Purpose of Report

To approve new loan authorities and loan raising for 2017/18.

### Officer's Recommendation

That the Council resolve as follows:

- a. That Council borrow such amounts and enter into such incidental arrangements on such terms and conditions as any of the Authorised Persons named in Resolution d. below may determine from time to time.
- b. That every borrowing or incidental arrangement incurred or entered into by the Council on the terms and conditions determined by any of the Authorised Persons shall:
  - i. Be for the purposes specified below, or for general working capital purposes of the Council, subject, in each case, to the financial limitations contained in the Liability Management Policy.

NAME	PURPOSE	AMOUNT
Roading Loan 2017	Embankment Road Bridge	1,050,000
CBD Development Loan 2017	CBD Development	833,000
Whakarire Loan 2017	Whakarire Ave Groyne	500,000
Park Island Loan 2017	Park Island Expansion	1,260,000
Sportsgrounds Loan 2017	Sportsgrounds Infrastructure	2,268,000
Sportsgrounds Growth Loan 2017	Sportsgrounds Development	657,000
City General Loan 2017	General Borrowing	400,000
CBD Stormwater Loan 2017	CBD Stormwater Upgrade	355,000
Taradale Stormwater Loan 2017	Taradale Stormwater Upgrade	350,000
Conference Centre Loan 2017	Conference Centre Upgrade	1,115,000
		\$8,788,000

- ii. Be secured by and have the benefit of a Debenture Trust Deed, creating a charge over rates.
- c. That the Council considers that the financial limitations contained in the Ten Year Plan and Liability Management Policy address the risks and benefits of the proposed loan and security to be given by the Council.

- d. That the persons holding the following offices with the Council be designated as “Authorised Persons”:
  - i. Director Corporate Services
  - ii. Chief Financial Officer
  - iii. Revenue and Treasury Manager
- e. That any of the Authorised Persons are hereby authorised, empowered and appointed, on behalf of the Council, (but subject to Resolutions a. and b. above) to:
  - i. Negotiate and approve the specific terms and conditions of the borrowing in accordance with the financial limitations contained in the Liability Management Policy;
  - ii. Negotiate, execute and deliver such documents and take all actions as any of the Authorised Persons may consider necessary for the purpose of giving effect to the borrowing and the security which may be given in respect thereof; and
  - iii. Sign, despatch, any letter, acknowledgement, notice, certificate, authority, approval, payment, or other document on behalf of the Council as any of the Authorised Persons may consider necessary or desirable in connection with, or incidental to, the matters referred to or authorised in paragraphs i or ii above.
- f. That all further actions, documents, agreements, authorities, letters, payments, approvals or notices required in connection with the matters approved and authorised by these Resolutions be from time to time undertaken, executed, entered into, or given on behalf of the Council by any Authorised Persons, such further matters to be in the form and/or on the terms and conditions approved by an Authorised Person and the execution of any document/s relating to such matters by an Authorised Person shall be conclusive evidence of the agreement to and authorisation, approval and confirmation of that matter by the Council and the Authorised Persons.
- g. That the authorisations set out in Resolutions d. to f. inclusive above shall remain in full force and effect until written notice of their revocation by resolution of the Council has been received by the Authorised Persons, provided that any person dealing with the Authorised Persons shall be entitled to assume that the Authorisations have not been revoked and remain in full force and effect and, in so assuming, shall be protected unless and until he or she has actual notice of such revocation
- h. That the Council provides for the repayment of loans through the establishment of Redemption Funds or by such other mechanisms that are in accordance with the Liability Management Policy.
- i. That copies of this resolution and all other resolutions, orders and documents relating to the said loans, certified by the Mayor and Chief Executive as correct extracts from the minutes of all proceedings of the Council may from time to time be sealed with the Common Seal of the Council as evidence of the same and issued as required.

## CHAIRPERSON'S RECOMMENDATION

That the officer's recommendation be adopted.

### 2.2 Background Summary

Council's borrowing is governed by the Local Government Act 2002, the adopted Annual Plan and Liability Management Policy. Prior to raising any of the loans contained within the Annual Plan, Council is required to authorise each of the new loans by resolution.

### 2.3 Issues

For 2017/18, the Annual Plan provides for new borrowing of \$7.323 million for projects contained in the Capital Plan.

In addition to the new borrowing contained in the Annual Plan, loan authority is also sought to formalize additional borrowing previously approved by Council and expended during 2016/17 as follows:

- a. Conference Centre upgrade \$1,115,000. This loan funding was approved by Council 6/4/2016 as part of the overall project funding.
- b. Taradale Stormwater Upgrade \$350,000. Council approved this expenditure budgeted for 2017/18 to be brought forward to 2016/17 due to a timing variance in the project spend. (Council Meeting 5/4/2017)

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The new loans scheduled as per **Attachment A** totaling \$8.788 million are now submitted to be approved by resolution for 2017/18.

### 2.4 Significance and Consultation

Not Applicable

### 2.5 Implications

#### Financial

Budget provision has been made within the Annual Plan to provide for these loans.

#### Social & Policy

Not Applicable

#### Risk

Not Applicable

### 2.6 Attachments

- A Loans 2017/18 [↓](#)



## Loans to be Authorised 2017/18

Name	Purpose	Amount	Maximum Period	Serviced From
<b>New Loans:</b>				
<b>Rate Funded Loans</b>				
Roading Loan 2017	Embankment Road Bridge	1,050,000	25 yrs	Rates
CBD Development Loan 2017	CBD Development	833,000	25 yrs	Rates
Sportsgrounds Loan 2017	Sportsgrounds Infrastructure	2,268,000	25 yrs	Rates
Conference Centre Loan 2017	Conference Centre Upgrade	1,115,000	25 yrs	Rates
City General Loan 2017	General Borrowing	400,000	25 yrs	Rates
<b>Growth Funded Loans</b>				
Park Island Loan 2017	Park Island Expansion	1,260,000	25 yrs	Growth
Sportsgrounds Growth Loan 2017	Sportsgrounds Development	657,000	25 yrs	Growth
<b>Non Rate Funded Loans</b>				
Whakarire Loan 2017	Whakarire Ave Groyne	500,000	25 yrs	HBHB Endowment Land Income A/c Stormwater
CBD Stormwater Loan 2017	CBD Stormwater Upgrade	355,000	25 yrs	Catchments Upgrade
Taradale Stormwater Loan 2017	Taradale Stormwater Upgrade	350,000	25 yrs	Stormwater IAR Fund
<b>Total Loans 2017/18</b>		<b>8,788,000</b>		

### 3. BUDGETS TO BE CARRIED FORWARD TO 2017/18

<b>Type of Report:</b>	<i>Enter Significance of Report</i>
<b>Legal Reference:</b>	<i>Enter Legal Reference</i>
<b>Document ID:</b>	384406
<b>Reporting Officer/s &amp; Unit:</b>	Mary Quinn, Senior Management Accountant Caroline Thomson, Chief Financial Officer

#### 3.1 Purpose of Report

To seek Council approval to carry forward budgets into 2017/18.

#### Officer's Recommendation

That Council

- a. Approve carrying forward budgeted expenditure of \$1,499,000 from 2016/17 into 2017/18.
- b. Approve the release of additional budget of \$200,000 for the skate ramps at Bay Skate funded from the capital reserve.
- c. Approve unbudgeted expenditure of \$35,000 for street lighting for safety purposes at the Dickens Street West carpark, funded from the parking fund.

#### CHAIRPERSON'S RECOMMENDATION

That the officer's recommendation be adopted.

#### 3.2 Background Summary

Provision is made at the end of a financial year to carry forward project expenditure budgeted but not incurred either fully or in part. The provision relates only to expenditure of a project nature and only applies to capital works. Requests are subject to approval by Council.

At the Finance Committee meeting on 29 November 2016, Council approved \$200,000 of capital expenditure for the purchase of skate ramps at Bay Skate to be funded from the Capital Reserve. This project is now being undertaken in 2017/18 and approval is sought from Council to release this budget.

The community strategies team were approached by Napier Business Inc because a number of retailers were feeling unsafe walking to their cars in the early mornings and evenings due to insufficient lighting. A lighting audit was completed and areas identified for improvement were Dalton Street, Raffles Street and the Dickens Street West carpark and attached alleyway.

A project is underway called 'light the way' to improve lighting in these areas and create a safer pathway for members of the public to reach the areas where their cars are most often parked. Improvements include a redesign of street lighting in Raffles and Dalton streets, fairy lit trees on the corner of Raffles and Dalton streets and a redesign of lighting in the Dickens Street West carpark and attached alleyway. This project has been partially funded from CEPTED funding and

Roading. Approval is sought to fund the remaining expenditure of \$35,000 from the parking fund.

### 3.3 Significance and Consultation

Not applicable.

### 3.4 Implications

#### Financial

The proposed carry forward amounts have been reviewed by Council management.

The carry forward amounts are based on the final general ledger figures at 30 June 2017 and total \$1,499,000.

The following table summarises by activity group carry forward expenditure that was budgeted but not incurred in 2016/17 together with the additional budget for Bay Skate and Parking.

Activity Name	Carry/Fwd	Additional budget	Total funding	Principal Components
Roading	350,000		350,000	Embankment Road Bridge
Water Supply	268,000		268,000	New Reservoir Taradale
Wastewater	80,000		80,000	Wastewater Outfall IAR - Major diffuser maintenance
Recreation	200,000	200,000	400,000	Bay Skate - Ramps and the completion of the Marine Parade Reef garden
City Activities	50,000		50,000	War Memorial & Eternal Flame
Planning & Regulatory		35,000	35,000	Parking Security Upgrade
Property Assets	551,000		551,000	Civic Buildings Upgrade
<b>TOTAL</b>	<b>\$1,499,000</b>	<b>\$235,000</b>	<b>\$1,734,000</b>	

<b>Funding of Requests</b>			
<b>Loans</b>			<b>\$900,000</b>
<b>Special Funds</b>			
Financial Contributions			268,000
L/Farm Res Dev (Parklands) Fund			217,000
Prior Years Project Funding			34,000
Wastewater Outfall IAR			80,000
Capital Reserve			200,000
Parking			35,000
			<b>\$834,000</b>
<b>Rates</b>			<b>0</b>
<b>TOTAL</b>			<b>\$1,734,000</b>

**Social & Policy**

Not applicable.

**Risk**

Not applicable.

**3.5 Options**

The preferred options are as follows:

1. Approve carrying forward total project expenditure of \$1,499,000 to 2017/18.
2. Approve releasing budget of \$200,000 for Bay Skate ramps.
3. Approve unbudgeted expenditure of \$35,000 for car park street lighting.

**3.6 Development of Preferred Option**

N/A

**3.7 Attachments**

Nil

## 4. CHRISTMAS CHEER FUNDING APPLICATIONS

*Type of Report:* Operational  
*Legal Reference:* N/A  
*Document ID:* 382414  
*Reporting Officer/s & Unit:* Belinda McLeod, Community Funding Advisor

### 4.1 Purpose of Report

To seek approval to apply for external funding to support the Christmas Cheer Appeal for 2017.

### Officer's Recommendation

- a. That the Council apply to external funders as outlined in **Table a**.

**Table a**

<b>Funder</b>	<b>Up To</b>
Returned Service Association Napier	6,000
Returned Service Association Taradale	6,000
Infinity Foundation	6,000
<b>Total</b>	<b>\$18,000</b>

That a **DECISION OF COUNCIL** is required as the funders close dates are before the next Council meeting. This will require the following resolution to be passed before the decision of Council is taken:

That, in terms of Section 82 (3) of the Local Government Act 2002, that the principles set out in that section have been observed in such manner that the Napier City Council considers, in its discretion, is appropriate to make decisions on the recommendation.

### CHAIRPERSON'S RECOMMENDATION

That the Officer's recommendation to apply for funding as stated in **Table a**, is approved.

### 4.2 Background Summary

Napier Christmas Cheer has been operating for approximately 35 years, and is managed by Community Services. It operates independently, but in conjunction with Hastings Christmas Cheer.



This community project attracts donations from Napier businesses and the public of around \$9000-\$12,000 per year, and with the external funding received (average amount \$2000 per year), allows us to purchase gifts (as/if required) and food vouchers to distribute to disadvantaged families in Napier.

The parcel recipients are provided by community organisations. On an average 500 parcels are packed and distributed every year to families in Napier.

#### 4.3 Issues

No Issues

#### 4.4 Significance and Consultation

N/A

#### 4.5 Implications

##### Financial

External funding enables the project to continue, and distribute around 500 parcels to families in need. If our funding applications are not successful, the number of parcels would have to be reduced.

##### Social & Policy

N/A

##### Risk

N/A

#### 4.6 Options

The options available are as follows:

1. **Reduce** the number of parcels packed and distributed.
2. **Reduce** the value of the grocery vouchers.
3. **Status Quo** (preferred option) to apply for external funding to enable the project to continue at the same level as it has for the past several years.

#### 4.7 Development of Preferred Option

N/A

#### 4.8 Attachments

Nil

## PUBLIC EXCLUDED ITEMS

That the public be excluded from the following parts of the proceedings of this meeting, namely:

### AGENDA ITEMS

1. Service Delivery Review (17A) for Transport
2. Service Delivery Review for Waste Minimisation
3. Council Projects Fund - Applications

The general subject of each matter to be considered while the public was excluded, the reasons 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 were as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER	GROUND(S) UNDER SECTION 48(1) TO THE PASSING OF THIS RESOLUTION
1. Service Delivery Review (17A) for Transport	7(2)(b)(ii) Protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information  7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
2. Service Delivery Review for Waste Minimisation	7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities  7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
3. Council Projects Fund - Applications	7(2)(b)(ii) Protect information where the making available of the information would be likely	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the

	unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
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## Finance Committee

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# OPEN MINUTES

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Meeting Date: **Wednesday 2 August 2017**  
Time: **3pm-4.08pm**  
Venue: **East Coast Lab  
Level 1  
National Aquarium of New Zealand  
Marine Parade  
Napier**

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**Present:** The Mayor, Councillor Wise (In the Chair), Councillors Brosnan, Dallimore, Hague, Jeffery, McGrath, Price, Tapine, Taylor, White, Wise and Wright

**In Attendance:** Chief Executive, Director City Infrastructure, Director Corporate Services, Director Community Services, Director City Services, Manager Communications and Marketing, Manager Community Strategies, Manager Property, Chief Financial Officer, Senior Advisor Policy, Community Funding Advisor

**Administration:** Governance Team

## **APOLOGIES**

### **APOLOGIES**

#### **Councillors Wright/ Brosnan**

That the apology from Cr Boag be accepted.

**CARRIED**

## **CONFLICTS OF INTEREST**

Nil

## **PUBLIC FORUM**

Sindy Cormack and Wendy Piri provided a presentation on their intended development of a children's activity centre at Cato Road, noting that the area is already under-resourced for child care options and it is a location where increasing residential development is already underway. The proposed accessway to the site would follow on from an existing paper road and would be developed at their cost before being gifted back to Council.

The accessway development would include high quality pathway forming (which would be available to the public to use), safety barriers and plantings of native trees in keeping with existing fauna.

In response to questions from Councillors, the presenters clarified that:

- The parking/ turning bay will be allowed for between the site land and the paper road; it will not be on reserve land.
- The accessways to the site and to the cemetery are completely separate. The site is in a valley below the cemetery and between the steep topography and the trees (existing and intended) it is likely that cemetery users would not see the centre.
- Ad hoc conversations with bypassers had been had regarding the development of the site but 'consultation' as such had not been undertaken with neighbouring residents.

Cr Jeffery noted that he had spoken with residents in Fryer Road who had indicated they were comfortable with the proposal as long as the access way terminated at the site of the child care centre.

## **ANNOUNCEMENTS BY THE MAYOR**

Thanks were extended to those who were able to attend the public meeting on the War Memorial yesterday evening. Very positive feedback had been received from members of the public who were in attendance.

## **ANNOUNCEMENTS BY THE CHAIRPERSON**

Nil

## **ANNOUNCEMENTS BY THE MANAGEMENT**

Council was recently awarded the Best Creative Place award at the annual Local Government Excellence Awards for the City Vision project. Congratulations were extended to all those who had been involved in the strategy's development.



## CONFIRMATION OF MINUTES

### Councillors McGrath / Wright

That the Minutes of the meeting held on 14 June 2017 were taken as a true and accurate record of the meeting.

**CARRIED**

## NOTIFICATION AND JUSTIFICATION OF MATTERS OF EXTRAORDINARY BUSINESS

(Strictly for information and/or referral purposes only).

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## AGENDA ITEMS

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### 1. CATO ROAD ACCESSWAY

<b>Type of Report:</b>	Legal
<b>Legal Reference:</b>	Public Works Act 1981
<b>Document ID:</b>	377905
<b>Reporting Officer/s &amp; Unit:</b>	Debra Stewart, Team Leader Parks, Reserves, Sportsgrounds

#### 1.1 Purpose of Report

To gain Council approval for a Licence to Occupy. The proposed Licence to Occupy relates to a piece of land which forms part of the Wharerangi Cemetery and a portion of Council's Paper Road.

The purpose of the Licence is for a road to access a commercial childcare centre that is proposed on an adjoining site. The childcare centre is subject to Resource Consent which is currently being considered by Council's Planning Team.

#### At the Meeting

General agreement was expressed that the presentation and concept for the child care centre were excellent but the lack of consultation with neighbouring residents and cemetery users was a risk to Council. Significant discussion was held as to appropriate forms of engagement with the community on the matter.

It was specified that parts a, b and c of the officer's recommendation would be moved, with the original part d and replaced by a direction that community engagement to be undertaken by officers prior to the meeting of Council on 16 August 2017.

## COMMITTEE'S RECOMMENDATION

### Councillors Taylor / Tapine

That Council

- a. Receive the report titled *Cato Road Accessway*.
- b. Consider the information provided, including the issues and options outlined in this report.

- c. Approve the Licence to Occupy for the part of the cemetery and paper road as shown in Attachment A.
- d. Direct officers to undertake engagement with neighbouring residents and cemetery users on the proposed accessway (for example through a letter drop to neighbouring residents, a site notice in the area and social media) prior to the final decision of Council at its meeting scheduled for 16 August 2017.

**CARRIED**

## **2. COMMUNITY OUTCOME, ACTIVITIES AND ACTIVITY GROUPS**

<b>Type of Report:</b>	<i>Legal and Operational</i>
<b>Legal Reference:</b>	<i>Local Government Act 2002</i>
<b>Document ID:</b>	<i>371697</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Elaine Cooper, Corporate Planner</i>

### **2.1 Purpose of Report**

In preparation for the 2018–2028 Long Term Plan (LTP) a number of Policies, Strategies and building blocks are required to be adopted by Council. This report outlines the first set of building blocks to define Council's overall direction for this LTP: Council's Mission, Vision, Community Outcomes, Activities and Activity Groups through which Council will deliver on its outcomes. The report also identifies the community outcome to which each activity primarily contributes.

These statements provide the strategic direction for the preparation of activity and asset management plans and in the preparation of required policies and strategies.

### **At the Meeting**

Council were pleased that the vision and new mission are clearly outlined, as well as the five primary outcomes to be delivered.

## **COMMITTEE'S RECOMMENDATION**

### **Councillors Hague / Brosnan**

- a. That Council adopt the Mission, Vision, Community Outcomes and Council's Activities and Activity Groups to be used for the preparation of the 2018 – 2028 LTP and supporting plans, policies and strategies.

**CARRIED**

### 3. CIVIC AND LIBRARY BUILDING

<b>Type of Report:</b>	<i>Legal and Operational</i>
<b>Legal Reference:</b>	<i>Building Act 2004</i>
<b>Document ID:</b>	<i>378350</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Adele Henderson, Director Corporate Services</i>

#### 3.1 Purpose of Report

To formally receive the Detailed Seismic Assessment (DSA) undertaken on the Civic and Library buildings and to approve the decanting of staff into alternative locations until such time a fit for purpose Council building is available.

#### At the Meeting

Updated recommendations were tabled at the meeting (attachment A).

The Chief Executive spoke to the item, providing an update to information provided at a previous seminar on the topic. It was noted that the original intention to upgrade the library building in stages while staff were still in the building had been assessed by engineers as unfeasible due to noise and construction issues.

While the preference was to keep teams together as much as possible, there were also some key criteria that any building had to meet in order to be considered acceptable:

- A current seismic assessment, or recent strengthening work with an engineer's assessment
- Fire safety certification
- Toxins certification (particularly but not limited to asbestos in keeping with regulations that will be implemented in the near future)
- A high standard of accessibility

Three smaller sites have been identified which meet the criteria and negotiations are underway to finalise likely costs. The sites are essentially empty 'shells' and fit outs cannot begin until a lease is signed.

The need to act in the best interests of staff safety and wellbeing was reiterated strongly. This, as well as the timing of required fitouts and availability of contractors to complete the work, were some key considerations in the decision to present the recommendations for a Decision of Council at this meeting.

In response to questions from Councillors it was clarified that:

- The signage on buildings identifying them as earthquake prone is required under law.
- A business case on options for the Civic Building is currently being prepared by officers and will be brought to Council in the near future.

Work is underway to better clarify the expected timeframes for the work on the Library Building. A motion was proposed that the decision lie on the table until the Council meeting of 16 August 2017.

#### Item(s) of business to lie on the table

##### Councillors Brosnan / Jeffery

That pursuant to Standing Order 3.12.1 that Item 3 – Civic and Library Building lie on the table and will not be further discussed at this meeting but will be reconsidered at the Council meeting scheduled to be held on 16 August 2017.

The motion was spoken to, during which, at the decision of the Chair, in recognition of the commercial considerations related to this item and to ensure any negotiations are not prejudiced, this item was adjourned to be further considered in committee.

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As per the resolution of Council, the final Decision of Council for this item is recorded in the open minutes of this meeting.

## **COMMITTEE'S RECOMMENDATION**

### **Councillors Wise / Brosnan**

That Council:

- a. Receive the Detailed Seismic Assessment report undertaken by Strata Group.
- b. Approve the relocation of staff to alternative locations within Napier that meet the due diligence requirements.
- c. Approve the capitalisation of improvement and lease costs associated with alternative premises to be funded from the building upgrade budget.
- d. Seek any variance in funding through the Long Term Plan 2018-28.
- e. Note that Council will undertake a Special Consultative Procedure on the proposed options for the Civic Building and potential Commercial development opportunities approximately October 2017. A separate consultation on Library options will be undertaken once the Library Strategy has been completed.
- f. Provide the Chief Executive delegation up to \$1m per annum to undertake and sign lease negotiations to accommodate staff, customer services and a library service centre for a period of 2/3 years with rights of renewals up to 5 years
- g. Provide the Chief Executive delegation up to \$1m to undertake fitout requirements for staff, customer services and library service centre requirements
- h. That a DECISION OF COUNCIL is required urgently due to the timeframe within which lease agreements must be finalised to secure appropriate alternative office space.
- i. This will require the following resolution to be passed before the decision of Council is taken:  
  
That, in terms of Section 82 (3) of the Local Government Act 2002, that the principles set out in that section have been observed in such manner that the Napier City Council considers, in its discretion, is appropriate to make decisions on the recommendation.

**CARRIED**

## **DECISION OF COUNCIL**

### **Mayor Dalton / Councillor Wright**

That, in terms of Section 82 (3) of the Local Government Act 2002, that the principles set out in that section have been observed in such manner that the Napier City Council considers, in its discretion, is appropriate to make decisions on the recommendation.

**CARRIED**

**COUNCIL  
RESOLUTION**

**Councillors Taylor / Price**

**That Council:**

- a. Receive the Detailed Seismic Assessment report undertaken by Strata Group.
- b. Approve the relocation of staff to alternative locations within Napier that meet the due diligence requirements.
- c. Approve the capitalisation of improvement and lease costs associated with alternative premises to be funded from the building upgrade budget.
- d. Seek any variance in funding through the Long Term Plan 2018-28.
- e. Note that Council will undertake a Special Consultative Procedure on the proposed options for the Civic Building and potential Commercial development opportunities approximately October 2017. A separate consultation on Library options will be undertaken once the Library Strategy has been completed.
- f. Provide the Chief Executive delegation up to \$1m per annum to undertake and sign lease negotiations to accommodate staff, customer services and a library service centre for a period of 2/3 years with rights of renewals up to 5 years.
- g. Provide the Chief Executive delegation up to \$1m to undertake fitout requirements for staff, customer services and library service centre requirements.

**CARRIED**



**Attachment A – Explanatory Note tabled:**

**Explanatory Note**

**3. Civic and Library Building – Finance Committee – 2 August 2017 – Open Agenda**

This note sets out the options considered by the Senior Leadership Team (SLT) for staff accommodation and council functions following the receipt of seismic ratings for the Civic and Library Buildings.

As part of a comprehensive process, SLT identified a number of key objectives when considering temporary options for staff accommodation and council functions. These objectives include:

- Safety of staff and visitors using NCC offices and library is improved
- Internal reputation – NCC reputation as a good employer acting in the best interest of staff
- Fit for purpose premises to allow staff to work to their best ability
  - co-location of business groups/Directorates/teams
  - continue to develop team culture, collaboration, alignment
- Function – new ways of working are tested and staff buy-in to modern open plan working environments increase
- Community service - public do not experience a drop in service during the transition phase
- Fiscal responsibility, making prudent decisions for staff and community safety
- Keep Council within the CBD

Using these objectives, SLT worked through a range of options. The main options considered were:

1. **Remaining in the current buildings** – while this option is allowed for under legislation providing 7.5 years for remedial work to be undertaken, it was discounted as it did not fit the objectives of a good employer, staff safety, or providing premises that were fit for purpose. Demolition/remedial work will be loud, messy and intrusive to staff and visitors. Multiple moves would need to be undertaken to work around construction staff. There would likely be a lowering of morale in staff and loss of staff.
2. **Working from home** – this option has been used in extremely urgent situations (post Christchurch and Wellington earthquakes) where the level of the threat necessitates relocating staff before alternative premises can be arranged. This is not the situation for NCC. Having staff work from home for any length of time can cause loss in productivity, low morale and culture, and disconnection from teams and common purpose. In assessing this option SLT also determined that there would be significant IT implications from not having a direct link to NCC systems. This option was discounted for all of these reasons.
3. **Single site** – a single premise for all staff is the preferred option. However there are very few buildings available in the Napier area that could accommodate all NCC staff and functions. These sites were identified and assessed for their suitability,

including seismic ratings, refit costs, and building issues. The few buildings available had to be discounted for these reasons.

4. **Purchase or lease** - SLT continue to ensure that the most cost-effective and commercially viable options are being considered and this has included options to purchase buildings.

#### 4. REMUNERATION OF ELECTED MEMBERS

<b>Type of Report:</b>	<i>Operational and Procedural</i>
<b>Legal Reference:</b>	<i>Local Government Act 2002</i>
<b>Document ID:</b>	<i>378660</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Adele Henderson, Director Corporate Services</i>

##### 4.1 Purpose of Report

*To advise Council of the proposed remuneration levels to apply for the 2017/2018 year, as received from the Remuneration Authority, and to seek Council approval of these.*

##### At the Meeting

There was no discussion on this item.

#### COMMITTEE'S RECOMMENDATION

##### Councillors Wright / White

- a. That the remuneration levels proposed by the Remuneration Authority for the 2017/18 year be adopted.
- b. That confirmation be sent to the Remuneration Authority that the adopted remuneration levels will be implemented from 1 July 2017.

**CARRIED**

#### 5. ELECTORAL SYSTEMS FOR ELECTIONS

<b>Type of Report:</b>	<i>Legal</i>
<b>Legal Reference:</b>	<i>Local Electoral Act 1991</i>
<b>Document ID:</b>	<i>377703</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Jane McLoughlin, Team Leader Governance</i>

##### 5.1 Purpose of Report

To outline the process for making any changes to the electoral system to be used for the 2019 elections.

##### At the Meeting

There was no discussion on this item.

#### COMMITTEE'S RECOMMENDATION

## Councillors Price / McGrath

That Council

- a. Receive the report titled Electoral Systems for Elections.
- b. Note that if Council wishes to make a decision to change the electoral system to STV for the 2019 elections, a decision will need to be made by 12 September 2017.
- c. Note that staff will undertake an education campaign and consultation process and report back to Council on the community's views to inform Council's decision-making. A report back will be provided at the Strategy and Infrastructure Committee meeting on 30 August for Council to make a decision on the electoral system.

**CARRIED**

## 6. NEW YEAR'S EVE EVENT - FUNDING APPLICATIONS

<b>Type of Report:</b>	<i>Operational</i>
<b>Legal Reference:</b>	<i>N/A</i>
<b>Document ID:</b>	<i>376879</i>
<b>Reporting Officer/s &amp; Unit:</b>	<i>Belinda McLeod, Community Funding Advisor</i>

### 6.1 Purpose of Report

To seek approval to apply for external funding to support the New Year's Eve event for 2017-18.

### At the Meeting

There was no discussion on this item.

## COMMITTEE'S RECOMMENDATION

### Councillors Wright / Taylor

- a. That the Council apply to external funders as outlined in **Table a**.
- b. That a **DECISION OF COUNCIL** is required urgently. This will require the following resolution to be passed before the decision of Council is taken:  
That, in terms of Section 82 (3) of the Local Government Act 2002, that the principles set out in that section have been observed in such manner that the Napier City Council considers, in its discretion, is appropriate to make decisions on the recommendation.

**CARRIED**

## DECISION OF COUNCIL

### Councillors Price / Wright

**That, in terms of Section 82 (3) of the Local Government Act 2002, that the principles set out in that section have been observed in such manner that the Napier City Council considers, in its discretion, is appropriate to make decisions on**

the recommendation.

**CARRIED**

**COUNCIL  
RESOLUTION**

**Councillors Wright / Brosnan**

**That the Council apply to external funders as outlined in Table a:**

<b>External Funder</b>	<b>Apply for funding up to:</b>
Pub Charity Ltd	23,000
Eastern & Central Community Trust	14,000
Youthtown	6,000
North and South Trust	4,000
First Sovereign Trust	4,000
Infinity Foundation	10,000
Grassroots Trust	9,000
<b>Total</b>	<b>\$70,000</b>

**CARRIED**

The meeting adjourned at 3.56pm, and was reconvened at 4.07pm following the Community Services Committee meeting.

## **PUBLIC EXCLUDED ITEMS**

**Councillors White/ Brosnan**

That the public be excluded from the following parts of the proceedings of this meeting, namely:

1. Continuance of Item 3 – Civic and Library Building

Under the following sections of the Local Government Official Information and meetings Act 1987:

Section 7(2)(h) – that the local authority holding the information may carry out commercial activities without prejudice or disadvantage

Section 7(2)(i) – that the local authority holding the information may carry out negotiations

(including but not limited to commercial and industrial negotiations)

**CARRIED**

The meeting moved into committee at 4.08pm.

**APPROVED AND ADOPTED AS A TRUE AND ACCURATE RECORD OF THE MEETING**

**CHAIRPERSON:**\_\_\_\_\_

**DATE OF APPROVAL:**\_\_\_\_\_