

16. TAMAKI TOURS LIMITED

Officer responsible Property Manager	Author Angus Smith, Property Projects Team Leader, DDI 941-502
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The purpose of this report is to put forward a request from Tamaki Tours Limited for funding assistance from the Christchurch City Council.

CONTEXT

In September 2001 the Council passed resolutions to enable Tamaki Tours to establish a tourism venture at Ferrymead on a block of Council owned land known as "Woodhill". The property is an old landfill and as such presents all the challenges inherent in these types of properties i.e. resource consent issues, contamination and construction difficulties.

To date considerable negotiations have occurred with the Ferrymead Trust; some of the trust's societies, the units of the Council, which have a project interest in this area; and Tamaki Tours Limited. We are now at a stage where the substantive terms and conditions have been agreed with all parties and final drafts of the respective heads of agreements are close to resolution. Resource Consents are being prepared by Tamaki Tours and are expected to be lodged for application by the end of June.

The proposed principal terms and conditions of the lease of the land to Tamaki Tours are:

- Term 15 years plus 3 rights of renewal of 15 years
- Rental \$24,000 pa
- Rent Reviews 5 yearly
- Incentives 2 - 3 year rent holiday initially requested, yet to be agreed.
- Lease form Net – i.e. tenant pays rates
- Condition "As is" with rehabilitation in the form of capping to attend to the contamination issues undertaken by the Council at its cost. Any future environmental contamination arising from the site landfill shall reside with the Council. All construction and building risk shall reside with the lessee.

In addition during the recent draft annual plan process funding was established to attend to the site contamination issues known at that time.

EXECUTIVE SUMMARY

Tamaki Tours have requested funding from the Council (over and above that allowed in the draft annual plan) to ensure the establishment of their pre-European (Maori) Village Tourism venture at Ferrymead. The rationale for this request is to cover additional abnormal costs related to construction on an old landfill site.

The funding request is for \$508,042. This comprises \$346,709 associated with the incremental additional foundation costs and \$161,333 for re-contouring. Council officers consider the former amount a legitimate site-specific claim for abnormal costs. However, the latter is debatable. It is considered that if the Council made provision for a grant of only the \$346,000 the project would not be jeopardised.

There is no budget provision for this expenditure. Two other sources of funding have been identified. One is insufficient and the other is likely to be controversial and unacceptable to a number of people.

PROPOSAL

In parallel to the negotiations and area concept planning processes, Tamaki Tours Limited have furthered development of their concept plans and development costs. It has been through this process that they have identified significant additional foundation and piling costs arising from the fact that this is an old landfill site. Through test piling, engineers and QS advice, Tamaki Tours Limited have estimated these additional costs at \$508,042, which forms the basis of their funding claim.

Simplistically this cost can be categorised as:

• Recontouring the site	\$161,333
• Incremental cost of foundations for building on this specific site	<u>\$346,709</u>
	Total \$508,042

There is some debate as to whether the re-contouring costs are a legitimate claim on the Council; to a degree they are specific to the development plans. The Council is already committed to capping the site as part of the rehabilitation. The re-contouring is to provide for the building layout and Tamaki Tours Ltd's desire for further site shape improvement. As a result additional material, to the Council capping the site, is to be imported as they consider re-contouring the "fill" is not possible. This, however, may not be strictly correct as it may be possible through obtaining a resource consent to do exactly that before the Council undertakes its rehabilitation (capping) exercise.

ISSUES

- The established Draft Annual Plan provisions related to the Tamaki project are:

Woodhill acquisition work need to assist removal of the Ferrymead Trust improvements	\$70,000
Tamaki car park	\$140,000
Tamaki contribution to car park	(\$100,000)
Woodhill rehabilitation, this relates to capping the site for contamination	<u>\$300,000</u>
	Total \$410,000

- Tamaki Tours Limited have advised that these additional costs would affect the viability of the project. Their project contingencies would be significantly depleted if not totally used on this one issue.
- The Draft Annual Plan provisions and incremental foundation costs are clearly specific and unique to this site. Whether the re-contouring costs are is debatable.
- In simple terms the site, if not contaminated and containing landfill, would have a value of approximately \$250,000. Unfortunately, as established above, costs of approximately \$918,000 are required to enable it to be developed. This is therefore an operating expense item, it is difficult to argue it is capital because it clearly adds no value and hence cannot be capitalised.
- The alternative is to leave the site in its current highly unproductive state and a potential contingent liability for the Council. In essence, the argument therefore is whether the benefits outweigh the costs.

In an effort to quantify the benefits an economic impact assessment has been obtained from an independent firm of economists, Philip Donnelly and Associates Limited, their report "assessed the 'before and after' and 'with and without' economic impacts of the proposed Maori Village. The former more certain assessment of economic impacts did not take account of the 'substitution' or 'competitive' expenditure effects of the proposed Village on other visitor attractions, while the latter hypothesised on the incremental change in activity so as to provide a better indication of the net gain to Christchurch's economy.

The report indicated that because of the time required to make a worthwhile visit some visitors should be encouraged to stay longer in Christchurch and as a consequence purchase additional 'complementary' goods and services (eg food, beverage, accommodation, transport) than would otherwise be the case. The Village should also encourage visitors to spend more in Christchurch, especially with respect to recreation and culture services. While noting the speculative nature of forecasts, the report confirmed Tamaki Tours Limited's projections as conservative for a number of reasons. This included the Company's experience with the Rotorua Village, success in winning New Zealand Tourism's Best Cultural Award, and a much larger local population and more domestic visitors.

The before and after assessment, which does not necessarily represent net gain to Christchurch, forecast that over 20 years 'direct' output and contribution to Gross Domestic Product (GDP) should rise by \$182 million and \$92 million, respectively, in undiscounted values. Inclusion of the indirect or multiplier impacts increased output and GDP estimates to \$312 million and \$160 million, respectively. In discounted 2002 values (ie adjusted for the time value of money) the direct and indirect output and GDP estimates were assessed as \$118 million and as \$61 million, respectively, at 10% discount rate. Full-time equivalent jobs were estimated to rise from 64 in the first year to 219 by year 20 and generate about 3,400 full-time equivalent years of work over 20 years.

Based on the assumption that 1 in 10 visitors to the village extend their stay by an additional day and the prediction that average spend on recreational and cultural activity increases by an additional \$29

on the day of the visit, the report concluded that it is realistic to anticipate net gains in output, GDP and employment that are similar to the 'before and after' assessment. The report noted that the extended stay assumption could be reduced significantly by up to 1 in 20 without undermining this conclusion."

The advantages and disadvantages are summarised below:

Advantages	Disadvantages
<ul style="list-style-type: none"> • The economic impact is significantly greater than the costs. • There are potential synergies and tourism growth potential for the Ferrymead Historic Village, which are not included in the economic impact assessment work. • Furthers development of an area of limited development potential within the Heathcote Valley, without compromising flood plain issues. • Provides an impetus to tend to the Woodhill rehabilitation issues, which is a potential contingent liability for Council. 	<ul style="list-style-type: none"> • Cost. • Requires additional unbudgeted expenditure of \$500,000. • No substitutions or funding options have been identified.

FUNDING

The funding request is unbudgeted. No substitutions, deferrals or cancellations have been identified. Two possibilities for consideration are:

1. A report to the May Council meeting from the Strategy and Finance Committee identified unbudgeted income of \$190,000 from the Canterbury Technology Park Joint Venture. The resolution passed saw \$50,000 reallocated to the Canterbury Development Corporation to fund the fitout and operating costs of the Canterbury Innovation Incubator, leaving \$140,000 still unallocated. Since the report an additional unbudgeted payment of \$45,000 has been received, therefore \$185,000 still remains available for reallocation. This was unbudgeted in this year and could therefore be available for this project if carried forward.
2. Reducing the annual grant to the Ferrymead Trust. The Council has historically provided an annual grant to the trust for assistance with its operating expenses. This year, the budget provision is \$155,000; the application was for twice this amount. An argument could be mounted to support the reduction of the annual trust grant to fund borrowing the additional unbudgeted funding for the Tamaki Tours project e.g.

Fully funding the recommended grant to the Tamaki Tours Ltd - \$346,000	Required Reduction in Ferrymead Trust Grant
Interest only @ 6.8%	\$23,528
Principal & interest @ 6.8% over 25 years	\$29,158
Grant reduced by unbudgeted income reallocation - \$161,000	
Interest only @ 6.8%	\$10,948
Principal & interest @ 6.8% over 25 years	\$13,568

This option has some merit in that the trust should benefit significantly from the establishment of Tamaki Tours as a neighbour. Reducing their grant to provide certainty of this mutual benefit happening should also have the added advantage of motivating them to become even more commercial and work with Tamaki Tours to ensure the loss is recouped through other more productive means.

We, however, point out that there is little support for this option. It would be very unacceptable to the trust and likely to create ill will.

CONCLUSION

Whilst the additional costs relating to foundations might be a legitimate request from a tenant for a landlord to cover abnormal development costs specific to and arising from the nature of the site, it may not be necessary for the Council to meet them in full. In particular officers do not consider it reasonable to claim the re-contouring costs. Not agreeing to fund the re-contouring costs is likely to challenge Tamaki Tours to explore more cost-effective alternatives or change other elements of the project and is unlikely to jeopardise the project proceeding.

Having said this it is important that the venture proceed and it maintains viability as the benefits substantially out-weigh the costs.

NATURAL + PEOPLE + ECONOMIC STEP ASSESSMENT

#	CONDITION:	Meets condition ✓✓0*	HOW IT HELPS MEET CONDITION:
The Natural Step			
N1	Reduce non-renewable resource use	✓	Productive use of a potentially unproductive site
N2	Eliminate emission of harmful substances	✓✓	Site rehabilitation, containing contamination
N3	Protect and restore biodiversity and ecosystems	0	N/A
N4	People needs met fairly and efficiently	0	<i>Project has support through public consolation</i>
The People Step			
P1	Basic needs met	0	N/A
P2	Full potential developed	✓✓	Provides people opportunities
P3	Social capital enhanced	✓✓	Both cultural and economic
P4	Culture and identity protected	✓✓	Enhanced through providing a living experience
P5	Governance and participatory democracy strengthened	0	N/A
The Economic Step			
E1	Effective and efficient use of all resources	✓✓	Benefits out weigh costs
E2	Job rich local economy	✓✓	Significant new job numbers created
E3	Financial sustainability	✓✓	Yes

Staff

- Recommendation:**
1. That the Council continue to support the lease of the land at Ferrymead to Tamaki Tours Ltd.
 2. That the funding be provided to Tamaki Tours Ltd to cover the abnormal incremental cost of erecting foundations on a landfill up to a maximum of \$346,000 plus GST, this is not to cover re-contouring.
 3. That such payment shall be made in one lump sum upon completion of the foundation work and certification of at least that amount of expenditure.
 4. That the funding request be referred to the Annual Plan Subcommittee for provision to be made in the 2003 Financial Plan and Programme.

Chair's

Recommendation: That the above recommendation be adopted.