CM13.3. Albury Entertainment Centre Expansion Project

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Purpose of Report

To provide Council with the results of the further financial and economic analysis undertaken into the expansion of the Albury Entertainment Centre Convention Wing.

To seek a determination of the preferred design option and authorisation to prepare and lodge grant funding applications as opportunities arise.

Background

The Albury Entertainment Centre (AEC) is a major regional business, event and cultural asset managed by AlburyCity. The Centre consists of a Convention Wing and Theatre Wing that can be configured to cater for a range of events and varying seating arrangements.

The AEC Theatre Wing was constructed in 1964 and Convention Wing in 1972. A major refurbishment was undertaken in the late 1980's, with a further $4.5M refurbishment of the Theatre Wing completed in 2010 with assistance from the Commonwealth Government.

The 2015/16 One Year Operational Plan included $40,000 to investigate the feasibility of upgrading the AEC to increase the capacity of the venue to cater for larger business/conference events and functions of between 800-1,000 patrons. The primary purpose of the preliminary feasibility study was to provide an overview of future development options, with concept designs, indicative capital and operating costs, an economic impact assessment and cost benefit analysis.

The study was undertaken by consultants AEC Group and was completed in mid 2017.

A report was presented to the Planning and Development Committee in relation to the above on 19 June 2017, following which the Committee recommended that Council:

a. Receive and note the findings of this report;
b. Undertake more detailed research into the design and capital cost of redeveloping the Albury Entertainment Centre Convention Wing, including its capacity to operate independently from the Theatre building; and
c. Continue to invest in asset renewal of the Albury Entertainment Centre and utilise temporary hoeckers, marquees or the Lauren Jackson Sports Centre for large scale business events where required.

Council endorsed the Committee's recommendation at its meeting on 26 June 2017.

Teilion Architects were subsequently engaged to undertake the work which was finalised in February 2018. In addition, Council's in-house design team prepared some further options building on Teilions concepts.

A follow-up report was provided to Council on 26 March 2018. The report provided an analysis on five options; Option 1, 2A, 2B, 3A and 3B. The following recommendation was endorsed by Council:

That Council:

a. *Endorse 2B and 3B as the preferred design options; and*
    i. *Obtain independent structural engineering advice on 2B, and make any adjustments to the design as a result, which may include removing the first floor connection to the Theatre;*
    ii. *Obtain independent quantity surveyor estimates of 2B and 3B to confirm costs;*
    iii. *Update the previous preliminary feasibility study financial and economic analysis to reflect revised construction costs and venue capacity identified in both options to test which has the potential to deliver the best return on investment; and*
    iv. *Present a further report to Council detailing the outcome of further investigations.*
b. *Include a $5M capital allocation in the Four-Year Delivery Program to enable project progression and support any grant funding applications in the event the cost benefit analysis is positive.*

Issues

In light of the minor design challenges associated with the second floor in Option 2B (outlined in the previous report) further refinements were made to this option to eliminate issues and reduce cost. This subsequent design is identified as Option 2C and has been subject to the same review process as Options 2B and 3A as outlined in this report.

Neil Wright of Barrat Wright was engaged to review Options 2B and 2C and provide structural engineering advice on the truss requirements for supporting the significant ground floor spans. This advice was incorporated into the scope of works for the Quantity Surveyor.

An Independent Quantity Surveyor (Donald Cant Watts Corke) subsequently prepared costings for Options 2B, 2C, 3B and a '2C design as new build' option.

The new build option for Option 2C was sought on completion of the costings for all other options, given it was the most cost-effective solution, to ensure that any decision to progress redevelopment of the building was compared against a total demolition and rebuild option.
Construction cost estimates were as follows:

	Description	2B ($)	2C ($)	3B ($)	2C New build ($)
1	Demolition/site prep	604,690	370,690	371,320	705,690
2	Building works	9,958,868	9,346,692	10,755,279	18,758,359
3	External works & services	1,968,000	1,816,500	1,849,500	1,816,500
4	Contractors preliminaries & margin	2,600,299	2,393,280	2,692,541	4,415,715
5	Professional fees	2,360,842	2,458,237	2,458,237	3,990,887
6	Contingency	2,623,905	2,719,032	2,719,032	4,453,073
7	Fixtures, Fitting & Equipment	Excluded	Excluded	Excluded	Excluded
	Total Project Cost EXCL GST	**$20,116,604**	**$18,529,068**	**$20,845,909**	**$34,140,224**

The above construction cost estimates included $829,725 to create a potential pedestrian bridge link between the expanded Convention Wing and existing Theatre. The cost estimates did not include potential costs associated with hazardous waste removal, staging of works (assuming the facility would be closed during the construction period), escalation of costs, furniture, fixtures and equipment, operational supplies and equipment, and refurbishment/renovation of any existing retained areas of the Convention Wing not impacted by expansion works to ensure they presented to the same standard as the upgraded sections of the venue. The $829,725 investment in the pedestrian link was not considered as delivering value for money when compared against the operational and patron experience benefits of the connection. Accordingly, this sum has been retained in the total project cost as an indicative provisional allowance to offset excluded items such as fixtures, fittings and equipment and refurbishment/renovation works. Further investigation of these excluded costs will be undertaken to confirm the adequacy of the provisional allowance. Should these investigations result in a reduction in the provisional allowance required, this will have a positive impact on the project feasibility.

Attachment 1 shows the floor plans of all three options (2B, 2C and 3B) and a summary of their seating capacity and cost.

The total costs for each option were then provided to the AEC Group who prepared a supplementary report to the original study, detailing the economic impact analysis of all four options.

The costs and benefits have been assessed against three real discount rates (4%, 7% and 10%) with the focus primarily on the standard 7% discount rate. The Present Value (PV) of the identified costs and benefits associated with the project are based on 30 years of operations. The following results were received utilising a medium demand scenario (additional 22,500 delegate days or just under 1% of the regional NSW market) for each option:

Option 2B	Real Discount Rate	Present Value Costs ($M)	Present Value Benefits ($M)	NPV ($M)	BCR**
	4%	$31.7	$49.1	$17.4	1.55
	7%	$28.4	$34.8	$6.4	1.22
	10%	$26.4	$26.0	-$0.5	0.98
IRR* 9.7%					

*Internal Rate of Return
**Benefit Cost Ratio

Option 2C	Real Discount Rate	Present Value Costs ($M)	Present Value Benefits ($M)	NPV ($M)	BCR
	4%	$29.8	$49.1	$19.3	1.65
	7%	$26.7	$34.8	$8.1	1.30
	10%	$24.7	$26.0	$1.3	1.05
IRR 10.7%					

Option 3B	Real Discount Rate	Present Value Costs ($M)	Present Value Benefits ($M)	NPV ($M)	BCR
	4%	$32.6	$49.1	$16.6	1.51
	7%	$29.3	$34.8	$5.5	1.19
	10%	$27.3	$26.0	-$1.3	0.95
IRR 9.3%					

New Build***	Real Rate	Discount	Present Value Costs ($M)	Present Value Benefits ($M)	NPV ($M)	BCR
		4%	$47.9	$49.1	$1.2	1.03
		7%	$44.0	$34.8	-$9.2	0.79
		10%	$41.6	$26.0	-$15.6	0.62
IRR 4.3%						

***based on Option 2C

The Net Present Value (NPV) and Benefit Cost Ratio (BCR) are the primary decision criteria for the economic appraisal. The NPV of a project expresses the difference between the present value (PV) of the future benefits and PV of future costs, i.e: NPV = PV Benefits – PV Costs. The BCR provides the ratio between the PV of benefits and PV of costs, i.e: BCR = PV Benefits / PV Costs.

Where the economic appraisal results in a:

- Positive NPV and BCR above 1: the project will be deemed as being desirable;
- NPV equal to zero and BCR of 1: the project will be deemed neutral (i.e, neither desirable nor undesirable); or
- Negative NPV and BCR below 1: the project will be deemed undesirable.

The IRR, which indicates the discount rate which would return an NPV of $0 and a BCR of 1, is also reported.

Based on the findings of the economic appraisal, Option 2C is the preferred option delivering a positive NPV and BCR greater than 1 across all discount rates, and the strongest IRR of 10.7%.

As shown in Attachment 1, Option 2C provides total seating capacity of 1,992 patrons, marginally higher than Options 2B and 3B. It also provides cabaret room seating capacity of 860, being 140 more than 3B and 15 less than 2B.

Venue seating capacity is a key driver of the feasibility of the future expansion of the venue, which is evidenced by the fact that Option 2C has presented the strongest economic result. The range of seating options available in Option 2C and its higher capacity will ensure the venue is best placed to attract a market not able to be accommodated in a purpose built venue anywhere else in the Albury Wodonga region.

Albury 2030
The following Albury 2030 outcomes and strategic actions are relevant to this project:

Theme: A Growing Sustainable Economy
Outcome:
1.1 Increase visitors to Albury and the surrounding region

Strategic Actions:
1.1.1 Promote tourism and enhance the Albury Wodonga region as a destination of choice.
1.1.3 Further develop and strengthen the city's visitor product and infrastructure. Ensure its effective marketing and promotion.
1.1.5 Understand the benefits of the visitor economy to the region.
1.1.7 Enhance the capacity of businesses to support the delivery of quality tourism, sport and business events, experiences and outcomes.

Outcome:
1.2 Improve visitor and resident experiences.

Strategic Action:
1.2.8 Ensure venues and facilities attract visitation and improve the lifestyle offer of the city.

Outcome:
1.5 Promote Albury for Industry and Business.
Strategic Actions:
1.5.1 Promote Albury as a regional economy and the regional city of choice for lifestyle, career and investment opportunities.
Support and promote business and business opportunities across all sectors to continue to foster economic diversity.

Outcome:
1.8 Albury's infrastructure and assets are well managed and maintained.
Strategic Actions:
1.8.1 Determine infrastructure and service levels through balancing community needs, future growth, sustainability and heritage values.

Theme: A Caring Community
Outcome:
3.7 Increased participation in a diverse range of art and cultural activities in Albury.

Strategic Actions:
3.7.1 Activate the cultural precinct and create connections between stakeholder facilities.
3.7.2 Provide a diverse range of experiences in Albury – including entertainment, culture and sport. Support community driven performances and events.
3.7.4 Ensure provision of accessible, high quality and innovative cultural facilities and services.

Two Cities One Community
Relevant goals and outcomes identified in the Two Cities One Community Strategic Plan include:
Our Economy:
1.2 We are a destination that offers a variety of experiences, attractions and events.
1.3 We promote business, investment and jobs.

Our Community:
3.1 We are recognised as a cultural and creative region that embraces and celebrates diversity.

Regional Strategic Plans

The current Murray Region and Riverina Murray Destination Management Plans both identify the expansion of the AEC Convention Wing as a tier one priority project.

The Albury Wodonga Regional Economic Development Strategy also identifies the project as a regional priority.

Risk

- Business Risk
    - The AEC Convention Wing is an ageing asset that requires capital investment to ensure it continues to meet and capitalise on market demand, contribute to the achievement of Albury 2030 objectives and complement the other significant assets in the city's cultural precinct. Given the significant level of capital investment required to upgrade the facility,

comprehensive investigations have been undertaken to ensure confidence in relation to project cost and feasibility to mitigate any long-term business risk.
    - Venue bookings made at the AEC are often made two years in advance, accordingly any funding application should reflect the lead times required to meet current business obligations.
    - Further investigation of excluded costs is to be undertaken to confirm the adequacy of the provisional allowance.
    - Should Council secure government funding to support project progression, a detailed operational business and resource plan will also need to be prepared.
- Corporate Risk
    - Albury 2030 clearly sets out community expectations in relation to the priority to be applied to the provision of Council facilities and assets that contribute to the visitor economy and cultural experiences available in the city. To an extent these priorities can be met through ongoing asset renewal of the existing venue and utilisation of alternatives to support specific large-scale event opportunities arise. However, the redevelopment of the Convention Wing provides an opportunity to enhance its capacity to contribute to the visitor economy and improve the liveability of the city, while still delivering an economically desirable outcome.
    - There is a risk that community expectations in relation to project progression will be high. It is important that all communications highlight that the realisation of the vision for this facility is subject to the attraction of State and Government funding to complement that already committed by Council.
- WHS and Public Risk – No risk determined.
- Delivery Program Risk – $5M has been incorporated into the capital new initiatives for the 2018-2022 Four Year Delivery Program to enable Council to make a financial contribution toward the project. The remainder of funds would need to be sourced from State and Federal Government programs.

Community Engagement

Community Engagement to support preparation of the preliminary feasibility was undertaken to better understand market demand. The next phase of investigations has analysed construction design options and costs, and economic and financial feasibility, therefore no further community engagement has been required at this stage.

Options

1. Not undertake any major upgrade to the Albury Entertainment Centre Wing and continue with asset maintenance; or
2.
    a. Endorse Option 2C as the preferred design option for the future expansion of the Albury Entertainment Centre Convention Wing; and
    b. Actively pursue State and Federal Government funding to support project progression.

Conclusion

The preliminary feasibility study undertaken into the expansion of the Albury Entertainment Centre (AEC) in 2017 sought to increase the capacity of the venue to service larger business/conference events and functions of between 800-1,000 patrons. It showed there was an opportunity to increase Albury's share of large-scale business and conference events. It highlighted that the AEC Convention Wing is an ageing asset that requires capital investment in order to ensure it continues to meet and

capitalise on market demand, contribute to the achievement of Albury 2030 objectives and complement the other significant assets in the city's cultural precinct.

The concepts and analysis incorporated into that preliminary study were extremely high level and required further investigation to ensure that every opportunity was pursued to maximise the facility's positive impact on the visitor economy and city's lifestyle offer, while minimising business risk, capital investment and ongoing costs.

Accordingly, after considering the outcomes of that study Council determined to conduct further investigations into design and cost options. Those options were developed and Council selected Options 2B and 3B for further structural design, costing and economic appraisal analysis.

Staff subsequently made minor refinements to Option 2B to address identified design challenges and reduce construction cost, which is presented as concept Option 2C in this report.

Options 2B and 2C have been subject to assessment and advice by a structural engineer. Quantity surveyor estimates have also been prepared for all three options, together with a new build option to enable a full comparison.

The quantity surveyor cost estimates have informed a further economic analysis to determine the feasibility of each option.

The economic analysis has shown that Option 2C is the most financially desirable option, delivering a positive Net Present Value and Benefit Cost Ratio greater than 1 across all discount rates, and the strongest Internal Rate of Return (10.7%).

The total estimated cost of Option 2C is $18,529,068 and will offer a total seating capacity of 1,992 patrons, including a cabaret room with capacity for 860 seated guests.

Recommendation

That Council:

a. Endorse Option 2C as the preferred design option for the future expansion of the Albury Entertainment Centre Convention Wing; and
b. Actively pursue State and Federal Government funding to support project progression.

Attachments

1. AEC Principles and Design Options (4.9.18) - (DOC18/132110)