



Belfast City Council

| | |
|---------------------------|---|
| Report to: | Strategic Policy and Resources Committee |
| Subject: | Funding for Exhibition and Conference Facilities at Belfast Waterfront Hall – Operational Issues |
| Date: | 18 May 2012 |
| Reporting Officer: | John McGrillen Ext 3509 |
| Contact Officer: | John McGrillen Ext 3509 |

| 1 | Relevant Background Information |
|----------|---|
| 1.1 | Belfast City Council's Investment Programme was launched on 2 February 2012. It commits the Council to an ambitious programme of investment, including an investment of £150M in capital projects. One of the key projects highlighted in the Programme is a proposal to invest £20M to extend Belfast Waterfront to provide dedicated conference and exhibition facilities which will help strengthen Belfast's offer to the market. |
| 1.2 | The Belfast Waterfront (the Waterfront) is a large purpose-built arts and entertainment centre which opened for business in 1997. It was constructed at a total cost of £37M. |
| 1.3 | The facilities offered within the existing building include: <ul style="list-style-type: none">. Auditorium of seating capacity in excess of 2,200;. Studio with a seating capacity of 380;. 20 small meeting rooms;. Two bars;. A Fully Licensed Restaurant;. A Gift Shop; and. A Box Office. |
| 1.4 | In addition to the above public space, the venue includes office space for staff; dressing rooms for performers; technical areas; and 2 small kitchens. |
| 1.5 | The Waterfront is located on the banks of the River Lagan and adjacent to the Belfast Courts Complex, Hilton Hotel, and BT Tower in an area which is now considered a business hub within Belfast. |

| | |
|------|---|
| 1.6 | <p>In 2008, Belfast City Council commissioned a Feasibility Study for the development of a Convention Centre in Belfast. The key driver behind this Feasibility Study was that despite experiencing considerable success as a conference destination, the Waterfront was unable to attract a significant number of events from within its key target market i.e. the Association Conference Market. This study concluded that the provision of a larger conferencing facility in the City could attract additional conferences, resulting in significant economic benefits being realised.</p> |
| 1.7 | <p>In February 2011, the Development Committee agreed to commission a Business Case to explore the feasibility of creating a link between the Waterfront and the vacant Level 0 and Level 1 at the Lanyon Quay Building.</p> |
| 1.8 | <p>The Business Case concluded that the development of a link bridge and the conversion of Level 0 and Level 1 would provide the venue with significant additional space, thereby providing the potential to attract large scale international conferences.</p> |
| 1.9 | <p>Following the completion of the Business Case, the Committee subsequently agreed to commission a Full “Green Book” Economic Appraisal to consider the most appropriate option for the development of integrated conferencing facilities in Belfast. An Executive Summary of the Economic Appraisal is attached in Appendix 1 of this Report.</p> |
| 1.10 | <p>Since 2008 there has been a significant decline in the number of conferences hosted in Belfast. The number of conferences hosted at the Waterfront over the last 3 years has decreased by circa 36%. The corporate market has stayed largely consistent during this period, with the largest decline in the GB and International Association market, which has seen a 59% decrease.</p> |
| 1.11 | <p>Stakeholder consultation has indicated that the key reason for this decline is the lack of appropriate facilities. The issues highlighted with the Waterfront Hall include:</p> <ul style="list-style-type: none"> • There is insufficient exhibition space available on site. Exhibition space requirements range from 1,500 sq/m to 5,000 sq/m (3,000 delegate conference); • The exhibition space that is available is split over 3 levels, which is not appropriate for the majority of exhibitions; • There is a lack of appropriate sized breakout space at the venue; • There is no banqueting facility available on site, which some associations prefer. As with exhibitions, in the past the Waterfront has offered St George’s Market as a potential location for exhibitions, but as it is a separate building a short distance from the plenary sessions this has been poorly received. |
| 1.12 | <p>Given the above constraints, the following requirements were identified by those consulted:</p> <ul style="list-style-type: none"> • An integrated convention centre with a clear span exhibition space across one level with a minimum of 2,000 sq/m; • A minimum of 5 rooms that can accommodate breakout that can accommodate larger groups i.e. 200 plus; and |

1.13

- Banqueting space that can accommodate up to 750 people.

The Economic Appraisal considered a long list of 10 project options which reflected variations in location, scale and specification of the proposed development. Following further consideration this long list was reduced to a shortlist of 4 Options:

Option 1 - Do – Nothing

This option provides a comparator against which all other options will be assessed, as per HM Treasury “Green Book” Guidance. Under this option no capital works will take place and the Waterfront will continue to operate under its current remit and strategy.

Option 2 - Linking the Waterfront (via link bridge) to the Lanyon Quay Building, Lanyon Place.

This option would require Belfast City Council to:

- Purchase Level 0 and Level 1 of the adjacent Lanyon Quay Building,
- Construct a link bridge being from Bar Level 1 of the Waterfront to Level 1 of the Lanyon Quay Building;
- Internally refurbish and fit out of both floors of the Lanyon Quay Building;
- Remodel Bar Level 1 of the Waterfront.

Option 3 - Two Story Extension of the Waterfront over the Service Yard to the rear of the Venue

This option will require the following capital works:

- Construction of a 2 Storey Extension. over the Service Yard at the rear of the current building;
- Provision of primary access to the Venue through the existing studio area, which will be demolished, creating an entrance and lobby area;
- Provision of additional space, at Ground floor level (potential storage space or units to let) on the Lanyon Place Waterfront.

Option 4 - Two Story Extension of the Waterfront over the Service Yard to the rear of the Venue, with further extension over River

This option would require the following capital works:

- Construction of a 2 Storey Extension over the Service Yard at the rear of the current building;
- Provision of primary access to the Venue through the existing studio area, which will be demolished, creating an entrance and lobby area; and
- Provision of additional space, at Ground floor level (potential storage space or units to let) on the Lanyon Place Waterfront.

| | |
|--|---|
| <p>1.14</p> <p>1.15</p> <p>1.16</p> | <p>The Development Committee considered the above options as set out in the Economic Appraisal at its meeting on 6 February 2012 and endorsed the recommendation that Option 3 represented the most beneficial option with an associated capital cost of £20M. It was further agreed that officers should develop an implementation plan and that officers should consult with a range of potential partners in the interim.</p> <p>An application has since been made to the Northern Ireland Tourist Board for funding of £12M made up of a £2M application to the Tourism Development Scheme (TDS) and £10M to the European Regional Development Fund (ERDF).</p> <p>Council and NITB officials are also exploring the possibility of the valuation of the land required for the extension being included within the project costs. The land is valued at approximately £1.6M. If this were to be deemed eligible a further grant allocation of approximately £800K could possibly be secured from the ERDF should there be an underspend on other ERDF Programmes.</p> |
| <p>2</p> | <p>Key Issues</p> |
| <p>2.1</p> <p>2.2</p> <p>2.3</p> <p>2.4</p> <p>2.5</p> | <p><u>Financial Issues</u></p> <p>Councils are required by Section 1 of the Local Government Best Value Act to provide best value services, by continuously improving services having reference to the three E's of economy, efficiency and effectiveness. Each year the Council has to make a return to the Local Government Auditor indicating how it is meeting this duty.</p> <p>The development of new, state of the art conference and exhibition facilities at the Waterfront Hall is one of the most significant elements of the Belfast Investment Programme 2012 -2015. The programme commits the Council to an investment of £150M capital infrastructure, the promotion of economic growth and job opportunities whilst keeping the rates below inflation and delivering £20M in savings. This project has the potential to deliver a number of the key objectives of the programme namely:-</p> <ol style="list-style-type: none"> 1. Create an additional 200 jobs within the city 2. Reduce the operating deficit of the Waterfront Hall thus freeing up resources which can support funding for other capital projects across the city such as the renewal of our leisure estate 3. Contributing to keeping any rate increase below inflation 4. Improving operational efficiencies with the Council <p>The affordability, deliverability and sustainability of this project is wholly dependent upon the Council's ability to draw down external funding totalling £12M, £2M from the NITB's Tourism Development Scheme (TDS) and a further £10M from the ERDF.</p> <p>The project is also time bound in that the project must be completed by the end of June 2015 in order to be able to draw down all of the eligible funding before the closure of the ERDF Programme on 31 December 2015.</p> <p>The Council has now submitted a full "Green Book" Economic Appraisal to NITB as part of its application for both TDS and ERDF funding. NITB is not only responsible for the administration of the TDS scheme but will also act as the sponsor of the application to the ERDF. NITB Officials have indicated that due to the fact that the Economic Appraisal has been developed by external consultants</p> |

and is very comprehensive it is probable that the application can be accelerated through the approval processes. The appraisal process consists of a detailed review of the business case by NITB with a further review conducted by DFP Economists to ensure the application meets the requirements of the EU Commission. It is anticipated that subject to the Council being able to address any queries raised during the process that the appraisal could be completed within 12 weeks. Timely approval will be critical to delivering the project within the time constraints of the ERDF Programme.

2.6 Given the scale of the funding involved both NITB and DFP Economists will require the Council to demonstrate that the project represents value for money and delivers the highest possible economic return for the city. To do this the business case is required to demonstrate that the options selected will maximise visitor numbers, visitor spend and job creation in the tourism and hospitality sectors as a result.

2.7 To satisfy the requirements of the DETI and DFP Economists it was necessary to include within the Council's Economic Appraisal an assessment of the various options for the management and operation of the new facilities. In order to address this two options have been considered:-

- a) The Council manages the facility itself
- b) A Management Contract is entered into with an established Conference Operator

2.8 Option 3(b), (Two Story Extension of the Waterfront over the Service Yard to the rear of the Venue which is externally operated) is estimated to provide a substantially greater economic return to the city whilst at the same time allowing for a significant reduction in the current annual operating deficit of the Waterfront Hall as compared to option 3a (Council manages the facility).

2.9 The benefits arise from the fact that established operators are likely to have lengthy experience of running similar facilities, are established in the market place with a reputation for delivery, have an existing broad customer base and operate conference and exhibition facilities as their core business.

2.10 Table 1 below sets the potential economic benefit of the two operating models as identified in the Green Book Economic Appraisal:-

Table 1

Projected Economic Benefit

| Option | Projected Economic Benefit (per annum) |
|------------------------|---|
| 3a (In House Operator) | £21m |
| 3b(External Operator) | £39m |

2.11 Table 2 below summarises the estimated net annual savings / (deficit) after deducting the annual financing cost of the net capital expenditure. The net capital

expenditure, after grants received, for option 3 is estimated at £8M. It should be noted that the savings in the annual operating deficit do not include the impact of any compensatory payment which may be required by the Hilton, as part of the extension agreement, and any additional costs which may be incurred through the transfer of relevant staff to an external operator as an estimate of these costs and whether they would be one off or recurring is not possible at this stage.

Table 2

Net Annual Savings / (Cost) after Financing Costs

| Option | Annual Capital Financing Cost (for 25 years) | Savings in Annual Operating Deficit | Net Savings / (Cost) to the Council |
|-----------------------|--|-------------------------------------|-------------------------------------|
| 3a In House Operation | £680k | £465k | (£215k) |
| 3b External Operator | £680k | £1,591k | £911k |

The net savings to the council of option 3b of £911k would equate to a 0.72% reduction in the district rate (2012/13).

Alternatively the net savings could be allocated to either the City Investment Fund or used to finance additional capital projects as part of the Councils Capital Programme such as the review and renewal of leisure facilities. If allocated to the City Investment fund the £911k, would provide an additional £2.7m contribution to the investment fund over each 3 year period, whereas if the £911k was used to finance loans for the capital programme this could provide the scope for further capital projects of up to £10m.

2.12 HR Issues

Given the fact that Option 3(b) i.e. the engagement of an experienced external operator would appear to yield a greater economic benefit the funders have indicated that they will require the Council to demonstrate that they have fully examined both operating options and can fully justify whichever option it ultimately selects.

2.13 If the Council does proceed with plans to develop conference and exhibition facilities at the Waterfront there will be HR implications irrespective of which operating model the Council decides to proceed with. If the new facility is to achieve the projected income set out in the Economic Appraisal the business model for the Waterfront will have to fundamentally change from that of an entertainment venue to that of a conference centre.

2.14 It is therefore proposed that officers should now be authorised to examine the potential HR implication of both options. Trade Unions have already been advised that the requirements of the Best Value legislation and the conditions attached to securing external funding have required the completion of a Green Book Economic Appraisal and that a report on the issue is to be presented to the SP&R Committee.

| | |
|----------|--|
| 2.15 | The Trade Unions were further assured that any decision that might impact on future staffing would have to be dealt with through the appropriate Council HR policies and relevant employment law. The Trade Unions were also advised that they would be fully consulted on all potential issues impacting on staff in accordance with good practice. Approximately 50 staff are currently employed within the Waterfront Hall. |
| 3 | Resource Implications |
| 3.1 | There will be significant resource implications depending on which operational model is chosen both in terms of funding the extension to the Waterfront Hall and the overall capacity of the Council to fund the entirety of the Investment Programme and to provide further capital investment in relation to its existing estate. |
| 3.2 | Members will wish to satisfy themselves that the basis of the analysis in the Economic Appraisal is robust and officers will be happy to organise a briefing session with the authors of the report to enable them to explain its methodology and answer any queries. |

| | |
|----------|---|
| 4 | Equality and Good Relations Considerations |
| 4.1 | None |

| | |
|----------|--|
| 5 | Recommendations |
| 5.1 | In line with the Council's legislative requirement to achieve Best Value it is recommended that officers are authorised to conduct a detailed assessment of the HR legal and financial implications of the two operating models and report back to Committee so that the matter can be further considered. |

| | |
|---|--------------------------|
| 6 | Decision Tracking |
| A further detailed report will be brought back to the SP&R Committee in August 2012 | |

| | |
|----------|-----------------------------|
| 7 | Key to Abbreviations |
| | |

| | |
|---|---------------------------|
| 8 | Documents Attached |
| Appendix 1 Executive Summary : Economic Appraisal of the Provision of an Integrated Conferencing Solution for Belfast | |