

Belfast City Council

**Economic Appraisal of the Provision of an Integrated
Conferencing Solution for Belfast**

EXECUTIVE SUMMARY

January 2012

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I. EXECUTIVE SUMMARY

i. Introduction

Belfast Waterfront

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 £37 million.

The facilities offered within the existing building include:

- 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.

In addition to the above public space, the venue includes office space for staff; dressing rooms for performers; technical areas; and 2 small kitchens

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.

Assignment Context

In 2008, Belfast City Council (BCC) 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 their 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.

In February 2011, BCC commissioned 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.

The Business Case concluded that the development of a link bridge and the conversion of Level's 0 and Level 1 would provide the venue with significant additional space, thereby providing the potential to attract large scale international conferences.

Following the completion of the Business Case, BCC have now commissioned RSM McClure Watters to complete a Full "Green Book" Economic Appraisal to consider the most appropriate option for the development of integrated conferencing facilities in Belfast.

ii. Strategic Fit

The development of new/enhanced conferencing/convention facilities represents a significant opportunity to contribute to the aims and objectives of key Central and local Government Strategies by providing benefits relating to:

- The Promotion of business tourism within Northern Ireland;
- Development of Belfast as a prime tourism destination;
- The economic growth of Belfast and Northern Ireland;
- Job creation; and
- Urban regeneration.

Specifically, the growth of the business tourism market is cited by both the Northern Ireland Tourist Board's (NITB) Draft Tourism Strategy 2020 and BCC's Integrated Strategic Framework for Belfast Tourism as a key strategic priority and significant opportunity for the growth of Belfast and Northern Ireland over the next 10 years.

In addition to the above, the project complements the strategies/policies:

- **The NI Executive** – Increased Tourism Potential (*Draft PFG 2011*), Development of Tourism Infrastructure (*Draft Economic Strategy 2011*);
- **DSD** – Physical Renewal and Social Growth through Wealth creation and increased Employment (*Strategy for Neighbourhood Renewal, 2008*); and
- **OFMDFM** – Improved opportunities for those in the low skilled sectors (*Lifetime Opportunities, 2009*).

iii. Need and Demand**Socio Economic Overview**

Despite its status as the largest city in Northern Ireland, the Belfast Local Government District (LGD) remains the most deprived of all the LGD's in Northern Ireland, with significant proportions of the population suffering from income and employment deprivation.

Business Tourism

Business Tourism is identified as a key growth area for the local economy over the next 10 years. It is considered:

- resilient, sustainable and complements the leisure tourism sector;
- to be at the high quality, high yield end of the tourism spectrum;
- to create quality, year-round employment opportunities;
- that investments in business tourism facilities lead to the regeneration of urban and inner city areas; and
- that business tourism stimulates future inward investment as business people see the attractions of a destination while travelling on business or to attend a conference, exhibition or incentive, and then return to establish business operations there.

Overview of the National/International Conferencing Market

- There are circa 12,000 International Conferences hosted annually, 375 of which were located in the UK in 2010, none of which were hosted in Belfast;
- Research by the British Association of Conference Destinations (BACD) in 2006 identified that 2,509 associations regularly hold events. 1,208 (48%) hold a conference as their major annual event. A further 804 (32%) describe their main annual event as a meeting or AGM. An additional 153 associations hold a variety of annual events that range from lunches and dinners to festivals, ceremonies and presentations; and
- Consultations with Professional Conference Organisers (PCO's) and Associations have indicated that should adequate facilities be in place they would be willing to bring conferences to Belfast.

Need for Additional/Enhanced Conferencing Facilities in Belfast

Since 2008 there has been a significant decline in the number of conferences hosted in Belfast with the number of national and international conferences has declined by 93% and 71% respectively over the period 2008-2010. In total the number of conferences hosted in the city has decreased by 92% in that period.

In addition to the citywide decline, 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.

Stakeholder consultation has indicated that the key reasons for this decline is the lack of appropriate facilities in the city. As the Waterfront is the largest and most popular venue, the issues highlighted with this venue include:

- 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 also; and
- There is no banqueting facility available on site, which some associations prefer. As with exhibitions, in the past the Waterfront has offer 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.

A review of other provision in the City has identified no existing or planned facilities that can meet these requirements.

A total of 63 opportunities have been lost by the City and by the Waterfront directly over the period 2008 – 2011 with the key reason given the lack of appropriate integrated conferencing facilities. (Source: BVCB/Waterfront).

Given the above constraints, the following requirements were identified by those consulted:

- 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
- Banqueting space that can accommodate up to **750 people**.

These are viewed as the minimum requirements by PCO and Association Representatives.

Market Failure

Market failure is a description of a situation where, for one reason or other, the market mechanism alone cannot achieve economic efficiency. In relation to this project, whilst the market does provide a number of conferencing solutions across the city it does not provide a venue to meet the requirements of the National/International Association Conference Market. Given the strategic focus of the development of this market and the potential economic benefits to arise from this, it is considered that a public sector intervention should be pursued. Large scale conferencing facilities are often provided by the public sector with the most notable venues in the UK i.e. the ICC, Birmingham and the ACC Liverpool.

Additionality and Displacement

- Given the need identified above, the potential demand within the marketplace and the lack of appropriate integrated facilities currently provided within Belfast (i.e. largely small/medium hotel based conferencing provision), displacement is not considered an issue; and
- It is likely that BCC will make a financial contribution to any capital works emanating from this project, but given the level of capital funding required, additional match funding will be required. It is anticipated that the project will largely be funded by the Public Sector as the level of commercial risk associated with the project is likely to limit private sector interest. As such, the project can be considered to be additional.

Conclusion

Given the above, it is considered that there is strategic and operational need for the development of conferencing/ convention facilities in Belfast.

iv. Project Objectives

Project Aims

The aims for this project are to:

- Provide an integrated conference/convention centre solution in Belfast;
- Position Belfast as a premium destination for National and International Conferences;
- Utilise the development of business tourism in Belfast as a catalyst for wider economic growth across the City;

- The creation of jobs at the new facility and to create and sustain jobs across the city of Belfast;
- Exploit the 'Bleisure' tourism market through increasing return visits to Belfast of Business Visitors;
- To improve the sustainability/growth of the local hotel market; and
- Improve the profile, perception and image of Belfast as a City.

SMART Objectives

The SMART objectives for this project are:

- By 2015, provision of an integrated conference/convention centre in Belfast which offers the following:
 - A minimum of 2,000 sq/m exhibition space across one level (*2010 Baseline: 520sq/m*);
 - Banqueting space for a minimum of 750 people (*2010 Baseline: 450sq/m*);
 - Breakout provision for a minimum of 5 groups of 200 (*2010 Baseline: 3 Rooms over 100*);
- To attract 50,000 annual conference delegates to the City by 2020 (*2010 Baseline: 25,000*);
- To attract 35,000 (of the 50,000) out-of-state conference delegates by 2020 (*2010 Baseline: 5,750*);
- To host an average of 6 National Large Association conferences per annum from 2020 (*Baseline: 1 Annually*); and
- To host an average of 6 International/European Association conferences per annum from 2020 (*Baseline: 1 Every Two Years*).

v. Options

A long list of 10 project options were identified, which reflect variations in location, scale and specification of the proposed development. Following further consideration this long list has been whittled down to a shortlist of 4 Options. The shortlisted options are described in Table i.1 overleaf:

Table i.1
 Option Short List

Option	Name	Description
1	Do – Nothing	<p>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.</p>
2a	Linking the Waterfront (via link bridge) to the Lanyon Quay Building, Lanyon Place.	<p>This option requires:</p> <ul style="list-style-type: none"> • Belfast City Council purchasing Level 0 and Level 1 of the adjacent Lanyon Quay Building; • A link bridge being constructed from Bar Level 1 of the Waterfront to Level 1 of the Lanyon Quay Building; • Internal refurbishment and fit out of both floors of the Lanyon Quay Building; and • Remodelling of Bar Level 1 of the Waterfront. <p>This will result in a solution that will provide:</p> <ul style="list-style-type: none"> • Level 0 – Gross Space 2,700 sq/m/Clear Span 1,000 sq/m; and • Level 1 – Gross Space 2,500 sq/m / Clear Span 1,400 sq/m. <p>Outline drawings for this option are included at Appendix 5.</p>
3	Two Story Extension of the Waterfront over the Service Yard to the rear of the Venue	<p>This option will require the following capital works:</p> <ul style="list-style-type: none"> • 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 lettible units) on the Lanyon Place Waterfront.

	<p>This will result in a solution which will provide:</p> <ul style="list-style-type: none"> • A ground floor entrance and lobby of circa 800 sq/m with escalator, passenger lift and stairwell access to levels 1 and 2; • 2,100 sq/m of Exhibition space at level 1, serviced by a Van lift, Lorry lift, passenger lifts, escalators and stairwells; • Circa 1,900 sq/m of Flexible space at Level 2, which may be utilised as breakout rooms, studio and banqueting space. This level will include full kitchens and will be serviced by a Van lift, passenger lifts, escalators and stairwells. <p>The fit out specification includes:</p> <ul style="list-style-type: none"> • Lorry lift; • Van lift; • Acoustic partitions; • Specialist lighting and sound; and • Lighting rigs. <p>Outline drawings for this option are included at Appendix 5.</p>
<p>4</p> <p>Two Story Extension of the Waterfront over the Service Yard to the rear of the Venue, with further extension over River</p>	<p>This option will require the following capital works:</p> <ul style="list-style-type: none"> • 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 lettible units) on the Lanyon Place Waterfront.

		<p>This will result in a solution which will provide:</p> <ul style="list-style-type: none">• A ground floor entrance and lobby of circa 800 sq/m with escalator, passenger lift and stairwell access to level's 1 and 2;• 2,300 sq/m of Exhibition space at level 1, serviced by a Van lift, Lorry lift, passenger lifts, escalators and stairwells;• Additional Small Meeting room and lobby space at Level 1;• Circa 1,900 sq/m of Flexible space at Level 2, which may be utilised as breakout rooms, studio and banqueting space. This level will include full kitchens and will be service by a Van lift, passenger lifts, escalators and stairwells. <p>N.B. – This option provides an additional 200 sq/m of exhibition space than Option 3.</p> <p>The fit out specification includes:</p> <ul style="list-style-type: none">• Lorry lift;• Van lift;• Acoustic partitions;• Specialist lighting and sound; and• Lighting rigs. <p>Outline drawings for this option are included at Appendix 5.</p>
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vi. Option Costs

Capital Costs

A full breakdown of the estimated capital cost for each option is included at Appendix 6, with a summary included at Table i.2 below:

Table i.2
Capital Cost Summary (Excluding Optimism Bias)

Cost Item	Option 1 (£)	Option 2 (£)	Option 3 (£)	Option 4 (£)
Building Purchase Costs	0	4,750,000	0	0
Construction Costs	0	1,800,000	11,825,000	14,883,750
Alterations Costs	0	7,400,000	1,350,000	1,350,000
Preliminaries (10%)	0	920,000	1,317,500	1,623,375
Contingencies (10%)	0	920,000	1,317,500	1,623,375
Professional Fees (12.5%)	0	1,150,000	1,646,875	2,029,219
Statutory Fees (5%)	0	460,000	658,750	811,688
Total (excluding purchase)	0	12,650,000	18,115,625	22,321,406
Total (including Purchase)	0	17,400,000	18,115,625	22,321,406

Source: RSM McClureWatters/RMI/VB Evans

Optimism Bias is defined as "The adjustment of cost estimates, projected benefits and timescales (over which the costs and benefits are assumed to be accrued), aims to address a systematic tendency for project appraisers to be overly optimistic". The levels of Optimism Bias for this project are detailed as below:

Table i.3
Optimism Bias Levels

Cost Item	Option 1	Option 2	Option 3	Option 4
Construction Costs (New Build)	n/a	18%	20%	20%
Alterations/Refurbishment Costs	n/a	11%	13%	13%

Source: RSM McClure Watters/RMI Architects/VB Evans

Table i.4 below details the impact of the Optimism Bias on the Capital Costs.

Table i.4
Capital Cost Summary (including OB)

Cost Item	Option 1 (£)	Option 2 (£)	Option 3 (£)	Option 4b (£)
Building Purchase Costs	-	4,750,000	-	-
Construction Costs	-	1,800,000	11,825,000	14,883,750
Alterations Costs	-	7,400,000	1,350,000	1,350,000
OB on Construction Costs	-	324,000	2,365,000	2,976,750
OB on Alterations/Refurb Costs	-	814,000	175,500	175,500
Total Cost (inclusive of OB)	-	10,338,000	15,715,500	19,386,000
Preliminaries (10%)	-	1,033,800	1,571,550	1,938,600
Professional Fees (12.5%)	-	1,292,250	1,964,438	2,423,250
Statutory Fees (5%)	-	516,900	785,775	969,300
Total (excluding purchase)	-	13,180,950	20,037,263	24,717,150
Total (including Purchase)	-	17,930,950	20,037,263	24,717,150

Source: RSM McClureWatters/RMI/VB Evans

Recurrent Costs/Income Projections for Each Option

Table i.5 provides an overview of the projected income and expenditure of each option, as a steady state figure for their Optimum year of operation. Detailed assumptions driving these figures are included at Section 6 of the Economic Appraisal.

N.B. We have also presented the Recurrent Costs/Income for a Sub-Option (3b), reflecting the operation of Option 3 by an external organisation. The full assumptions and analysis behind this Sub-Option is included at Section 11 (summarised at Section X of this document).

Table i.5
Income and Expenditure (Steady State/ Optimum Year)

	Option 1	Option 2	Option 3a	Option 3b	Option 4
Income	£3,135,320	£2,482,394	£3,812,943	£4,139,600	£3,914,583
Expenditure	£5,720,916	£5,920,099	£5,933,749	£5,133,791	£5,986,598
Surplus/ Deficit	-£2,585,596	-£3,437,705	-£2,120,806	-£994,191	-£2,072,015

* Figures do not include inflation or financing costs

Source: RSM McClureWatters/Waterfront/NEC Group

vii. Quantitative and Qualitative Analysis

Quantitative Analysis

Our Quantitative Analysis focuses on 3 key areas:

- The Net Present Cost/Value Calculations (NPCV) for each option;
- The Wider Economic Benefits of each option; and
- The Impact of the Wider Economic Benefits on the NPCV Analysis.

The outcome of each of the above strands is detailed at Section VIII below.

Qualitative Analysis

In order to critically assess the case for the proposed project, non-monetary evaluation criteria have been developed and agreed with BCC. To allow for the comparison of options, each criterion has been allocated a weighting out of 100 to reflect its relative importance. As detailed below, each option has been scored out of 10 to reflect its performance against each criterion.

Table i.6
Criteria & Weighting

Criteria	Weighting
Development of Belfast as a key National and International Conferencing Destination	40%
Development of the Business and 'Bleisure' Tourism Sector Locally	40%
Improve the National and International Visitor Perception of Belfast	10%
Impact on the development and sustainability of other entertainments and arts venues across Belfast	10%
Total	100

viii. Preferred Capital Option

Table i.7 summarises the results of our monetary and non-monetary analysis.

Table i.7
Monetary and Non-Monetary Analysis

Option	NPC pre sensitivity analysis	Ranking	Non Monetary Score	Ranking	NPC per Non Monetary Score	Ranking	NPC including Wider Economic Benefits	Ranking
Option 1 - Do Nothing	£30,028,375	1	0	4	£0	1	-£39,384,273	4
Option 2 - Lanyon Quay Link	£54,725,217	4	500	3	£109,450	4	-£39,840,915	3
Option 3 - Service Yard Extension	£46,680,062	2	780	2	£59,846	2	-£109,322,292	2
Option 4 - Service Yard Additional Extension	£50,465,969	3	830	1	£60,802	3	-£113,763,411	1

* Figures do not include inflation or financing costs

Source: RSM McClure Watters

Table i.10 identifies that Option 1 achieves the highest rank in quantitative terms (as measured by Net Present Cost) and the lowest in qualitative terms (as measured by weighted score). Option 4 ranks the third highest in quantitative terms and highest in the qualitative assessment.

When the quantitative and qualitative analysis are considered together (as reflected in terms of Net Present Cost per weighted score), Option 3 scores the highest of the 'do something' options, with Option 2 scoring the lowest.

When wider economic benefits are factored into the NPV analysis, all the "do something" options produce an NPV (rather than an NPC), with Option 4 ranked highest in this assessment.

In terms of risk, due to higher risks associated with planning approval and technical feasibility and higher funding risks associated with Option 4, Options 2 and 4 are considered Medium/High risks, whilst Option 3 is considered a Medium risk.

As Option 3, represents the "do something" option that realises the lowest cost per weighted score, has the lowest risk factor and realises a significant NPV when wider economic benefits are considered, it is selected as the **preferred option for capital development**.

N.B. In a scenario where a newly extended venue was unable to attract any large national and international Association Conference, Option 3 would not emerge as the preferred option. This highlights the importance of attracting these Association Conferences to the success of the project.

ix. Preferred Operation Model

Venue Operation

As identified at the assessment of need stage, there are a number of operating models utilised by Conferencing Venues/Convention Centres across the UK. A common alternative to public sector owner/management arrangement is the management of the facility by a Third-Party/Private Operator, e.g. utilised in Liverpool and Edinburgh. As such, as part of our analysis, we assessed the potential impact of the implementation of such a model in relation to the preferred option i.e. Option 3. RSM McClure Watters and BCC engaged and consulted with the NEC Group to assist in this assessment.

Model Definition and Assumptions

For the purposes of this analysis, two sub-options within Option 3 have been defined.

Table i.8
 Operation Model Options

Option	Title	Description	Expenditure Assumptions	Income Assumptions
3a	Current Management Arrangements	Under this option, the current management and staffing arrangements at the Belfast Waterfront are retained and all assumptions made are as per 'Option 3' within the analysis presented at Sections 6-10	Staffing Structure and Terms and Conditions remain as is.	<p>Increase in Hire Rates</p> <p>Projections based on performance of the Waterfront Sales team over the last number of years and developed in consultation with Waterfront Management</p> <p>199 Events Annually – of which 32 relate to National and International Association Conferences</p> <p>33,000 Delegates Annually – 18,000 of which are Out of State</p> <p>Catering and Technical upsell mechanism utilised.</p> <p>Increase in hire rates</p>
3b	External Operator	BCC appoint an external and experience venue operator to manage the redeveloped the facility. The operator will be fully	External Operator to revise Staffing Terms and Conditions after a TUPE Process	

		<p>responsible for the day-to-day operation of the venue, diary management, sales and management of other third party providers e.g. catering, cleaning, security etc</p>	<p>External Operator to bring significant expertise and knowledge of the Association Conferencing Market which will assist in attracting larger National and International events.</p> <p>213 Events Annually – of which 48 relate to National and International Association Conferences</p> <p>54,000 Delegates Annually – 35,000 of which are Out of State</p>
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Source: RSM McClure Watters/BCC

Summary of Analysis

Table i.9 below provides a summary of our analysis of the above two sub-options. A full overview of this analysis is included at Section 11.

Table i.9
Summary

Option	1 (For Comparison Purposes)	3a	3b
Descriptions	Status Quo	Waterfront Operated	External Operator
Income	£3,135,320	£3,812,943	£4,139,600
Expenditure	£5,720,916	£5,933,749	£5,133,791
Surplus/ Deficit	-£2,585,596	-£2,120,806	-£994,191
NPC before Wider Economic Benefits	£30,028,375	£46,680,062	£39,401,242
Wider Economic Impact (at Optimum Year)	£5,945,523	£21,038,443	£38,962,028
NPV after Wider Economic Benefits	-£39,384,273	-£109,322,292	-£249,241,083
Risk Analysis	Medium/High	Medium/High	Medium

** minus (-) NPV reflects a positive NPV.

Source: RSM McClure Watters

It is clear from Table i.13 above that Option 3b i.e. Appointment of an External Operator is the most economically advantageous management option (based on the assumptions profiled) and represents the best opportunity (of the options examined) for BCC to generate additional income, reduce the operating deficit of the Belfast Waterfront and generate significant wider economic impact across Belfast. In terms of risk, it is considered that the appointment of an experienced conference centre operator will provide an intimate knowledge of the International and National Association Conference markets; a recent experience of working in, and contacts across, those markets; the experience of managing and marketing a convention centre of this nature; and an increased commercial focus, all of which will assist in mitigating the operational risks of this project.

Based on the above, **Option 3b is considered the preferred operator model.**

x. Conclusions and Recommendations

Based on the above, it is recommended that **Option 3b (i.e. the construction of a two story extension to the Waterfront) with the management and operation of the venue being undertaken by an external operator** be pursued by Belfast City Council. Prior to pursuing this option, the following risks must be addressed:

- **Hilton Hotel/DSD** - BCC initiate a process of discussions with both the Hilton Hotel and DSD. This Process should aim to
 - Gain their written consent to proceed with identified preferred capital option;
 - Identify any processes that have to be undertaken in order to gain this consent;
 - Agree where (if any) access points between the Hilton and Waterfront would be located;
- **Technical Feasibility Study** - BCC to appoint a multi-disciplined team to complete a detailed technical feasibility study of the proposal;
- **Model Implications** - BCC initiate a detailed HR review considering all implications including TUPE implications of the proposed model;
- **Funding** - Explore the potential for funding/fundraising from public and private sector sources (e.g. the Hilton Hotel, other private sector service providers, potential sponsors and confirm the funding profile of the project; and
- **Operator Appointment** – Based on the outcome of the above HR Review, BCC initiate a process to appoint an external operator for the Waterfront.