

Rebecca Watson

From: official information
Sent: Wednesday, 6 March 2019 09:00
To: [REDACTED]
Cc: official information
Subject: Re: LGOIMA 19029 - Claudelands Arena
Attachments: Claudelands Event centre - Howarth Report (2012)

Kia ora,

Further to your information request of 13 February 2019 in respect of Claudelands Arena, I am now able to provide Hamilton City Council's response.

You requested:

All financial reports for Claudelands Arena (2011-2018)

All Information/reports regarding the 2009 business case to redevelop Claudelands Arena.

Reports of council looking to sell Claudelands Arena to the private sector

Our response:

Please find below the response from Sean Murray - GM Venues, Tourism and Major Events.

1. All financial reports for Claudelands Arena (2011-2018)

Please find below financial results for Claudelands:

Claudelands	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Direct Revenue	1,706,345	3,998,411	2,710,283	3,113,783	3,233,675	3,001,613	2,857,169	3,380,31
Direct Expenditure	2,962,095	4,651,965	6,539,375	7,352,057	7,261,039*	4,915,144	4,466,906	4,022,88
Operating Surplus/(Deficit)	- 1,255,750	-653,554	- 3,829,092	- 4,238,274	-4,027,364	-1,913,531	- 1,609,737	-642,57
Plus:								
Depreciation	- 104,633	- 934,508	- 938,826	- 909,805	- 922,371	- 3,225,740*	- 2,938,202	- 2,430,51

* These movements are due to a change in treatment of property management charges in 2014/15 and 2015/16

2. All Information/reports regarding the 2009 business case to redevelop Claudelands Arena.

There are a number of reports that relate to the redevelopment of Claudelands Arena.

In 2004/05 Council requested staff to conduct a feasibility study into the re-development. In the 2006/2016 LTCCP (Long Term Council Plan), the Claudelands Development Project had funding costs identified and budgeted. In July 2007, Council consulted on and adopted the upgrade project as part of the 2007/08 annual plan process. In 2009, a preferred contractor was awarded the construction contract, as approved by way of the 2009-2019 LTCCP. The development took place and the newly-developed Claudelands reopened in June 2011. In late 2011, a review of the Claudelands Business Plan was requested by Council and this was received in early 2012.

You can review the progress of the re-development of Claudelands by way of reviewing the relevant documents below:

- **2004 Feasibility study** – Hamilton Community Plan 2004-14 (page 127) “Waikato Events Centre Scoping and Design” <https://www.hamilton.govt.nz/our-council/10-year-plan/former-10-year-plans/Documents/Final%202004-14%20Volume%201.pdf#page=22>

- **2006 – 2016 LTCCP - Claudelands Development Project** <https://www.hamilton.govt.nz/our-council/10-year-plan/former-10-year-plans/Documents/2006-16%20Long%20Term%20Plan.pdf#page=11>
- **2007/08 Annual Plan – Claudelands Event Centre Project** <https://www.hamilton.govt.nz/our-council/council-publications/annualplan/Documents/annual%20plan%2007-08.pdf#page=28> and part b <https://www.hamilton.govt.nz/our-council/publications/annualplan/Documents/annual%20plan%2007-08.pdf#page=203>
- **2009 – 2019 LTCCP Redevelopment of Claudelands Event Centre** <https://www.hamilton.govt.nz/our-council/10-year-plan/former-10-year-plans/Documents/vol1final0919ltccp.pdf#PAGE=92>
- **2011/12 Claudelands Business Plan review 12 December 2011** <https://www.hamilton.govt.nz/AgendasAndMinutes/9%20February%202012.pdf#page=140>
- **Howarth Report – email to Elected members (attached)**

3. **Reports of council looking to sell Claudelands Arena to the private sector**

There are no publicly available reports regarding the sale of Claudelands Arena.

Please note if you wish to ask any other questions about Claudelands Sean Murray is happy for you to contact him directly.

Please find his contact information below:

Email Sean.Murray@hcc.govt.nz

Phone 07 838 6403

Kind regards,

Amy Viggers

On behalf of the Privacy Officer

DDI: 07 8386727 | Email: amy.viggers@hcc.govt.nz



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From: official information

Sent: Thursday, 14 February 2019 8:04 AM

To: [REDACTED]

Cc: official information <officialinformation@hcc.govt.nz>

Subject: RE: LGOIMA 19029 - Claudelands Arena

Good morning,

I write to acknowledge your information request of 13 February 2019 in respect of Claudelands Arena.

Please be advised that your request has been passed on to the relevant team within Council and you will be informed of the outcome.

The Local Government Official Information and Meetings Act 1987 requires that we advise you of our decision on whether the Council will provide the requested information or not “as soon as reasonably practicable”, no later than 20 working days after the day we received your request. We will respond to you no later than 13 March 2019.

Kind regards

Amy Viggers

On behalf of the Privacy Officer

DDI: 07 8386727 | Email: amy.viggers@hcc.govt.nz



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From: Hamilton City Council <do.not.reply@hcc.govt.nz>

Sent: Wednesday, 13 February 2019 8:36 PM

To: official information <officialinformation@hcc.govt.nz>

Subject: HCC Website - Official Information Request ref: HCC-QF-190213-C4E7Z-19G3

HCC Website - Official Information Request

Reference: HCC-QF-190213-C4E7Z-19G3

Attachment: not attached

Name: [REDACTED]

Email address: [REDACTED]

Phone number: [REDACTED]

Detailed Description of Request

All financial reports for Claudelands Arena (2011-2018)

All Information/reports regarding the 2009 buisness case to redevelop Claudelands Arena.

Reports of council looking to sell Claudelands Arena to the private sector

Organisation: not supplied

Rebecca Watson

From: [REDACTED] on behalf of Sean Murray
Sent: Thursday, 10 July 2014 14:42
To: Councillors
Cc: Barry Harris; Richard Briggs; Sean Murray; MayorsEA; [REDACTED]
Subject: Claudelands Event centre - Howarth Report (2012)
Attachments: Horwath Business Plan for Claudelands Review Report February 2012.pdf

Your Worship and Councillors

At the Finance Committee meeting on 3 July 2014 I was asked to provide all Elected Members with a copy of the Howarth report which reviewed the Claudelands Event Centre Business Plan dated 2009. The report was prepared in 2011 and delivered to Council on 2 February 2012.

The report (attached) provides a good summary of the failings of the original plan, put together almost 6 years ago. It is important to note that the resultant operating budgets for Claudelands (which were then adopted into the current 10-YP) form the basis of our financial reporting through the Finance Committee.

It is worth reminding you that following the Howarth report, a special Claudelands Working Party convened regularly to monitor the progress of the business. This working party was disestablished in 2013 following almost two years of monitoring the business to the point where there was confidence that the standard of reporting via the Finance Committee was sufficient as per the norm with other Council operations.

Thank you

Sean Murray
General Manager
Events and Economic Development Group

DDI: 07 838 6403 | Mob: 021 912 772 | Email: sean.murray@hcc.govt.nz



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Claudlands Business Plan Review



Prepared for Hamilton City Council

2 February 2012



A member of Crowe Horwath International

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1. Introduction

Hamilton City Council (“Council” / “HCC”) engaged Horwath HTL (“Horwath”) on 12 December 2011 to:

- undertake an independent peer review of the Claudelands Strategic Business Plan dated May 2009 and Long Term Plan (“LTP”) financial assumptions
- undertake a scan of the current events market environment and benchmark information / comparisons on pricing rates and packages along with identification of current and emerging market / business risks
- undertake an independent peer review of HCC staff’s cost and revenue assumptions for inclusion in HCC’s 2012-22 LTP, and provide recommendations on adjustments necessary to ensure realistic budgets and business targets
- provide any other comments and recommendations that would enhance the financial success of Claudelands into the future.

Our scope of work included:

- meeting with relevant HCC staff
- meeting with Campbell Consulting
- meetings / market enquiries with several competing venue managers, to the extent possible in the time available
- reviewing an extensive amount of HCC documentation made available to us, and documents provided to us by Campbell Consulting.

Our work has necessarily been limited by the amount of time available between the date of our engagement and the date of this report. However, we believe we have had sufficient time to enable our work to be sufficiently robust that our analysis, conclusions and projections can be relied upon by Hamilton City Council in relation to all substantive matters.

We were assisted in our work by what we believe to be full cooperation extended to us by all HCC staff with whom we engaged and by Campbell Consulting.

Our report has been based on information supplied by HCC and Campbell Consulting which we have relied on in our review. We have not undertaken an audit or verification of information supplied by to us, including from third parties, other than as noted in our report.

Our analysis and indicative projections have been based on certain assumptions, estimates and other information developed from research of the market and our knowledge of the venue management industry. The sources

of information and the bases of significant assumptions and estimates are stated in our report.

Some of our 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 and the variations may be material.

Horwath HTL Ltd owes a duty of care to you 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.

2. Review of Strategic Business Plan and LTCCP

The Claudelands Strategic Business Plan (dated May 2009) contains many of the elements we would expect to see in a business plan relating to a major new facility development. These key elements include:

1. Identification of critical success factors
2. identification of key risks
3. SWOT analysis
4. activity projections
5. detailed comparative analysis of competitor rates
6. revenue projections
7. discussion regarding alternative management structures
8. disclaimers and qualifications.

However, based on our review and discussions with Council staff and Campbell Consulting, we believe there are a number of issues that have culminated in actual performance being well below the levels indicated in the Strategic Business Plan. There are also key elements missing from the Strategic Business Plan that limit the extent to which it provides a robust assessment of the commercial opportunities and risks. To some extent these weaknesses are due to the limitations placed on Campbell Consulting's scope of work by Council.

2.1 Key Risks

The Claudelands Strategic Business Plan identified eleven risks to the financial viability of Claudelands and the ability of Claudelands to achieve the projected levels of event business. We have reviewed each of the identified risks to ascertain:

1. whether the risk has materialised
2. the area of business the risk might be expected to most impact
3. the extent to which the risk might impact on the overall financial performance of Claudelands.

Table 2.1: Assessment of Identified Key Risks

Risk	Materialised	Area of Business	Extent of Impact
1. Development of a major event centre in Tauranga.	Yes, construction commenced in February 2010 and the TECT Arena at Baypark opened in August 2011.	Most competitive for indoor sports events but also caters for conferences, exhibitions, and functions.	The TECT Arena primarily caters for community sports use while also having the capability of hosting national sports tournaments, as well as a variety of “commercial” uses. The community use focus limits the extent to which the TECT Arena can accommodate “commercial uses” and the facility has a lower seating capacity than the Claudelands Arena. Therefore, while it will invariably capture some activity, it should not represent a significant threat to Claudelands’ key revenue streams from conferences and exhibitions.
2. Inability to attract a “strong” naming rights sponsor	Yes, there is no naming rights sponsor.		There is no impact on the business plan as the business plan did not assume any naming rights sponsorship revenue.
3. Exhibition halls not being developed.	No, halls have been developed.	Exhibition	Nil
4. A delay in the construction programme.	No, facility opened on schedule.		Nil
5. Lack of accommodation. New hotel is needed soon after Claudelands’ opening.	Yes, there has been no new hotel development.	Primarily impacts conferencing.	The relative lack of hotel accommodation does impact on Claudelands’ competitiveness to host conferences with 300+ delegates, which is a core target market for the venue. The impact is significant as conferences are intended to be a key revenue stream for Claudelands.
6. Lack of suitable all weather connectivity between Claudelands and commercial accommodation.	Yes, there is no all weather connection.	Primarily impacts conferencing.	Not a significant impact as physical location means most event attendees are likely to use coaches or other vehicles to access the venue.

Table 2.1: Assessment of Identified Key Risks (cont.)

Risk	Materialised	Area of Business	Extent of Impact
7. Late or ineffective pre-opening marketing and ongoing marketing.	Yes, both pre-opening marketing and ongoing marketing have been significantly under-funded relative to the levels identified as necessary by Campbell consulting to achieve the projected levels of revenue.	All areas of business.	Significant impact given the lead times involved in conferences, the need to develop strong relationships with event promoters, and the highly competitive trading environment among major New Zealand venues.
8. Rotorua Airport becoming an international airport and Hamilton Airport remaining domestic only.	Partial. Rotorua became an international airport in December 2009 with flights to Sydney. Hamilton Airport has an international connection with Brisbane.	Primarily conferencing.	Not a significant factor as international conferences will not be a significant driver of activity at Claudelands and the limited international connections available at Hamilton and Rotorua mean most international delegates would arrive via Auckland Airport anyway.
9. Economic recession in New Zealand and the international economies beyond current forecasts.	Yes, the effects of the economic recession are still ongoing.	All areas of business but particularly entertainment events, functions, and exhibitions.	Discussions with venue operators in various New Zealand centres indicate that the recession continues to have a significant impact on discretionary spending and it is reasonable to assume that this is negatively impacting on Claudelands' performance levels.
10. An inability to attract high quality staff including marketing staff and CEO	Yes, in the context of Campbell Consulting's proposed staff costs and structure.....	All areas, but particularly conferencing and events.	

Table 2.1: Assessment of Identified Key Risks (cont.)

Risk	Materialised	Area of Business	Extent of Impact
11. The Waikato Show Trust encumbrance may compromise 28 days usage of Claudelands.	Yes, although this is a contractual obligation and should not have been treated as a “risk” as it is a “given”.	All areas of business.	The encumbrance has a significant effect as it: <ol style="list-style-type: none"> 1. means Claudelands does not receive any venue hire revenue in relation to either the A&P show or the Winter show 2. removes any commercial disciplines on the Waikato Show Trust to minimise its Set Up and Break Down duration to avoid cost 3. displaces other potential revenue generating activities during peak trading periods for an indoor venue.

Three other key risks that should have been apparent at the time of compiling the Strategic Business Plan that were not identified include:

1. Claudelands' proximity to Auckland
2. a diverse range of activities in shared facilities resulting in booking conflicts
3. strong price-based competition from Mystery Creek.

Claudelands' proximity to Auckland represents a risk in securing events as many event promoters and exhibition organisers are likely to be drawn towards the larger population base in Auckland to provide a strong base for their event and then rely on drawing a certain proportion of people north from Waikato. We believe this represents a significant threat to the projected number of concerts and new exhibitions at Claudelands.

The Strategic Business Plan promotes Claudelands as the most versatile event facility in New Zealand and this versatility is undoubtedly of benefit in drawing a wide range of events to the facility. However, the use of shared facilities invariably results in instances of booking conflicts meaning the venue can not accommodate as many events of one type as a dedicated facility could. For example, if an annual public exhibition uses Hall A and Hall A is also required for a conference-related exhibition on the same dates then Claudelands has the dilemma of choosing between a potentially lucrative one-off conference and a lower-yielding but regular exhibition event.

For many years Claudelands and Mystery Creek have competed for exhibition events in the Waikato region. With the significant redevelopment of Claudelands it is now clearly the higher quality venue. However, Mystery Creek, as the owner and home of Fieldays is not going to exit the market. It is likely to undercut Claudelands to retain and obtain as much business as possible meaning that Claudelands' event count and event yields will be lower than if Mystery Creek was not present. There is no evidence that this risk has been reflected in the Strategic Business Plan projections.

A further risk that may not have been apparent in 2009 but that has come to eventuate is Council intervention in determining the types of activity than can occur at Claudelands. To date this has resulted in one high profile exhibition being turned away from Claudelands. This represents a significant loss of commercial opportunity in the context of the relatively small volume of readily-available touring exhibition business in New Zealand.

From a market opportunity perspective the main positive change, which could not have been anticipated in 2009, is the displacement of conference business out of Christchurch. We understand that Claudelands has obtained some of this business but that the bigger beneficiaries of displaced business have been Auckland, Rotorua and Wellington.

2.2 Critical Success Factors

In addition to the eleven key risks, Campbell Consulting also identified thirteen critical success factors that needed to be realised in order for the projections to be achieved. We have reviewed each of the identified critical success factors to ascertain:

1. whether the critical success factor has been achieved
2. the extent to which the critical success factor might impact on the overall financial performance of Claudelands.

Table 2.2: Assessment of Critical Success Factors

Critical Success Factors	Achieved	Extent of Impact
1. As a multi-purpose venue Claudelands must achieve success across three core event categories and this will require significant resource of the highest calibre.	No, the budgeted resources for Claudelands were significantly below those proposed by Campbell Consulting.	In the highly competitive event venue market a lack of resourcing will inevitably impact on the level of activity that can be secured across all areas of business.
2. Operating Claudelands as a commercial business is critical to the success of Claudelands.	Claudelands is not catering for community use and to this extent it is being operated as a commercial business. However, it is not being operated as a CCO with its own board, which was the model envisaged by Campbell Consulting.	Operating Claudelands as part of the Event Facilities Unit has resulted in some intervention by Council that would not have occurred if Claudelands was being operated as a CCO.
3. Claudelands will require an extremely high calibre of marketing and Claudelands will need to be marketing well before opening.	No, this critical success factor has not been achieved in the context of the marketing resourcing and timing identified by Campbell consulting on page 71 of their report.	The limited resourcing of pre-opening marketing will have impacted the volume of business secured, particularly in terms of conferences, which have a relatively long lead time.

Table 2.2: Assessment of Critical Success Factors (cont.)

Critical Success Factors	Achieved	Extent of Impact
4. Claudelands Business Development Managers need to have specific experience within the conference sector and the exhibition sector and have an over-riding knowledge of all event types.	Yes, achieved.	
5. Claudelands will need a specialist event analyst.	No, this position has not been filled.	We do not believe this position is critical to Claudelands' success but the lack of staff resourcing more generally is impacting on Claudelands' performance.
6. The management team must be of the highest calibre and quickly gain the confidence of the event industry.	Partially, as the departure of the Event Facilities Manager six months after opening is not ideal and a CEO, as promoted by Campbell Consulting, has not materialised.	
7. If Claudelands is to be successful it will need to be linked to a Convention Bureau.	Yes, but not prior to opening. The convention bureau was only established in late 2011.	Hamilton's lack of market profile in the conference sector is likely to be negatively impacting the volume of conference business at Claudelands.
8. Claudelands must be easy to use for event attendees and exhibitors.	Yes, achieved.	
9. Sufficient accommodation to cater for conference, exhibition and concert attendees.	No, there has been no addition to the supply of hotel accommodation in Hamilton.	The lack of hotel accommodation will have a significant impact on Hamilton's competitiveness to host conferences of 300+ delegates.
10. It is essential that Claudelands opens on schedule.	Yes, Claudelands opened on schedule.	
11. All planned exhibition halls must be completed as part of stage one.	Yes. All exhibition halls were opened as part of stage one.	

Table 2.2: Assessment of Critical Success Factors (cont.)

Critical Success Factors	Achieved	Extent of Impact
12. Claudelands needs to invite as many people as possible from the event industry to famil Claudelands while it is under construction.	Partial	While famils were undertaken, we are aware of a number of leading event professionals that have not yet been on-site at Claudelands. It is possible that Claudelands' event activity is being negatively impacted due to the level of industry awareness not yet being maximised.
13. Public days should be set aside two weeks out from opening for as many people as possible.	Partial	One open day was held, which was attended by 12,000 people. We do not believe this should have a negative impact on Claudelands' operating performance.

2.3 Activity Projections

Based on our review of industry data, discussions with industry participants, and analysis of comparative facilities, we believe the activity projections contained in the Strategic Business Plan are overly optimistic. In part this is due to the extended period of difficult economic conditions. However, even without this factor we believe the projections would have proved difficult to achieve, especially for a business in “start-up” mode.

The Strategic Business Plan does not provide any analytical basis for the number or size of events projected to occur at Claudelands. It is not, therefore, possible to critique the specific assumptions on which the activity projections are based. In discussing the event assumptions with Campbell Consulting, we were advised that Campbell Consulting had, in the first instance, been provided with activity projections by Hamilton City Council staff and asked to use them as the basis for the Strategic Business Plan. In reviewing the projections Campbell Consulting formed the view that many of the event categories were overstated while there was insufficient projected functions and meetings activity. As a consequence Campbell Consulting made a number of adjustments to the Hamilton City Council projections.

Campbell Consulting has advised by way of file note provided to Horwath HTL dated 19 December 2011 that:

“Initially Campbell Consulting revised event numbers down by almost 50%. The number of events in the Hamilton City Council Claudelands models was unrealistic in comparison to other venues. [Council staff] continued to have a great influence on the event projections. These influences lead to the projections reported by Campbell Consulting being increased from our initial revisions.”

We note that the Strategic Business Plan contains no disclaimer or qualification regarding the event projections and the reader is therefore entitled to believe the projections have been independently developed by Campbell Consulting.

A key concern with the activity projections is that there is no allowance for a build-up in the number or scale of events at Claudelands over the first three years of operations. In our experience, even with appropriate pre-opening marketing, new facilities require a reasonable period of time to achieve a stabilised level of activity. This reflects:

1. booking lead times for events like conferences
2. a preference amongst event promoters for a venue to “prove itself” in terms of aspects like service levels, public appeal, venue capability, and value for money with smaller to mid-size events before committing large events
3. a need to “seed” and support the development of new events (including exhibitions) as a way of developing a larger event portfolio.

2.3.1 Concerts

The Campbell Consulting projection of 21 concerts with an average of 3,000 attendees is very bullish in the context of the available event product in New Zealand, the size of the local Hamilton population, and Claudelands’ proximity to Vector Arena, which captures the vast majority of entertainment product for audiences between 2,500 – 12,000 people. The Trusts Stadium in Henderson has the same 5,000 capacity for concert events as Claudelands and has never achieved 21 concert events per annum and we understand more usually achieves approximately 4 – 6 events per annum. The Trusts Stadium provides a good benchmark for Claudelands as it also has to operate in the relatively narrow niche of business that is too big for traditional theatre venues and too small to be commercially viable in the larger Vector Arena.

2.3.2 Sports

Campbell Consulting correctly projected that sports events would be relatively low yielding, as reflected in their projection that sports events would contribute less than 4% of Claudelands’ revenues. However, the projected 12 events are high due to an assumption that Claudelands would host four of the Magic’s six annual home games and that there would be an average of 5 events per annum from “minor” sports including boxing, martial arts, volley ball, and domestic basketball. The projected level of Magic games does not reflect the fact that there are three venues available, including the new TECT

Arena in Tauranga, which was identified in the Campbell Consulting risk analysis. The high level of activity from “minor” sports over-states their ability to pay to use venues like Claudelands.

2.3.3 Exhibition

Campbell Consulting projected that the new Claudelands facility would host 19 exhibitions per annum excluding the two Waikato Show Trust exhibitions. These 19 exhibitions were projected to draw over 200,000 people per annum. The old Claudelands facility hosted 15 exhibitions excluding the two Waikato Show Trust exhibitions and these 15 exhibitions attracted approximately 89,000 people per annum. Clearly, the Campbell Consulting exhibition projection for the new Claudelands facility anticipated a different mix of exhibitions with a greater number of larger exhibitions. However, the trend in the exhibition industry over the last 5 – 6 years has been for more fragmentation in the market with an increased number of niche events, and for the long-established events to experience a gradual reduction in attendee numbers. There are relatively few large exhibitions that “tour” the New Zealand market that would enable Claudelands to achieve the projected level of exhibition activity. The consequence of forecasting 19 exhibitions with an average attendance of over 10,000 people each is that the average space requirements and resulting venue hire per event were significantly overstated.

2.3.4 Conference

Campbell Consulting projected a total of 41 conferences, of which 22 were for large conferences involving more than 500 delegates. The Convention Activity Survey, published by the Ministry of Economic Development, shows there were 64 conferences of more than 500 delegates in the ten leading conference regions in New Zealand in the 2010 calendar year. Claudelands would have had to achieve a 34% market share to achieve the projected level of large conferences. We believe this is overly optimistic given:

1. the lack of hotel accommodation in Hamilton (as identified by Campbell Consulting) relative to competing destinations
2. the absence of a convention bureau in Hamilton at the time of the projections (this has only recently been re-instated)
3. the relative shortage of unique leisure options relative to competing destinations (particularly Rotorua) for accompanying persons and incorporation into conference programmes
4. Hamilton’s air links relative to many key competitors including Auckland, Wellington, and Christchurch.

The overly optimistic nature of the conference projections can also be illustrated by considering the projected number of delegates attending large conferences, as summarised below.

Table 2.3: Annual Number of Delegates Attending Large Conferences of 500+ Attendees

Location	Delegates	Source
Auckland	21,852	Convention Activity Survey 2010
Claudelands	15,860	Campbell Consulting
Canterbury	12,332	Convention Activity Survey 2010
Rotorua	6,069	Convention Activity Survey 2010
Wellington	5,626	Convention Activity Survey 2010
Manawatu	4,500	Convention Activity Survey 2010
Nelson	2,103	Convention Activity Survey 2010
Queenstown	1,200	Convention Activity Survey 2010

Claudelands was projected to achieve over 70% of Auckland’s level of delegates for large conferences. We believe this to be significantly overstated given:

1. Auckland has multiple venues capable of hosting large conferences of 500+ delegates
2. Auckland’s very strong domestic and international air links
3. Auckland’s large supply of hotel accommodation to support conference activity
4. Auckland’s status as the commercial hub of New Zealand.

Claudelands was also projected to achieve almost 30% more delegates at large conferences than Canterbury, which had (prior to the February 2011 earthquake) New Zealand’s largest conference centre and superior air links and hotel supply compared to Hamilton.

Rotorua is a more comparable conference destination in terms of venue capability, geographical location, and air links. It has some competitive advantages in terms of hotel supply and unique leisure options but also has some disadvantages by comparison with Hamilton in terms of lacking a university and significant agricultural sector. We would therefore anticipate Claudelands looking to benchmark relative to Rotorua and we believe the fact the projected level of delegates attending large conferences at Claudelands is 160% of the level achieved in Rotorua is a strong indicator of the level of over-statement in the Claudelands conference projections.

2.3.5 Meetings and Functions

Campbell Consulting projected 81 meetings with an average of 117 attendees and 151 functions with an average of 123 attendees. Meetings and functions activity is difficult to benchmark with activity levels tending to fluctuate significantly amongst comparable venues depending upon the local market environment from a demand perspective and the degree of local competition. We regard Claudelands as facing a reasonably high level of competition for meetings and functions from a diverse range of venues including Novotel, SKYCITY, Wintec, Waikato Stadium, Kingsgate, and Hamilton Gardens. However, based on our industry experience, we would regard the projected level of meetings as reasonable.

In the context of the level of local competition, we would regard the functions activity as being optimistic although we do note that the vast majority of events were assumed to have a low food and beverage spend. However, in our view, the high number of events does result in over-stated venue hire revenue from functions.

2.4 Venue Pricing

The Strategic Business Plan contains a detailed assessment of venue rates at comparable New Zealand venues across the different areas of business in which Claudelands is involved. Campbell Consulting has advised that it endeavoured to obtain quoted prices, as opposed to list prices, by undertaking a “mystery shopper” exercise. It then assessed the average venue prices per square metre and per person (based on maximum capacity) to ascertain recommended venue rates for Claudelands. These recommended venue rates were generally significantly discounted in Years 1-2 as Campbell Consulting saw this as a means of allowing Claudelands to quickly grow its market share.

We have identified several issues with this analysis.

First, despite Campbell Consulting’s attempts to obtain quoted prices rather than list prices from comparable venues, our enquiries of venues indicates that in many cases the reported prices are list prices. Some of the busier venues are achieving in line with list prices. However, other venues have indicated to us that they would offer significant discounts on the list prices depending upon the volume of other business they have, the nature of the client, and how strategic the business is. As a consequence, we believe the analysis by Campbell Consulting provides an inflated picture of the venue rates actually being achieved in the New Zealand marketplace in 2008.

Second, the analysis does not take into consideration that quoted venue rates will often be provided in the context of a broader commercial package. This might include a sponsorship off-set from the venue or inclusions in terms of labour and equipment that would otherwise be charged for separately.

Third, in relation to meetings and functions, in which Claudelands is competing against a number of strong local competitors, Campbell Consulting has assumed Claudelands can achieve a significant premium relative to competitors. In the case of meetings, Campbell Consulting allowed for a 19% premium on venue hire relative to its assessment of the overall Hamilton average. At the recommended price, Claudelands was identified by Campbell Consulting as the second most expensive venue in Hamilton with only the Ibis being priced more highly. In the case of functions, Campbell Consulting allowed for a 29% premium on venue hire relative to its assessment of the overall Hamilton average. Campbell Consulting’s recommended pricing for meetings and functions is not consistent with its own proposition that Claudelands should price aggressively to obtain market share.

2.5 Cashflow

Despite the Campbell Consulting document being described as a Strategic Business Plan, Campbell Consulting's scope did not extend to preparing operating cost projections. Campbell Consulting has advised that it tried to resist this limitation on scope as it was concerned about the potential for a disconnect between the cost structure of Claudelands assumed by Council and the level of resourcing required to generate Campbell Consulting's projected revenues.

Evidence of Campbell Consulting's concerns are contained in the Disclaimer on page 11, which includes the paragraph:

"The Strategic Business Plan is not a Full Financial Feasibility for Claudelands. It has been proposed that the expenses prepared by Hamilton City Council are reviewed and amalgamated in line with Campbell Consulting's revenue projections for Claudelands."

Campbell Consulting has advised that it was not subsequently engaged to undertake this review.

Page 125 of the Strategic Business Plan contains a single line cashflow excluding indirect costs that is clearly described as being the outcome of comparing Campbell Consulting's revenue projections with Hamilton City Council's expenses schedule. The cashflow indicates a net surplus of \$80,786 in Year 1 lifting to a surplus of \$736,454 in Year 3. Importantly the cashflow is accompanied by a significant qualification that states:

"Campbell Consulting has reviewed the salaries and marketing expenses detailed in Hamilton City Council's expenses schedule in relation to the projected revenue. It is our view that salaries may need to be increased to meet industry standard. Marketing in its first three years is detailed at considerably below what is required for a major event centre such as Claudelands and what is required to achieve the projected revenue. Travel expenses are also below industry standard."

This qualification effectively reinforces the Disclaimer on Page 11. This qualification was not present on the cashflow page in the separate 24 page summary report prepared by Campbell Consulting.

Despite it being out of scope, Campbell Consulting also provided an alternative cashflow on page 126 that shows a net deficit (excluding indirect costs) of \$379,381 in Year 1 and \$161,753 in Year 2 before a surplus (excluding indirect costs) of \$186,287 in Year 3. These alternative cashflow figures imply that Campbell Consulting believed additional staffing, marketing and travel expenses of \$460,000 - \$550,000 would be required to support their revenue projections. Campbell Consulting provided no view in relation to other expense lines.

2.6 Differences Between LTCCP & Strategic Business Plan

On commencing our review we were advised by Council staff that they had become aware there was a difference between the revenue figures in the Strategic Business Plan prepared by Campbell Consulting and the revenue figures incorporated into the current LTCCP.

We have investigated this difference as part of our review and identified differences in both revenues and direct expenses. The extent of the variances is summarised in the Tables below.

Table 2.4: Analysis of Variance between Strategic Business Plan Figures and LTCCP Figures

Year 1

	Strategic Business Plan	LTCCP	Variance (\$)
Total Revenue	10,168,803	10,792,872	624,069
Direct Expenses	10,088,017	9,103,573	(984,444)
Net Surplus excl. Indirect Costs	80,786	1,689,299	1,608,513

Year 2

	Strategic Business Plan	LTCCP	Variance
Total Revenue	10,533,566	11,498,165	964,599
Direct Expenses	10,145,152	9,399,205	(745,947)
Net Surplus excl. Indirect Costs	388,414	2,098,960	1,710,546

Year 3

	Strategic Business Plan	LTCCP	Variance
Total Revenue	11,050,707	12,264,670	1,213,963
Direct Expenses	10,314,253	9,696,600	(617,653)
Net Surplus excl. Indirect Costs	736,454	2,568,070	1,831,616

The Year 1 – 3 revenue figures in the LTCCP have been increased between 6 – 11% above the revenue figures developed by Campbell Consulting. This is of significant concern given our assessment that the revenue figures in the Strategic Business Plan were overly optimistic.

Of even greater concern is that the Year 1 – 3 operating cost figures in the LTCCP have been reduced between 6 – 9% from the operating cost assumptions provided to Campbell Consulting at the time the Strategic Business Plan was developed. This reduction has occurred despite the lift in revenue and Campbell Consulting's statement in the Strategic Business Plan that Council's assumed cost structure would be insufficient to generate Campbell Consulting's projected revenue levels.

We requested information from Council as to how the differences occurred between the LTCCP figures and the figures in the Strategic Business Plan.

We were advised that it had not been possible to identify the basis on which changes were made. Accordingly we are unable to explain the basis for the significant differences between the figures.

2.7 Summary of Key Findings

Our key findings based on our review of the Strategic Business Plan and LTCCP cost assumptions are as follows:

1. The revenue-earning potential of Claudelands was significantly overstated in the Strategic Business Plan due to overly optimistic activity and pricing assumptions.
2. The realisation of some of the key risks identified in the Strategic Business Plan (in particular the on-going difficult economic environment and continued lack of hotel accommodation) has contributed to the degree of difference between projected revenues and actual revenues. However, in our opinion, the projected revenues were overstated even if all of the identified risks could have been mitigated.
3. The Council-imposed limitation on Campbell Consulting's scope of work resulted in a disconnect between projected revenues and assumed operating costs. Campbell Consulting's report provided clear cautions in relation to this disconnect and stated the need for increased costs in order to generate the projected revenues.
4. We note that the cost figures adopted in the LTCCP were lower than those supplied to Campbell Consulting while the revenue figures in the LTCCP were above those contained in the Strategic Business Plan.
5. The revenue projections in the LTCCP were unrealistically high. The cost assumptions contained in the LTCCP were unrealistically low in the context of the projected revenues.
6. There are significant unexplained differences between the revenue and cost figures in the business plan developed by Campbell Consulting and those in the LTCCP.

3. Realistic Business Targets

In order to assist Council in developing realistic budgets and business targets for inclusion in Council's 2012-22 LTP, we have:

1. identified current and emerging market / business risks
2. reviewed Claudelands' performance during its first six months of operation to establish a preliminary "base-line" of activity
3. reviewed Claudelands' projected activity and revenues for the second six months of 2011-12 in order to form our own view as to a realistic financial performance for the 2011-12 financial year
4. projected event activity, revenues, and operating costs for the three year period commencing 2012-13 based on our assessment of market conditions and opportunities.

3.1 Current and Emerging Market / Business Risks

We have considered current and emerging market / business risks in the context of each of Claudelands' main areas of business and summarise these below.

Concerts / Performance Events

1. The sharp reduction in profitability in the recorded music industry has lead to a worldwide increase in live performance events as artists have been become increasingly reliant on this income stream. While this is positive in terms of the general environment, Claudelands is not well positioned to capitalise directly as its capacity and local population catchment are lower than most international promoters would be seeking.
2. In recent times the live performance market has increasingly been struggling to achieve viable levels of ticket sales. Two key contributors to this have been the tough economic environment and the large increase in product (as artists have become more reliant on live events). This environment is likely to see event promoters focus on "proven" venues and artists and make it more difficult for new venues such as Claudelands to attract significant levels of additional activity over the next three years.

Sports Events

1. In the New Zealand market there are relatively few indoor sports events that provide viable revenue generating opportunities for indoor venues. Key amongst these are netball internationals, trans-Tasman netball, Breakers pre-season basketball, and "one-off" events like professional boxing. Claudelands has already been very successful in capturing this type of sports activity and we anticipate little opportunity to increase the number of sports events over the next three years.

Conferences

1. The conference market in New Zealand rebounded in 2011 with markedly increased levels of corporate activity following a lull in 2010 that was attributed to the economic environment.
2. The New Zealand market experienced a significant displacement of activity due to the closure of the Christchurch Convention Centre (New Zealand's largest facility) following the February earthquake. We understand key beneficiaries of this displaced business included Auckland, Rotorua, and Wellington with Claudelands gaining a small level of activity. It is highly unlikely that the Christchurch Convention Centre will be replaced within the next three years. It is currently proposed that SKYCITY will develop a new international convention centre in Auckland. If this does proceed, it will not commence operations within the next three years.
3. The limited supply of hotel accommodation in Hamilton represents a significant disadvantage for Claudelands in competing for conferences of 300+ delegates.
4. Claudelands should benefit from the recent re-instatement of a convention bureau for the Waikato region, which will assist the general marketing and promotion of the region as a conference destination
5. Claudelands will continue to face strong competition from Rotorua, which we view as Claudelands' primary conference competitor.

Exhibitions

1. The exhibition market in New Zealand has fragmented in recent years following the departure of DMG World Media from the New Zealand marketplace. DMG was the single biggest client of the Auckland Showgrounds with eight annual exhibitions including two of the largest public exhibitions being the Home Show and Big Boys Toys. On exiting the market DMG sold its exhibitions to various different parties.
2. The market is increasingly characterised by smaller events with many traditional exhibitions experiencing a decline in attendance while newer exhibitions tend to be more niche in character.
3. There are relatively few established "touring" exhibitions in New Zealand that represent new opportunities for Hamilton.
4. From a New Zealand exhibition organiser's perspective the quality of space is typically a secondary consideration to the quantum and cost of space. This makes it difficult for new facilities to earn a venue hire premium.
5. Our expectation is that growth in exhibition activity in Hamilton will be modest and primarily dependent upon the seeding and development of new events at Claudelands rather than the "importing" of established events.

Meetings and Functions

1. Meetings and functions business tends to be highly competitive because of the wide range of potential venues for events of this size.
2. New venues tend to benefit from a “honeymoon period” as event organisers seek to try out new facilities. We expect this dynamic should work in Claudelands’ favour over the next three years.
3. The market perception of a venue’s caterer is often a critical success factor and, importantly, Montana Catering does have a strong market reputation. However, Montana Catering is present in a number of competing venues in Hamilton.

3.2 Actual Performance YTD December 2011

The number of events and event attendees in the first six months of the current financial year is summarised in the Tables below.

Table 3.1: Claudelands Events July – December 2011

Number of Events	Actual YTD Dec-11
Large Conferences (501+ delegates)	0
Medium Conferences (251 - 500 delegates)	1
Small Conferences (up to 250 delegates)	11
Meetings	44
Functions	42
Trade Exhibitions	0
Large Public Exhibitions (10,000+ attendees)	4
Small Public Exhibitions (up to 10,000 attendees)	4
Other Exhibitions	6
Impact Event - Performance	5
Impact Event - Sport	3
Total	120

(Source: Hamilton City Council)

Of the 120 events hosted at Claudelands, 44 were meetings (37%), and 42 were functions (35%), 14 were exhibitions (12%), 12 were conferences (10%), and eight were impact events (7%).

These 120 events attracted a total of almost 115,000 people to Claudelands. Of these people, 85,195 came for exhibitions (74%), 18,700 came for impact events (16%), and 10,978 came for all other event types (10%).

Table 3.2: Claudelands Event Attendees July – December 2011

Total No. of Event Attendees	Actual YTD Dec-11
Large Conferences	0
Medium Conferences	300
Small Conferences	1,530
Meetings	2,837
Functions	6,311
Trade Exhibitions	0
Large Public Exhibitions	66,000
Small Public Exhibitions	15,200
Other Exhibitions	3,995
Impact Event - Performance	14,000
Impact Event - Sport	4,700
Total	114,873

(Source: Hamilton City Council)

The resultant financial performance is summarised in the Table below. This financial performance is expressed prior to occupancy costs and after allocation of Event Facilities Unit (“EFU”) overhead. Revenues are expressed in net terms and exclude all throughputs. This differs from the presentation of financial information in the Council. We have presented the information in this way after discussion with Council staff as we believe it provides a clearer picture of the underlying business as it relates to the venue operator.

Table 3.3: Claudelands Financial Performance July – December 2011

Revenue	
Space Rental Revenue	436,592
Catering & AV Commission	211,147
Equipment Hire	128,809
Other Revenue	(1,660)
Total Revenue	774,887
Direct Expenses	
Salaries & Wages	445,164
Staff Costs & Training	27,575
Security	105,581
Energy Costs	128,508
Cleaning & Maintenance	163,643
Equipment Hire	21,363
Minor Equipment Purchases	34,912
Internal Plant Hire	24,186
Consumables	25,831
Administration & Communication Costs	71,993
Other	38,834
Total Direct Expenses (excl. Occupancy Costs)	1,087,590
Indirect Expenses	
EFU Overhead Allocation	293,502
Net Cost After Direct Expenses & EFU Overhead Allocation	(606,205)

(Source: Hamilton City Council)

Based on our analysis of Council's accounts, Claudelands has incurred a net deficit of approximately \$606,000 after direct expenses (excluding Occupancy Costs) and EFU overhead allocation in the first six months of 2011-12.

3.3 Projected Performance YE June 2012

Based on actual business already secured by Claudelands for the balance of this year and an estimated allowance for additional business that will materialise prior to year end, we project a total of 214 events in the 2011-12 year, as itemised in Table 3.4.

Table 3.4: Projected Claudelands Events 2011-12

Number of Events	Actual YTD Dec-11	Projected Jan - Jun	Projected YE Jun-12
Large Conferences (501+ delegates)	0	2	2
Medium Conferences (251 - 500 delegates)	1	4	5
Small Conferences (up to 250 delegates)	11	9	20
Meetings	44	39	83
Functions	42	23	65
Trade Exhibitions	0	1	1
Large Public Exhibitions (10,000+ attendees)	4	4	8
Small Public Exhibitions (up to 10,000 attendees)	4	2	6
Other Exhibitions	6	3	9
Impact Event - Performance	5	2	7
Impact Event - Sport	3	5	8
Total	120	94	214

(Source: Hamilton City Council, Horwath HTL)

Given the lead time of most event business there would be limited opportunity to secure additional events for 2011-12 at this stage of the year, with the exception of meetings and functions. Individual meetings and functions generate relatively low levels of revenue for Claudelands, however, so even a significant lift over and above our projected levels for the balance of 2011-12 would not have a material impact on revenues.

We project Claudelands will host approximately 190,000 event attendees in the 2011-12 financial year.

Table 3.5: Projected Claudelands Event Attendees 2011-12

Total No. of Event Attendees	Actual YTD Dec-11	Projected Jan - Jun	Projected YE Jun-12
Large Conferences	0	1,891	1,891
Medium Conferences	300	1,500	1,800
Small Conferences	1,530	1,183	2,713
Meetings	2,837	6,928	9,765
Functions	6,311	3,079	9,390
Trade Exhibitions	0	600	600
Large Public Exhibitions	66,000	44,818	110,818
Small Public Exhibitions	15,200	8,000	23,200
Other Exhibitions	3,995	1,100	5,095
Impact Event - Performance	14,000	5,500	19,500
Impact Event - Sport	4,700	3,460	8,160
Total	114,873	78,059	192,932

(Source: Hamilton City Council, Horwath HTL)

We project Claudelands will achieve revenue of approximately \$1.5 million in 2011-12. In the second half of the financial year we anticipate a higher proportion of revenue from catering and AV commissions due to the higher number of medium to large conferences as well as key impact events.

We have allowed for a slight reduction in direct expenses in the second half of the year as a result of an increased focus by management in limiting Claudelands' operational deficit. However, the existing cost structure is relatively tight and there are few opportunities for significant cost reductions without negatively impacting on operational performance.

Table 3.6: Projected Claudelands Financial Performance 2011-12

	Actual YTD Dec-11	Projected Jan - Jun	Projected YE Jun-12
Revenue			
Space Rental Revenue	436,592	405,091	841,683
Catering & AV Commission	211,147	(211,147)	
Catering Commission		411,242	411,242
Equipment Hire	128,809	112,603	241,412
AV Commission		55,048	55,048
Other Revenue	(1,660)	1,660	-
Total Revenue	774,887	774,498	1,549,385
Direct Expenses			
Salaries & Wages	445,164	435,266	880,430
Staff Costs & Training	27,575	18,525	46,100
Security	105,581	95,019	200,600
Energy Costs	128,508	128,512	257,020
Cleaning & Maintenance	163,643	100,997	264,640
Equipment Hire	21,363	21,207	42,570
Minor Equipment Purchases	34,912	12,568	47,480
Internal Plant Hire	24,186	24,214	48,400
Consumables	25,831	23,259	49,090
Administration & Communication Costs	71,993	71,477	143,470
Other	38,834	11,856	50,690
Total Direct Expenses (excl. Occupancy Costs)	1,087,590	942,900	2,030,490
Indirect Expenses			
EFU Overhead Allocation	293,502	754,498	1,048,000
Net Cost After Direct Expenses & EFU Overhead Allocation	(606,205)	(922,900)	(1,529,105)

(Source: Hamilton City Council, Horwath HTL)

Based on advice from Council staff, the EFU overhead allocation has been increased significantly for the second half of the financial year to reflect two key factors.

The first is that the EFU's year-to-date operating costs are significantly ahead of budget and by year end this increase needs to be allocated to the relevant facilities including Claudelands. We understand that increased resourcing relating to Claudelands is the primary reason for the EFU's increased operating costs.

The second reason for the increase is that we have allowed for the addition of two FTE positions: one further conference sales person to assist in generating

conference business and one administrative person for the business development unit to assist in contracting business to facilitate key sales staff pursuing new leads. Given the lead times associated with events, we do not anticipate this additional sales resource generating increased revenues in the current financial year but do believe the resource is necessary in order for Claudelands to achieve the increased activity levels projected over the next three years.

Overall, we anticipate Claudelands will achieve a net deficit after direct expenses and EFU overhead allocation of approximately \$1.5 million in 2011-12. This compares to a budgeted surplus of \$1.1 million (after direct expenses and EFU overhead allocation) in the 2011-12 annual plan.

The key drivers of the \$2.6 million variance are:

1. projected revenues being \$2.2 million below budgeted levels, which is primarily due to venue rental being \$1 million below budget, commissions from catering and AV being \$600,000 below budget, and equipment hire being \$440,000 below budget.
2. EFU overhead allocation being \$400,000 above budgeted levels.

3.4 Projected Performance 2012/13 – 2014/15

Our projections have been prepared on the basis of the following assumptions:

1. The current and emerging market / business risks will continue to influence Claudelands throughout the three year projection period
2. Claudelands will continue to operate as part of Council's Event Facilities Unit throughout the three year projection period
3. Existing contractual arrangements with commercial suppliers and partners will remain in place
4. The prevailing economic environment and strong competitive pressures amongst event venues in New Zealand will limit Claudelands' ability to lift price levels as it seeks to build its market share. Consequently, the majority of the projected revenue growth over the projection period will be due to increased activity levels.
5. Claudelands will continue to operate for the sole purpose of accommodating commercial activities.

We would caution against boosting utilisation levels at Claudelands by accommodating regular community sport and recreation users. Given the facilities were not designed to fulfil this purpose, this would represent an expensive and compromised option. For example, temporary sports floors would need to be installed and there are a lack of change facilities to meet community use requirements. Community users would not be able to afford to fully fund their use and, therefore, Claudelands' financial position would be further compromised. Furthermore, regular community sport and recreation

bookings would compromise Claudelands' ability to secure revenue-generating commercial bookings.

Our projected levels of activity for the 2012/13 – 2014/15 period are summarised below in the context of our projected levels of activity for the current financial year.

Table 3.7: Projected Claudelands Events 2011-12 to 2014-15

Number of Events	2011-12	2012-13	2013-14	2014-15
Large Conferences (501+ delegates)	2	3	3	4
Medium Conferences (251 - 500 delegates)	5	7	8	8
Small Conferences (up to 250 delegates)	20	26	32	34
Meetings	83	91	96	100
Functions	65	80	85	90
Trade Exhibitions	1	2	3	3
Large Public Exhibitions (10,000+ attendees)	8	8	9	9
Small Public Exhibitions (up to 10,000 attendees)	6	7	7	8
Other Exhibitions	9	11	12	12
Impact Event - Performance	7	8	9	10
Impact Event - Sport	8	8	8	8
Total	214	251	272	286

(Source: Hamilton City Council, Horwath HTL)

We project that Claudelands could achieve a 17% increase in events in 2012-13 relative to the current year. Based on our assessment of the market, the greatest opportunities for growth exist in relation to conferences (33% increase), functions (23% increase), exhibitions (17%) and meetings (10% increase).

The majority of conference-related growth is likely to be in relation to small and medium conferences rather than large conferences as there are more of this size of conference, they tend to have shorter lead times, and are less affected by Hamilton's limited supply of hotel accommodation.

Functions activity should benefit from positive "word of mouth" stimulating growth in this segment.

Market conditions are likely to limit growth in the exhibition sector. We do not anticipate an established public exhibition coming to Claudelands and therefore the only opportunity for growth in public exhibitions in 2012-13 is likely to be through the "seeding" of a new small public exhibition.

We anticipate more modest growth in 2013-14 as activity levels start to approach more stabilised levels in the context of prevailing market conditions. We have projected an 8% increase in events with the greatest growth relating to conferences (19% increase), exhibitions (11% increase), and functions (6%). Conference growth will continue to be predominantly in the small to medium category. We have allowed for exhibition growth comprising one new

small public exhibition and one existing small public exhibition developing into a large public exhibition in 2013-14.

We have projected a 5% increase in events in 2014-15. We believe the event count in 2014-15 represents a stabilised level of business.

Our projected number of event attendees is summarised in Table 3.8.

Table 3.8: Projected Claudelands Event Attendees 2011-12 to 2014-15

Total No. of Event Attendees	2011-12	2012-13	2013-14	2014-15
Large Conferences (501+ delegates)	1,891	1,950	1,950	2,600
Medium Conferences (251 - 500 delegates)	1,800	2,520	2,880	2,880
Small Conferences (up to 250 delegates)	2,713	3,640	4,480	4,760
Meetings	9,765	7,735	8,160	8,500
Functions	9,390	11,600	12,325	13,050
Trade Exhibitions	600	1,200	1,800	1,800
Large Public Exhibitions (10,000+ attendees)	110,818	110,860	124,718	124,718
Small Public Exhibitions (up to 10,000 attendees)	23,200	28,437	29,802	34,667
Other Exhibitions	5,095	6,270	6,840	6,840
Impact Event - Performance	19,500	22,840	26,343	29,700
Impact Event - Sport	8,160	8,160	8,160	8,160
Total	192,932	205,212	227,458	237,674

(Source: Hamilton City Council, Horwath HTL)

We project the total number of event attendees is likely to increase approximately 23% by 2014-15 relative to 2011-12. As illustrated in Table 3.9, we do not anticipate a significant shift in the composition of event attendees over the projection period.

Table 3.9: Projected Composition of Claudelands Event Attendees

	2011-12	2014-15
Conferences	3.3%	4.3%
Exhibitions	72.4%	70.7%
Impact Events	14.3%	15.9%
Meetings	5.1%	3.6%
Functions	4.9%	5.5%

(Source: Hamilton City Council, Horwath HTL)

Our financial projections for Claudelands for the three year period commencing 2013-14 are summarised in Table 3.10 together with the projected performance for the current financial year.

Table 3.10: Projected Claudelands Financial Performance 2011-12 to 2014-15

	2011-12	2012-13	2013-14	2014-15
Revenue				
Space Rental Revenue	841,683	975,211	1,093,844	1,170,348
Catering Commission	411,242	482,439	537,712	587,009
Equipment Hire	241,412	263,799	295,259	305,726
AV Commission	55,048	75,625	83,968	94,879
Other Revenue	-	15,000	17,500	19,000
Total Revenue	1,549,385	1,812,074	2,028,283	2,176,961
Direct Expenses				
Salaries & Wages	880,430	893,636	907,041	920,647
Staff Costs & Training	46,100	46,561	47,027	47,497
Security	200,600	220,660	231,693	243,278
Energy Costs	257,020	266,016	275,326	284,963
Cleaning & Maintenance	264,640	269,933	280,730	297,574
Equipment Hire	42,570	43,847	45,163	46,517
Minor Equipment Purchases	47,480	37,984	38,744	39,519
Internal Plant Hire	48,400	49,368	50,355	51,362
Consumables	49,090	50,072	51,073	52,095
Administration & Communication Costs	143,470	146,339	149,266	152,252
Other	50,690	51,957	53,256	54,588
Total Direct Expenses (excl. Occupancy Costs)	2,030,490	2,076,374	2,129,674	2,190,290
Indirect Expenses				
EFU Overhead Allocation	1,048,000	1,115,000	1,148,450	1,182,904
Net Cost After Direct Expenses & EFU Overhead Allocation	(1,529,105)	(1,379,300)	(1,249,841)	(1,196,232)

(Source: Hamilton City Council, Horwath HTL)

We project a gradual decline in Claudeland's net deficit after direct expenses and EFU overhead cost allocation over the projection period. However, we do not anticipate Claudelands being in a position to generate sufficient revenues to off-set direct expenses and the EFU overhead allocation within the projection period.

We project Claudelands' revenues will increase approximately 40% over the projection period due, primarily, to increased activity levels. We anticipate AV commission and catering commission will increase at a higher level than the overall average due to stronger growth in conferences, which generate relatively high levels of AV and food and beverage spend. We have made a modest provision for other revenue in relation to ticketing commission, merchandise commission, and car park revenue. We do not anticipate any of these three revenue streams developing into a material source of income for Claudelands given the venue's mix of business and the level of resistance from both event organisers and the public to any significant level of car park charges.

Direct expenses are projected to grow at a relatively low level, with total direct expenses increasing only 8% over the period. Each expense item has been evaluated separately, with energy costs (for example) assumed to grow at a higher level, while salary costs are assumed to be tightly controlled by management.

EFU overhead allocation costs have been increased in 2012-13 to allow for a full year of the additional conference sales salary and business development unit administration salary. From 2013-14 onwards the EFU overhead allocation cost has been increased at 3% per annum.

3.4.1 Sensitivity Analysis

The financial performance of event venues can fluctuate quite significantly due to the “lumpy” flow of business which, in part, can be attributable to the volume of available event product in the marketplace, long lead times, and fluctuating levels of competitive pressure from other venues. In order to reflect the potential for fluctuating financial performance, we have developed two alternative scenarios as a sensitivity analysis. The key driver of the alternative scenarios is our assessment of a realistically possible upper and lower level of activity at Claudelands across the various event types. Note that these scenarios do not represent the best or worst possible outcomes.

The scenarios are summarised in Table 3.11 alongside our projected “base case” activity levels.

Table 3.11: Alternative Activity Levels 2012-13 to 2014-15

		Conference	Meetings & Functions	Exhibitions	Impact Events	Total	Variance from Base Case
Lower Scenario	2012-13	32	155	26	15	228	-9.2%
	2013-14	37	162	26	15	240	-11.9%
	2014-15	39	165	28	15	247	-13.6%
Base Case	2012-13	36	171	28	16	251	-
	2013-14	43	181	31	17	272	-
	2014-15	46	190	32	18	286	-
Upper Scenario	2012-13	38	172	28	18	256	2.0%
	2013-14	46	186	31	20	283	4.0%
	2014-15	48	192	33	22	295	3.1%

(Source: Horwath HTL)

We consider the base case to be the most likely scenario. However, as illustrated above, we believe there is a greater degree of downside risk to Claudelands’ future activity levels than there is upside potential. This is reflected in the fact that under the lower scenario activity levels are almost 14% below the base case by 2014-15 whereas under the upper scenario we are only projecting a 3% uplift on base case levels.

Key factors that could give rise to the lower scenario activity levels include:

1. further deterioration in the economic environment
2. increasingly competitive marketing and promotion by competitor conference destinations, particularly Rotorua diluting activity levels and also reducing yields on that business which is secured

3. negative market feedback regarding supporting infrastructure (including hotel accommodation) for conferencing in Hamilton
4. increased price-based competition for meetings and exhibitions in the local Hamilton market diluting activity levels and also reducing yields on that business which is secured
5. difficulty in “seeding” new exhibitions.

The range of potential financial outcomes based on these alternative activity levels are summarised in Table 3.12.

Table 3.12: Alternative Financial Outcomes 2012-13 to 2014-15

		Total Revenue	Net Deficit*	Variance from Base Case
Lower Scenario	2012-13	1,531,197	(1,507,441)	9.3%
	2013-14	1,574,746	(1,538,990)	23.1%
	2014-15	1,641,668	(1,554,068)	29.9%
Base Case	2012-13	1,812,074	(1,379,300)	-
	2013-14	2,028,283	(1,249,841)	-
	2014-15	2,176,961	(1,196,232)	-
Upper Scenario	2012-13	1,873,429	(1,358,916)	-1.5%
	2013-14	2,159,444	(1,169,188)	-6.5%
	2014-15	2,353,024	(1,075,613)	-10.1%

* Note: Net deficit refers to Claudelands’ net deficit after direct expenses (excl. occupancy costs) and after EFU overhead allocation.

(Source: Horwath HTL)

Under the lower scenario we project Claudelands’ net deficit will increase marginally over the three year period rather than gradually reducing as under the Base Case. By 2014-15 the deficit under the lower scenario is projected to be almost 30% higher than under the base case.

By comparison, there is relatively less financial upside under the upper scenario. By 2014-15 we project the net deficit will be approximately \$1.1 million under the upper scenario, which is 10% less than the base case.