



cutting through complexity

Australia Forum Strategic and Delivery Options Analysis

Chief Minister, Treasury and
Economic Development
Directorate

FINAL REPORT

March 2016

KPMG Economic Advisory



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Executive Summary

Overview

The current demand for convention and exhibition space in Canberra is serviced by the National Convention Centre Canberra (NCCC) as well as a number of smaller or special purpose event spaces. The NCCC was built in 1989 and is located in Civic in Canberra, just east of City Hill.

The NCCC is small in comparison to other significant convention facilities in Australia and is designed inflexibly such that a three day convention often closes the facility to other business for an entire week. As such Canberra has lost a significant number of business events to interstate venues and is not considered as an appropriate location for many event organisers. Accordingly, the ACT Government is considering the development of a new or refurbished convention centre in Canberra to capture the convention business currently being lost to Canberra.

The KPMG team, including Populous (Architecture) and Wilde and Woollard (Quantity Surveyors) have been engaged by Chief Minister, Treasury and Economic Development Directorate (CMTEDD) to provide a Strategic and Delivery Options Analysis for four different solutions to the issues facing the convention and business events market in the ACT.

The ACT Government has undertaken research and analysis of an iconic solution, designed by Fuksas Architects and called the "Australia Forum". Other previous research undertaken on a proposed new convention facility in Canberra include:

- Scoping study for a convention centre in Canberra undertaken in 2011 by Ernst & Young;
- Market Sounding Report for the Australia Forum iconic design undertaken by KPMG in 2015; and
- Commercial and Economic Analysis of the Australia Forum iconic design undertaken by KPMG in 2015.

Where applicable, the analysis within this report has been conducted using The Capital Framework (TCF) Single Assessment Framework (SAF) and the related Business Case Guidelines. In addition this report uses the assumptions that had been developed for the previous work (*Commercial and Economic Analysis*).

Where this is the case, the previous report is referenced but we have made an effort not to duplicate work that is considered current and relevant. Where new assumptions have been developed from first principles or new methodologies have been adapted, they are outlined in appropriate detail.

The Project Options

Preliminary options are considered in detail in this report and then shortlisted for the comparative analysis. The shortlisted Project Options are as follows:

- **Option A:** An iconic convention and exhibition centre as envisaged by the Reference Design developed for the Australia Forum, situated on City Hill;
- **Option B:** A lower cost option utilising the same City Hill site and delivering the same facility specifications as the reference design;
- **Option C:** A major redevelopment and upgrade to the capacity of the existing NCCC, delivering the same facility specifications as the reference design with the exception of the Centre for Dialogue which was not considered an appropriate inclusion on the NCCC site; and
- **Option D:** A lower cost redevelopment of the existing NCCC, incorporating improvements that specifically target the restrictions it currently faces in terms of flexibility. Option D is representative of the minimum requirement to address the service need in a meaningful way.

These options are evaluated compared to a base case that is representative of a continuation of the current NCCC operations. Preliminary designs for Options C and D are included in Appendices F and G respectively.

Capital costs and market analysis

Capital costs

The capital costs for the Project Options were estimated by Wilde and Woollard and are summarised in the table below:

| Australia Forum - Indicative Cost Plan (\$) | | | | | |
|--|---------|--------------------|--------------------|--------------------|--------------------|
| | % | Option A | Option B | Option C | Option D |
| Building works | | 240,662,428 | 188,493,332 | 100,074,488 | 48,534,549 |
| Services | | 158,063,052 | 112,163,817 | 81,972,059 | 32,445,506 |
| External works | | 14,979,090 | 21,707,946 | 4,640,000 | 670,000 |
| External services and ICT allowance | | 7,534,262 | 7,322,163 | 3,975,466 | 3,712,875 |
| Total construction works | | 421,238,832 | 329,687,258 | 190,662,013 | 85,362,930 |
| Preliminary costs and profit | 26% | 109,522,097 | 85,718,687 | 41,945,643 | 18,779,845 |
| Fees | 10% | 42,460,875 | 33,232,476 | 22,879,442 | 10,243,552 |
| Contingency | 10%-20% | 57,322,181 | 89,727,684 | 51,097,420 | 22,877,265 |
| Total out turn cost (June 2015) | | 630,543,985 | 538,366,105 | 306,584,518 | 137,263,592 |
| Escalation | 8%-11% | 50,443,519 | 43,069,288 | 32,191,374 | 14,412,677 |
| Total out turn cost incl escalation (June 2015) | | 680,987,504 | 581,435,393 | 338,775,892 | 151,676,269 |
| Building area (m ²) | | 103,855 | 72,466 | 51,689 | *20,858 |
| Cost per m ² | | 6,557 | 8,024 | 6,554 | 7,272 |

*Note: Cost per m² for Option D is calculated against the area of redevelopment, not the whole NCCC.

Options A and B on the City Hill site require significant alterations to the surrounding highways to create the site footprint detailed in the reference design documentation. These works are considered to be part of the larger LDA Highways Master Plan for the Civic area of Canberra. As such these costs have not been included in the above estimates.

Option C would require a triangle of parkland to the north of the existing NCCC, while Option D would also require a parcel of land adjacent to the NCCC. No costs for the additional land have been included in the cost plans.

All of the Project Options are compromised in some degree by either the site or the current building structure. Both the NCCC site and the City Hill site are considered to be constrained for construction purposes, resulting in elevated construction costs. It would be expected that an unconstrained site would allow

a lower capital cost per square metre. In particular, a site that was able to avoid the stacking of primary facility componentry (e.g. exhibition hall, plenary hall, ballroom) and allowed at grade development of parking and other services to avoid basement excavation is likely to avoid the escalated costs associated with these constrained sites.

Market analysis

Market analysis was conducted for the "Commercial and Economic Analysis" report. It found three key advantages that Canberra holds as a destination for business events. The strong local academic presence, the advocacy opportunities driven by the location of the Parliament and the Australian Public Service, and the wealth of cultural institutions including the National Gallery and National Museum.

The feedback from stakeholder consultations outlined a similar theme, with Professional Conference Organisers (PCOs) indicating that Canberra was preferred as a location when the conference was seeking to influence policy, the key decision makers were located in Canberra or if Canberra was part of a rotational schedule for an event.

The previous work also outlined the historical performance of the NCCC, highlighting that total events has declined in recent years, the majority of revenue is driven by conference business and that turn away demand has been in decline over the last few years.

Demand projections

The demand projections for the Project Options and the Status Quo are developed based on:

- The market analysis and stakeholder consultation;
- Benchmarking against similar facilities;
- The historical performance of the NCCC; and
- The degree to which each option addresses the service need.

The event demand for most event types is ramped up over three years (FY21-FY23) to reflect the transition from the NCCC, after which a steady market share is reached. These are outlined in the table on the following page.

Demand projections and delivery models

Demand projections (cont.)

The demand projections for the Project Options and the Status Quo are outline below.

| Australia Forum Demand Projections - Structural Year (FY23) | | | | | | | | | | |
|---|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|
| | Status Quo | | Option A | | Option B | | Option C | | Option D | |
| | Events | Delegates |
| National convention | 36 | 16,156 | 72 | 35,914 | 65 | 32,649 | 56 | 27,752 | 60 | 30,201 |
| International convention | - | - | 6 | 2,400 | 3 | 1,200 | - | - | - | - |
| Concerts | 8 | 14,335 | 25 | 37,500 | 25 | 37,500 | 20 | 30,000 | 20 | 30,000 |
| Corporate meetings | 82 | 19,739 | 212 | 38,200 | 212 | 38,200 | 174 | 31,400 | 174 | 31,400 |
| Exhibitions | 16 | 50,000 | 22 | 68,750 | 22 | 68,750 | 22 | 68,750 | 22 | 68,750 |
| Other events | 29 | 12,596 | 100 | 45,000 | 100 | 45,000 | 67 | 30,000 | 67 | 30,000 |
| Centre for Dialogue | - | - | 30 | 3,000 | 30 | 3,000 | - | - | - | - |
| Total | 171 | 112,826 | 467 | 230,764 | 457 | 226,299 | 339 | 187,902 | 343 | 190,351 |

Delivery model analysis

A high level analysis of the potential delivery models for the Project Options was conducted in line with the Single Assessment Framework, resulting in a shortlist of delivery options. The outcomes of the analysis are summarised below:

Options A and B

- Design, Construct, Maintain, Operate (DCMO) and a Public Private Partnership (PPP) on an availability payment basis appear to be the most appropriate delivery models.
- Under both models the role of the operator would not normally include full transfer of the economic and financial risk of the convention business. The Territory may also elect to extend the contract of IHG and partner with them (and potentially the Canberra Convention Bureau) to assist in guiding the tender process.
- Model selection will depend on further determination of the project packaging and whether there would be value in bundling ancillary real estate development rights (for a supporting hotel and car park). The PPP model is better suited for projects that require arrangement of development capital.

- PPPs also deliver a high level of delivery discipline, however the reference scheme for Option A may be too prescriptive to allow the tendering proponents to deliver value for money through innovative solutions.

Options C and D

- Eligible delivery models include Design and Construct (D&C) and relationship contracting models such as a Managing Contractor (MC) or Early Contractor Involvement (ECI), or potentially a Public Private Partnership under an availability payment arrangement.
- The selection of which model to pursue will depend on further technical assessment of the delivery risks associated with refurbishing and extending the current site. Further technical analysis and planning will inform whether it would be better Value For Money (VFM) to use the ECI to engage a contractor to help mitigate and solve some of the complex site issues, or whether it would be more efficient for the Territory to mitigate risks to the extent that price risk transfer can be achieved under a fixed price and time D&C contract.
- The MC and ECI models can also lead into delivery under a fixed price and time D&C contract.

Financial analysis

The historical financial performance of the NCCC (outside of the publicly available information) as well as the financial metrics used for benchmarking within the industry are considered commercial in confidence and as such are not able to be included in the report. The benchmarks obtained by KPMG are a result of the experience of the team members within the industry, and they include the results of recent analysis of comparable facilities within Australia.

Lifecycle capital replacement

The whole of life LCR cost estimates for the Project Options as estimated by Wilde and Woollard are outlined in the table below.

| Australia Forum - Lifecycle capital replacement (\$) | | | | |
|--|--------------|--------------|--------------|--------------|
| | Option A | Option B | Option C | Option D |
| Total lifecycle capital replacement | | | | |
| LCR cost over project timeline | 289,801,168 | 216,773,618 | 177,174,303 | 141,814,227 |
| Average annual LCR cost | 9,660,039 | 7,225,788 | 5,905,810 | 4,727,141 |
| Annual percent of capital cost | 1.53% | 1.34% | 1.93% | 2.37% |

The LCR requirements under the Status Quo are shown in the Status Quo financial performance table below.

Status Quo financial projections

The Status Quo financial projections are show below.

| Australia Forum Financial Projections - Status Quo Average Year (\$) | |
|--|-------------------------|
| | Average year Projection |
| Rental Payments | |
| Rent | XXXXX |
| Life Cycle Capital Replacement | |
| LCR requirements | 2,071,260 |
| Net result to Government | XXXXXXXX |

Project financial projections

The results of the financial analysis are outlined for an average year under each of the Project Options below. The LCR requirements represented in the table are an average of the LCR costs over the project timeline.

| Australia Forum Financial Projections - Average Year (\$) | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Option A Projection | Option B Projection | Option C Projection | Option D Projection |
| Revenue | | | | |
| Catering - Food | 11,214,154 | 10,277,012 | 7,934,188 | 8,385,167 |
| Catering - Beverage | 1,719,365 | 1,583,165 | 1,229,192 | 1,299,060 |
| Other revenue | 8,273,430 | 7,618,049 | 5,914,763 | 6,250,958 |
| Operating Expenses | | | | |
| Catering costs - Food | 8,781,889 | 8,032,176 | 6,347,350 | 6,708,134 |
| Catering costs - Beverage | 1,346,144 | 1,237,185 | 983,354 | 1,039,248 |
| Other COGS | 1,619,381 | 1,488,305 | 1,182,953 | 1,250,192 |
| Overhead Expenses | | | | |
| Administration and general | 1,211,531 | 1,112,771 | 861,399 | 910,361 |
| Utilities | 1,230,003 | 1,129,737 | 874,532 | 924,241 |
| Sales and Marketing | 954,313 | 876,520 | 678,516 | 717,083 |
| Insurance and other | 750,000 | 750,000 | 500,000 | 500,000 |
| Net operating result - Convention centre | 5,313,687 | 4,851,532 | 3,650,039 | 3,885,927 |
| Car Parking | | | | |
| Revenue | 721,458 | 721,458 | 1,331,550 | 1,331,550 |
| Expenses | 30,301 | 30,301 | 55,925 | 55,925 |
| Net operating result - Car parking | 691,157 | 691,157 | 1,275,625 | 1,275,625 |
| Net operating result - Total result | 6,004,844 | 5,542,689 | 4,925,663 | 5,161,552 |
| Management Fee | | | | |
| Management fee / rental agreement | 438,568 | 403,994 | 328,194 | 345,335 |
| Net operating result - After fee / rent | 5,566,275 | 5,138,695 | 4,597,470 | 4,816,217 |
| Life Cycle Capital Replacement | | | | |
| LCR requirements | 9,660,039 | 7,225,788 | 5,905,810 | 4,727,141 |
| Net operating result - After LCR | (4,093,764) | (2,087,092) | (1,308,340) | 89,076 |

Economic analysis

The economic analysis was conducted in line with the Single Assessment Framework Business Case Guidelines from a social welfare perspective using cost benefit analysis. The referent group for the analysis is the ACT, including local businesses, the ACT Government and the wider ACT community.

The costs and benefits included in the analysis are summarised in the tables below.

| Quantified costs | | |
|---------------------------------------|----------------|---|
| | Bearer | Description |
| Capital expenditure | ACT Government | The upfront capital cost of the project and associated infrastructure. |
| Operating expenditure | ACT Government | The incremental expenditure associated with the project compared to the Status Quo. |
| Increased marketing spend | ACT Government | The increased marketing spend that is required to attract the additional demand outlined in the demand projections. |
| Lost rental income (NCCC) | ACT Government | The income stream to the ACT Government from the lease of the NCCC is not operating (under construction, or sold) |
| Life cycle capital replacement | ACT Government | The whole of life costs for the new venue net of similar costs under the Status Quo. |

| Quantified benefits | | |
|--|--------------------------------------|---|
| | Benefactor | Description |
| Incremental visitation – event demand | Wider ACT community / ACT Government | The increase in visitor expenditure as a result of the increase in interstate and international visitors from the incremental event demand. |
| Incremental visitation – C4D event demand | Wider ACT community | The increase in visitor expenditure as a result of the increase in interstate and international visitors from the Centre for Dialogue event demand. |
| Incremental visitation – Iconic building | Wider ACT community | The increase in visitor expenditure as a result of the induced tourism driven by the iconic nature of the building and the wider City to the Lake precinct. |

The costs benefit results are shown below using a 7% discount rate in 2015 prices and a project timeline to FY50, both with the inclusion of the iconic visitation and without.

| Australia Forum Cost Benefit Analysis - NPV (\$m) (\$FY15) | | | | |
|--|-----------------|-----------------|-----------------|----------------|
| | Option A | Option B | Option C | Option D |
| Costs | | | | |
| Project capital expenditure | 486.37 | 415.27 | 233.69 | 101.09 |
| Operating expenditure | 69.91 | 64.26 | 50.67 | 53.24 |
| Increased marketing spend | 5.21 | 5.21 | 2.89 | 2.68 |
| NCCC rental lost | 2.45 | 2.45 | 2.45 | 2.45 |
| Life cycle cost | 56.76 | 38.84 | 25.34 | 13.81 |
| Total | 620.70 | 526.02 | 315.04 | 178.41 |
| Benefits | | | | |
| Incremental visitation expenditure - convention demand | 230.39 | 190.60 | 98.67 | 145.54 |
| Incremental visitation expenditure - C4D | 11.37 | 11.37 | - | - |
| Incremental visitation expenditure - Iconic effect | 319.22 | 159.61 | - | - |
| Total | 560.98 | 361.59 | 98.67 | 145.54 |
| Outputs | | | | |
| Net Benefit | (59.72) | (164.44) | (216.37) | (32.88) |
| Benefit Cost Ratio | 0.9038 | 0.6874 | 0.3132 | 0.8157 |
| With no iconic visitation | | | | |
| Costs | 620.70 | 526.02 | 315.04 | 178.41 |
| Benefits | 241.76 | 201.98 | 98.67 | 145.54 |
| Net Benefit | (378.94) | (324.04) | (216.37) | (32.88) |
| Benefit Cost Ratio | 0.3895 | 0.3840 | 0.3132 | 0.8157 |

As can be seen above, if the iconic visitation is included then Option A delivers the greatest BCR, followed By Option D and then Option C. If the iconic visitation is excluded then Option D delivers the greatest BCR, with Option A and B delivering very similar results. The main drivers of the differences in the BCRs outside of the iconic visitation are the demand projections, the LCR requirements and the capital costs. Option D is able to deliver considerable benefits for a lower capital cost by addressing the issues with the NCCC directly, and as such represents a sound “do minimum” option for the project.

Note: Option C vs Option D

Option C was designed to deliver the same level of facility specifications as Option A and B, but on the NCCC site. Due to the restrictions involved with construction on the site, this was achieved, but with significant limitations in the design. In particular, Option C is not considered to address the flexibility issues that are apparent with the current NCCC.

In direct comparison, Option D was designed to directly address the issues considered most pertinent at the NCCC, and as such deliver significant benefits despite the reduced cost. It is designed to be a "do minimum" option. It follows that despite the lower cost of Option D, it is predicted to attract a higher number of conferences than Option C.

It is noted that a premium has been added to the LCR requirements under Option D to better represent the issues that will be faced over the project timeline when a large component of the NCCC is not redeveloped.

Risk analysis

The risk analysis was conducted by compiling the project risks by category and then assigning a risk consequence from 1 to 5, a likelihood for each option from 1 to 5, and therefore a risk exposure which is the product of the consequence and the likelihood, from 1 to 25. Using the risk consequence, likelihood and exposure scores in the risk assessment (outlined in detail in appendix B), each option was compared.

The aggregate risk exposure scores for each option were tallied for each risk category, with options then ranked between 1 and 3 (i.e. a rank of 1 refers to the lower risk option for a particular risk category) for each risk category based on the total score for that category. Rankings for each risk category were then summed on a non-weighted and weighted basis.

The adjacent table presents the results of the comparative assessment of risk rankings.

Project risk ranking matrix

| Risk category | Weight | Rank | | | |
|---|--------|-------------|-------------|-------------|-------------|
| | | Option A | Option B | Option C | Option D |
| 1. Scoping, Procurement and Tender Risk | 15% | 4 | 3 | 2 | 1 |
| 2. Financial / Funding Risk | 15% | 4 | 3 | 2 | 1 |
| 3. Design, Planning and Approval Risk | 15% | 1 | 2 | 4 | 3 |
| 4. Construction Risk | 20% | 3 | 3 | 1 | 1 |
| 5. FM and Lifecycle Risk | 10% | 2 | 2 | 1 | 4 |
| 6. Business and Operational Risk | 15% | 3 | 2 | 1 | 4 |
| 7. Stakeholder and Community Risk | 5% | 4 | 3 | 1 | 1 |
| 8. Project Management Risk | 5% | 1 | 1 | 1 | 1 |
| Rank Sum | | 22 | 19 | 13 | 16 |
| Weighted Rank Sum | | 2.85 | 2.50 | 1.75 | 2.05 |

As shown above, Option D scores lowest or for a number of risks in the risk assessment, but also the highest for others. It is considered to have the lowest exposure to procurement, funding and construction based risks, however, it is considered to have the highest exposure to facilities maintenance and operational risks.

Option A is the riskiest of the projects for a number of categories, driven by the high capital costs, the prescriptive reference design and the potential issues obtaining land and approvals. It is noted that Options A and B are subject to the complexity, time and cost related to obtaining planning and works approval for by the National Capital Authority (NCA) for the City Hill site, increasing the risk of delay.

Option C scores highest in the design, planning and approval risk category, due to the complex nature of the stacked design, the requirement for the NCCC to close for two years during construction and the risk of the design not meeting the requirements of key stakeholders.

The four Project Options are considered to have equal exposure to project management risk, with the majority of this risk category driven by Government capability and capacity constraints.



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1. Introduction

Background

The current demand for convention and exhibition space in Canberra is serviced by the National Convention Centre Canberra (NCCC) as well as a number of smaller or special purpose event spaces. The NCCC was built in 1989 and is located in Civic in Canberra, just east of City Hill.

The NCCC is small in comparison to other significant convention facilities in Australia and is designed inflexibly such that a three day convention often closes the facility to other business for an entire week. As such Canberra has lost a significant number of business events to interstate venues and is not considered as an appropriate location for many event organisers. Accordingly, the ACT Government is considering the development of a new or refurbished convention centre in Canberra to capture the convention business currently being lost to Canberra.

KPMG has been engaged by Chief Minister, Treasury and Economic Development Directorate (CMTEDD) to provide a Strategic and Delivery Options Analysis for four options proposed for the Australia Forum.

The ACT Government has undertaken research and analysis of an iconic solution as envisaged by a Reference Design developed for the Australia Forum. Previous research undertaken on a proposed new convention facility in Canberra include:

- Scoping study for a convention centre in Canberra undertaken in 2011 by Ernst & Young;
- Market Sounding Report for the Australia Forum iconic design undertaken by KPMG in 2015; and
- Commercial and Economic Analysis of the Australia Forum iconic design undertaken by KPMG in 2015.

Purpose and objectives

The KPMG team, including Populous (Architecture) and Wilde and Woollard (Quantity Surveyors) have been engaged to assess the preliminary capital costs, associated risks, and the economic and financial benefits of the four specified options for the Australia Forum.

The Options are:

- a. An iconic solution as envisaged by a Reference Design developed for the Australia Forum, funded and procured by the Commonwealth with land provided by the Territory;
- b. A lower cost option utilising the same City Hill site procured by the Territory with a degree of Commonwealth funding support;
- c. A major redevelopment and upgrade to the capacity of the existing NCCC; and
- d. A lower cost redevelopment of the existing NCCC.

These options are compared to a base case representing the continuation of current NCCC operations.

The contents of the report are designed to provide the CMTEDD with detailed analysis to inform the decision making process regarding the solution to the issues facing the convention and business events market in the ACT.

Scope

Specifically, the scope of this report includes:

- a.** Review existing studies focussing on the functional brief, operational requirements, security; optimum site requirements and optimum provision of hotel accommodation and ancillary services,
- b.** Undertake a preliminary risk assessment for the project
- c.** Develop preliminary cost plans for use in comparing the options both on a capital and whole-of-life basis
- d.** Develop a draft scope of services (FM and Operations)
- e.** Undertake a Delivery Model Assessment, including consideration of the optimal operational model for the facility, considering the nine delivery models supported by TCF
- f.** Outline appropriate Governance arrangements consistent with policy and preferred delivery model
- g.** Review the potential to include other parcels of Territory owned land for the development of hotel or other ancillary facilities by the private sector to support the financing and/or functions of the Australia Forum project including the existing National Convention Centre Canberra (NCCC) site
- h.** Draw on the existing *Commercial and Economic Analysis* (KPMG) to undertake Economic Analysis, including revenue modelling, Cost Benefit Analysis and Wider Economic Benefits for the four options.

Where applicable, the analysis within this report has been conducted using The Capital Framework (TCF) Single Assessment Framework (SAF) and the related Business Case Guidelines.

In addition, and specifically for section h above, this report uses the assumptions that had been developed for the previous work (*Commercial and Economic Analysis*). Where this is the case, the previous report is referenced but we have made an effort not to duplicate work that is considered current and relevant. Where new assumptions have been developed from first principles or new

methodologies have been adapted, they are outlined in appropriate detail.



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2. Project Overview

The current convention and exhibition market in Canberra comprises of the NCCC as well as a number of smaller or special purpose event spaces.

The NCCC

The NCCC opened in 1989 in Civic in Canberra, and is the largest convention and exhibition facility in the Territory. It underwent a \$30 million capital upgrade in 2005, and has been earmarked for a \$5 million aesthetics upgrade in the near future. The NCCC is currently managed by Intercontinental Hotels Group (IHG), under a lease agreement from the Australian Capital Territory (ACT) Government.

The facilities at the NCCC include the following:

- Exhibition hall – 2,000 square metres of pillar-less space with a 9m ceiling height;
- Ballroom – 650 square metres of pillar-less space with a 4.5 metre ceiling height;
- Royal Theatre – 2,500 capacity plenary theatre;
- Gallery rooms – 5 smaller breakout rooms of capacity between 80 to 200;
- Work rooms – 2 boardrooms, a green room and an executive breakout room;
- Theatrettes – 4 smaller tiered theatres of capacity between 130 to 300; and
- Foyer space – The main Foyer is designed to be used during larger exhibitions as extra exhibition space.

The issues

There are a number of issues with the current situation in Canberra preventing the convention and exhibition market from realising the full potential of the National Capital as a centre for business, academia and knowledge sharing.

As the largest dedicated conference facility in Canberra, the NCCC is both too small and not flexible enough to deal with the current demand for event space. If a conference requires use of the exhibition hall and the theatre, it will likely be too large to host a dinner in the ballroom and therefore would be required to source another facility for meals. As the Centre was built in 1989, it is currently dated in comparison to the offerings of the nearby hotels, and as such these hotels have captured the business of a significant number of the smaller events. There is also increased competition from a range of newer national facilities that

have been opened since 1989 including Perth, Darwin, Melbourne and the Gold Coast convention and exhibition centres. In addition Brisbane and Adelaide have undergone significant upgrades and Sydney is currently being redeveloped.

Canberra is currently not accessible directly via international flights, and therefore international visitors are required to travel through a stopover in another domestic destination. It is likely that this will be addressed in the near future as demand for direct international flights to Canberra increases, but it has historically been a contributing factor in the Territory attracting low levels of international delegates to events.

The small population of Canberra relative to other possible locations in Australia has also affected demand for event space, as associations and conference organisers look to locate their events where the majority of the members or attendees are located. Additionally, there is the added uncertainty involved with the Parliamentary sitting calendar and the effect it has on the cost and availability of accommodation in Canberra. While the calendar is available twelve months in advance, events are often organised many years in advance and accommodation providers have historically been reluctant to release all of the available rooms during possible periods of parliamentary sittings.

The Status Quo (base case)

The base case for the analysis in this report is the continuation of the current state, the Status Quo scenario. It involves the upkeep the NCCC facility through to the end of the project timeline, FY50. The lifecycle costs to keep the facility in a fit for purpose state to the end of the project timeline will be significant, and due to the restrictions on expansion at the current site it will only consider upkeep of facilities to the current standard. These lifecycle costs are funded by the ACT Government, in line with the historical operation of the facility.

Under the base case, the operation of the NCCC is assumed to continue under a lease agreement as it has historically, either to Intercontinental Hotel Group (IHG) or another identity on the same lease terms.

The current state of the NCCC and the wider Canberra market for business events forms the Status Quo (base case) for the analysis contained within this report.

Combined, the issues outlined on the previous page have led to the ACT not capturing the total possible benefit available from leveraging the key comparative advantages available as the National Capital; culture, knowledge and influence. The Australia Forum is proposed to address the issues with the convention and exhibition sector in Canberra, and expand the opportunities for the wider ACT community to capture the benefits that are available to it.

Australia Forum

Australia Forum is designed to be a forum for nationally and internationally significant dialogue based in the heart of the National Capital, a multipurpose and flexible convention and exhibition centre of iconic design to form part of the 'City to the Lake' transformation of the Canberra CBD.

The proposed site for the Australia Forum is the south eastern quadrant of City Hill, chosen over the originally earmarked West Basin site because it has a higher symbolic significance, forming the apex of the Parliamentary Triangle. The City Hill site also allows the West Basin site to be released as mixed use urban waterfront.

The Australia Forum has been designed with the following requirements in mind:

- Flexibility - capable of accommodating significant growth in the Canberra convention market;
- Iconic design - to stand as a symbol of the National Capital and the quality of the events that will be held at the venue; and
- Provide a Centre for Dialogue - an iconic part of the development, to better capture the benefits of dialogue and collaboration and to host nationally and internationally significant meetings.

These requirements were developed in 2013 as a result of the 'Australia Forum Workshop' that included input from many stakeholders including the ACT Government, the Canberra Business Council, the Canberra Convention Bureau (CCB), architects, planners and other consultants.

Facility specifications

The proposed Australia Forum facility is to have the following specifications:

- the capacity and flexibility to host up to 3 concurrent separated events;
- a plenary facility with capacity of up to 2,500 delegates, divisible into two smaller event spaces with retractable seating to allow for flat floor configuration;
- ballroom accommodating 1,800 delegates;
- 6,000 square metres of exhibition space;
- up to 18 smaller meeting rooms;
- the Centre for Dialogue accommodating 'meetings in the round' for up to 180 delegates; and
- At least 300 car parks.

Design for the Australia Forum

These facility specification form the basis of the Reference Design for the Australia Forum which provided an "iconic" solution to the development of a convention centre in Canberra.

This study reviews a range of other options for the design of the Australia Forum, to explore other potential solutions for meeting the project objectives. The following pages detail the Project Options to be considered in this report.

The iconic Fuksas design that was the subject of previous reports form the basis of Option A for the remainder of this analysis.

The scope for this work is to explore a lower cost option on the City Hill site and a redevelopment of the NCCC, but to still meet the same facility specifications (where possible and appropriate) as per the original Australia Forum reference design (outlined on the previous page). The preliminary options are outlined below:

Option A: The iconic Fuksas solution that was the basis of all previous work.

Option B: The lower cost solution on the City Hill site. Two potential solutions to meet the requirements of this option are explored on the following pages:

- Option b1 – A lower cost version of the Fuksas design; and
- Option b2 – A solution on the City Hill site designed by Populous for the initial design competition.

Options b1 and b2 are designed to meet the reference design specifications, including a Centre for Dialogue.

Option C: The major redevelopment of the NCCC. Two potential solutions to meet the requirements of this option are explored on the following pages:

- Option c1 – NCCC redevelopment scheme on the existing footprint; and
- Option c2 – NCCC redevelopment scheme on a larger footprint.

Options c1 and c2 are designed to meet the reference design specifications but the NCCC site was not considered appropriate for the inclusion of a Centre for Dialogue.

Option D: A lower cost, lower specification redevelopment of the NCCC.

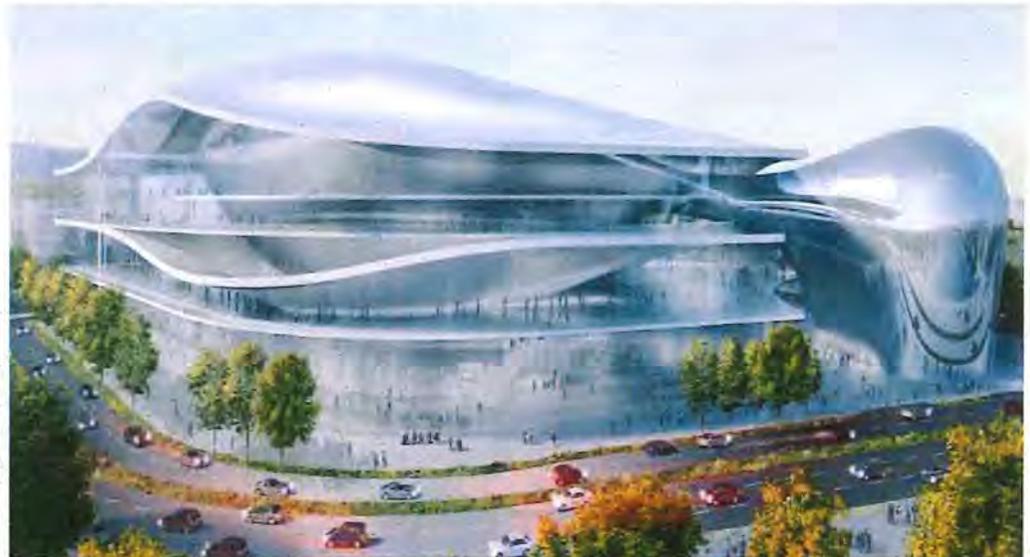
- Option d1 – Expansion of the exhibition hall at the NCCC; and
- Option d2 – As per Option d1, plus the addition of a second level above the exhibition hall and a lowering of the exhibition hall roof to allow for the construction of a 3,000m² banquet hall on the second level.

Options d1 and d2 deliver significantly lower facility specifications than the other options, but do represent an increase from the Status Quo. The componentry that would present the greatest benefit if redeveloped was prioritised in the

design for these options. In addition, neither option d1 or d2 includes a Centre for Dialogue.

Option A – iconic solution based on Reference Design

This option is the basis of previous reports with all features of the previous Fuksas design and cost plans retained. The Fuksas design provides a large overall building area (104,000 m²) with significant circulation and public spaces. The specifications and design intentions are outlined on the previous page. The reference design concept image is shown below.



Australia Forum Reference Design (Source: Proof of concept submission)

Preliminary options (cont.)

Option b1 – lower cost option based on a reduced version of the Fuksas design

This option is based on an architectural review of the Fuksas design to determine whether key elements of the design could be reduced or changed to reduce the overall cost of the project. The following areas were reviewed for cost savings:

- The reduction of some primary functional areas from the briefed areas, such as the exhibition hall area and overall capacity of the plenary hall, shows that there is already a lot of pressure on the functional spaces, and any further reduction of these would hinder the functionality and business model of the building.
- The general location and stacking of spaces has resulted in additional areas that add cost to the overall scheme. The number of levels for the venue results in a significant amount of both pre-function and circulation space, as well as increased vertical circulation requirements. A reduction of the number of overall functional levels could potentially reduce this, however would require significant redesign of the scheme.
- The addition of the outdoor amphitheatre facing Vernon Circle adds cost to the overall project. This amphitheatre is a non-briefed area but provides additional vertical circulation for patrons as a result of the stacked facilities. The removal of which would then impact on the access for patrons to the venue.
- The breakdown of the plenary hall using the turntable system can be costly and requires specific functional planning. Exploring alternative plenary hall cut down options, with elements such as operable walls, may allow for a cost saving in both equipment and functional areas to serve the plenary hall. It is also indicated that the plenary hall incorporates a Gala seating system. While operationally excellent, the cost implication of this item can be significant, both from the unit itself and the architectural requirements to accommodate it, so the removal of a system such as this will reduce the overall building cost.
- The overall architectural language of the proposed scheme strongly rests on the double curved non-symmetrical forms of the roof, plenary hall, Centre for

Dialogue and resulting support spaces. The nature of these curves makes them often extremely complex to construct, adding significant cost to build. The resultant spaces from these irregular curved shapes can also create large amounts of unusable space within the facility, which is expensive to build and adds unusable volume to the building, increasing services requirement. Removing these curved forms however does alter the architectural intent of the scheme.

- The materiality indicated for the scheme shows a high quality of finish. These type of materials, coupled with the complex forms of the façade and roof, would require significant investment to achieve. A cost saving could potentially be found by a change in material selection, however this would potentially compromise the architectural intent of the building.

In broad terms the only area of significant cost savings in the Fuksas design relate to the seating arrangement in the plenary hall. The Fuksas design provided very flexible seating arrangements capable of providing 4 separate theatres, which could be used concurrently. The reduced version of the Fuksas design includes retractable seating and retains the ability to hold 2 events in the plenary space concurrently, but reduces the overall flexibility of the theatres.

Option b1 provides minimal reduction in the overall building area as changes to elements such as the roof structure and entry statements was considered to change the architectural intent of the original building.

Preliminary options (cont.)

Option b2 – Australia Forum competition design

Populous architects had provided a design for the Australia Forum as part of the original design competition. This design meets the original facility specifications for the Australia Forum, is to be located on the City Hill site and is the basis of Option b2. The building area for Option b2 is significantly smaller than Option b1 at 72,000 m².

Option b2 meets the function brief for the Australia Forum. The building was originally designed to provide 8,000 m² of exhibition space and 3,000 seats in the plenary hall, but has been reduced to the same functional brief as Option A. However, the pre-function and back of house areas have not been reduced.

Option b2 is intended to provide an impressive building on a landmark site. It has been designed with similar multi-functionality elements as the Fuskas design, and incorporates specific use of local materials. Populous have incorporated the geometry of Griffin into the design, with the idea that the venue would not only form part of the parliamentary triangle, but also itself be a reflection of that planning intention.



Populous Australia Forum Design



Preliminary options (cont.)

Option C

Option c1- NCCC renovation scheme on existing footprint

Option c1 was based on redeveloping the existing NCCC with minimal expansion onto adjoining land. The existing NCCC could be redeveloped to provide the functional brief on the following basis:

- The existing exhibition hall would be demolished and expanded onto a second level to provide 6,000 m² of exhibition space with all new equipment.
- The plenary hall would be retained but stripped back and fully refurbished with new equipment, fixtures and finishes. The plenary hall will not provide divisibility options, with the renovated NCCC still limited to hold one major event at one time.
- Pre-function areas and front of house would be demolished and rebuilt. The limited pre-function areas will make holding concurrent events difficult.
- Existing car park (approximately 600 spaces) would be retained with the loss of some car parks due to structural alterations. This loss is estimated at 50 spaces, based on the structural requirements of the redevelopment.
- Existing loading dock will be retained, but will be undersized for the new venue.
- The Centre for Dialogue is not included.
- Option c1 will require a triangle of park land to the north to be obtained.

Preliminary designs for Option c1 are included in Appendix F

Option c2 – NCCC renovation scheme on larger footprint

Option c2 is based on the assumption that the land behind the NCCC which is owned by the Casino will be available for the expansion of the NCCC.

Option c2 would be developed similarly to Option c1, with the following exceptions:

- The existing exhibition hall would be demolished and rebuilt to provide 6,000

m² of exhibition space on ground level. Additional land adjoining the NCCC and the Casino would be required under this option.

- New loading dock will be built adjoining exhibition hall 3.
- Larger main kitchen will be located on Level 2

Option c2 provides a total building area of 53,416 m², compared to the total building area of option c1 of 51,700 m².

Preliminary designs for Option c2 are included in Appendix F

Preliminary options (cont.)

Option D

The rationale for the design of Option D was based around determining what the minimum spend was at the NCCC to redevelop in such a way that at least some of the service need was met. In light of this, a workshop was held at the NCCC to determine what the restrictions were facing current operations and therefore which of the components was likely to drive the greatest benefit from the lowest redevelopment cost.

It was identified that the addition of a banquet hall that could double as a plenary space would allow the flexibility to host two conferences simultaneously instead of one. The only feasible way to include the banquet hall was on a second level due to the constraints of the site, which would include a requirement to place pillars in the exhibition hall. Additionally, it was identified that the expansion of the exhibition hall would prevent the need for temporary facilities to be installed outside for larger exhibitions, and would further enable the flexibility of the facility as events would have less need to use the foyer space for event activities.

Options d1 and d2 have been designed to explore these solutions outlined above, as well as a number of smaller works to improve flexibility and operational capacity. Option d1 represents the expansion of the exhibition hall, additional lifts and flexibility upgrades. Option d2 represents all of Option d1 plus the inclusion of the banquet hall on a second level.

Option d1 – Expansion of the exhibition hall

Options d1 includes the following:

- Replacement of the existing service lift of 5x3.5m, with the new service lift to extend to lower car park levels.
- An additional passenger lift of equal size servicing the same levels as the existing lift.
- A new service lift to service the loading dock to car park levels and all floors.
- New storage space to be created on the basement level.
- Existing car park (approximately 600 spaces) would be retained with the loss

of some car parks due to structural alterations and the extra storage space. This loss is estimated at 50 spaces, based on the structural requirements and the displaced storage space near the loading dock.

- Operable wall added the length of the existing ballroom.
- Upgrade of existing upper level kitchen to allow for food preparation.
- Expansion of the exhibition hall to 4,000m², with the inclusion of an operable wall to divide in half. This will potentially require acquisition of adjacent land.
- Extension of pre-function space, with additional amenities.
- Extension of the existing loading dock to the full length of the new hall.

Preliminary designs for Option d1 are included in Appendix G

Option d2 – Lower cost redevelopment of the NCCC

Option d2 involves all elements of Option d1, plus a new 3,000m² banquet hall above the expanded exhibition hall, with a 7m high ceiling. This would include:

- Lowering of the exhibition hall by 2m to 7m.
- Two columns introduced into the exhibition hall along the line of the operable wall.
- A long operable wall to divide the banquet hall in two, and two smaller operable walls to divide the space further into three areas.
- Pre-function space, amenities, stairs and food preparation areas to service a 2,000 person banquet to be included on the upper level.
- The new service and passenger lifts to be extended to the new level.

Preliminary designs for Option d2 are included in Appendix G.

Preliminary cost plans

Capital costs

The summary of the costs and areas associated with each option are outlined in the table below, escalated using real escalation indices and presented in FY15 real dollars.

Notes on the cost plans

- Full cost plan reports are included as Appendix D.
- A contingency fee based on 20% of total construction costs plus preliminary

costs, profit and professional fees has been applied to Options b2, c1, c2, d1 and d2 due to the limited design work done on these schemes.

- A contingency fee based on 10% of total construction costs plus preliminary costs, profit and professional fees has been applied to Options b1 and Option A as significant design work has been undertaken on this option and ACT Government previously instructed that this level of contingency be applied to the iconic solution.

| Australia Forum - Indicative Cost Plan (\$) | | | | | | | | |
|--|---------|--------------------|--------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| | | Option B | | Option C | | Option D | | |
| | % | Option A | b1 | b2 | c1 | c2 | d1 | d2 |
| Building works | | 240,662,428 | 223,194,599 | 188,493,332 | 100,074,488 | 102,100,417 | 27,620,785 | 48,534,549 |
| Services | | 158,063,052 | 156,444,697 | 112,163,817 | 81,972,059 | 84,371,217 | 15,582,259 | 32,445,506 |
| External works | | 14,979,090 | 14,979,090 | 21,707,946 | 4,640,000 | 5,340,000 | 670,000 | 670,000 |
| External services and ICT allowance | | 7,534,262 | 7,502,796 | 7,322,163 | 3,975,466 | 3,988,279 | 109,683 | 3,712,875 |
| Total construction works | | 421,238,832 | 402,121,182 | 329,687,258 | 190,662,013 | 195,799,913 | 43,982,727 | 85,362,930 |
| Preliminary costs and profit | 26% | 109,522,097 | 104,551,508 | 85,718,687 | 41,945,643 | 43,075,981 | 9,676,200 | 18,779,845 |
| Fees | 10% | 42,460,875 | 40,533,815 | 33,232,476 | 22,879,442 | 23,495,990 | 5,277,927 | 10,243,552 |
| Contingency | 10%-20% | 57,322,181 | 54,720,651 | 89,727,684 | 51,097,420 | 52,474,377 | 11,787,371 | 22,877,265 |
| Total out turn cost (June 2015) | | 630,543,985 | 601,927,156 | 538,366,105 | 306,584,518 | 314,846,261 | 70,724,225 | 137,263,592 |
| Escalation | 8%-11% | 50,443,519 | 48,154,172 | 43,069,288 | 32,191,374 | 33,058,857 | 7,426,044 | 14,412,677 |
| Total out turn cost incl escalation (June 2015) | | 680,987,504 | 650,081,328 | 581,435,393 | 338,775,892 | 347,905,118 | 78,150,269 | 151,676,269 |
| Building area (m ²) | | 103,855 | 97,259 | 72,466 | 51,689 | 53,416 | 7,998* | 2,0858* |
| Cost per m ² | | 6,557 | 6,684 | 8,024 | 6,554 | 6,513 | 9,771 | 7,272 |

*Note: Cost per m² for Option d1 and d2 is calculated against the area of redevelopment, not the whole NCCC.

Preliminary cost plans (cont.)

Costs not included in the cost plans

Option A on the City Hill site requires significant alterations to the surrounding highways to create the site footprint detailed in the Fuksas reference design documentation. These works are considered to be part of the larger LDA Highways Master Plan for the Civic area of Canberra. As such no costs have been included for any financial contribution towards these works within the Capital Cost Estimate for the Australia Forum.

The roads requiring works for the City Hill Site are:

London Circuit – Changes are proposed to London Circuit to accommodate the proposed Canberra Light Rail System. This will involve major alteration to the current London Circuit / Commonwealth Avenue Junction. Currently Commonwealth Avenue is elevated over London Circuit by way of an overpass, however it is intended that London Circuit is elevated to the same level as Commonwealth Avenue. This will involve ramping up London circuit at an appropriate gradient to suit both vehicle traffic and the Light Rail to create a new four way junction.

Commonwealth Avenue – The road section between London Circuit and Vernon Circle will be straightened, with a new road junctions onto Vernon Circle.

Constitution Avenue – This new road section between London Circuit and Vernon Circle is currently being constructed as part of the wider Constitution Avenue improvement works. It is likely however that changes will be required to this road to accommodate the servicing of the Loading Bay and car parking into the Australia Forum, at either grade or via road tunnels.

Vernon Circle – The layout of Vernon Circle will generally remain unchanged apart from the new junction works from both Commonwealth and Constitution Avenues. However it is possible that the gradient of the road surface may require alteration to accommodate the level of the Australia Form Plaza and associated drainage.

Other – The proposed access to the Australia Forum Loading Bay / Car parking will require the use of an access road crossing Constitution Avenue. This will likely be via a reconfiguration of the existing “Theatre Lane” to provide a truck

route into the Australia Forum loading dock without having to turn left or right on Constitution Avenue.

Option b1 and b2 are likely to require alterations to the surrounding highways. The extent of the required alterations are not clear and no costs for these alterations have been included in the cost models.

It is noted that Options c2, d1 and d2 would require acquisition of casino owned land adjacent to the NCCC. While the costs of this land have not been considered in this report, these costs and the potential risks involved with the acquisition of the land are important considerations in the evaluation of these options as potential solutions.

Options for further analysis

The economic, financial and demand assessments have been undertaken on Options A, b2, c1 and d2. Option b1 has been excluded from further analysis as the total cost was not significantly less than the full iconic solution and, as such, this option does not present a significantly different option to Option A. Option b2 provides similar functionality to Option A, but a significant decrease in total cost, thus providing a different alternative to Option A.

Option c2 has been excluded from further analysis as the total cost of Option c2 is slightly higher than Option c1 with additional land cost not included. While Option c2 provides some additional functionality with a better positioned loading dock and larger kitchen, this option provides similar challenges with regards to the inflexibility of the plenary hall and inability to hold concurrent events. Option c1 has been identified as the more appropriate solution.

Option d1 improves the functionality of the NCCC and specifically improves the functionality of the exhibition space. Option d1 is likely to retain existing NCCC clients who are requiring a larger exhibition space and more flexible spaces within the NCCC to enable existing conferences and exhibitions to grow. However, the critical issue impacting demand for conference space at the NCCC is the inability of the existing facility to hold two conferences (or major events) concurrently. While Option d1 does add some flexibility to the facility and is likely to retain existing NCCC clients, it does not allow the NCCC to appropriately accommodate concurrent events.

The intent of Option d2 is to provide an area above the existing exhibition halls which can be dedicated to a smaller conference. The 3,000 m² Banquet hall can be subdivided to allow a smaller conference (e.g. 400 delegates) to use a flat floor plenary area with an adjoining exhibition area or a banqueting area. The NCCC could then accommodate a larger conference in its existing facilities together with a smaller conference in the redeveloped area on the additional floor. The upgrades to the back of house and the pre-function space will further facilitate this flexibility to accommodate two concurrent events.

Option d1 is not considered to add enough benefit to address the issues facing the NCCC in a significant way, whereas the ability of Option d2 to allow

concurrent events is considered likely to deliver significant benefits. Option d1 is considered to require significant capital costs with no additional events or visitors likely to be drawn to the ACT due to the expansion. As such, Option d2 has been identified as the more appropriate “Do Minimum” solution despite having a higher capital cost.

These four options are compared to the Status Quo base case. The Status Quo option involves the upkeep of the NCCC facility through to the end of the project timeline, FY50. These lifecycle costs are funded by the ACT Government, in line with the historical operation of the facility

Project Options

Through the remainder of the report the analysis is conducted on:

Option A – The iconic Fuksas solution on City Hill;

Option B (b2) – The populous design solution on City Hill;

Option C (c1) – The stacked NCCC redevelopment option on the current footprint; and

Option D (d2) – The lower cost redevelopment of the NCCC, including the banquet hall.



cutting through complexity

3. Market and Demand Analysis

Detailed analysis of the Canberra convention market and the historical performance of the NCCC were included in the previous report “Commercial and Economic Analysis of the Australia Forum iconic design” undertaken by KPMG in 2015, with a summary provided below.

Market analysis

The key findings from the market analysis are:

- The ACT economy has experienced slower than average growth recently, is comprised of a higher percentage of young working age persons and has a higher level of average education than the rest of Australia.
- There has been negligible growth in domestic tourism to the ACT over the last decade, but international visitor nights have grown at an annual rate of 11%.
- Canberra, as a destination for business events holds three key comparative advantages:
 - the strong local academic presence;
 - the advocacy opportunities driven by the location of the Parliament and the Australian Public Service; and
 - the wealth of cultural institutions including the National Gallery and National Museum.
- The majority of business events in Australia are split between NSW and Victoria, with 31% and 27% market share respectively. The ACT captures over 4% of the total delegates in the market.
- On top of the captured direct and indirect benefits of business events there is further economic benefits that are not easily quantifiable, including global profiling, international network creation, cultural and business development, innovation, foreign investment and market support and creation.
- There has been significant investment in other facilities around Australia, including the expansion of Brisbane Convention and Exhibition Centre, Adelaide Convention Centre and the Melbourne Convention and Exhibition Centre, as well as the new Sydney International Convention Centre.

- There is evidence that iconic buildings can have a significant effect on the economy through increased visitation, often complimented by other cultural developments nearby. There is also evidence that truly iconic developments hold social value for long periods of time.
- There is evidence internationally to suggest that the Centre for Dialogue will attract significant interest from academia, advocacy and other government events. The true value of these events is captured in the outcomes of the dialogue and collaboration that is facilitated in the Centre, rather than in the revenue it captures.

Historical performance of the NCCC

The key findings from the analysis of the historical performance of the NCCC are:

- Total number of events has declined in recent years, likely due to a reduction in government business. The number of meetings has declined significantly in recent years, with this business likely being captured by the newer hotel facilities.
- Outside of a spike in 2013, the total number of conference delegates at the NCCC has consistently been approximately 20,000 over the last 5 years. Concert attendees have been declining over the 5 years to 2014.
- Total revenue for the Centre has been steady at approximately \$8-\$9 million per annum over the last 5 years, with the majority driven by conference business (between 60% and 70% of total revenue).
- Turn away demand has shown a significant decline over the last few years. Events are turned away due to lack of flexibility, lack of capacity and age of the facility.

Stakeholder consultation

Professional Conference Organisers (PCOs), event organisers, national industry organisations and project delivery market participants were consulted on a range of issues surrounding the Canberra events market, the facilities of the NCCC and the Australia Forum and the view of the Centre for Dialogue. The key insights were:

- Canberra was preferred as a location when the conference was seeking to influence policy, the key decision makers were located in Canberra or if Canberra was as a part of a rotational schedule for an event.
- Canberra was not considered as a possible location in as many as 50% of respondents because other locations are closer to their attendees, the NCCC is considered too small for many events, the AV and other IT facilities at the NCCC were considered out of date, the parliamentary calendar creates some uncertainty surrounding availability and cost of accommodation, and because of the lack of international flights.
- The proposed Australia Forum was well received as a solution to many of the key problems in the Canberra events market. It was indicated that state of the art AV, good public transport and co-located accommodation were key features to attract events to the facility.
- The Centre for Dialogue was received favourably by respondents, noting that state of the art video conferencing would be a must in such a facility. Many corporate respondents indicated that they would prefer to use in house facilities where possible, but would use the Centre for Dialogue if they were drawn to Canberra for specific meetings.
- It was indicated that sufficient car parking close to the centre, and the development of a mix of 3.5 and 4.5 star accommodation would be key to increasing the viability of the project.

Demand projections

The remainder of this section of the report will detail the demand projections for the four Project Options and the Status Quo.

The event demand for most event types is ramped up over three years (FY21-FY23) to reflect the transition from the NCCC, after which a steady market share is reached. The project team first revisited the demand projections for Option A from the previous work. The demand for the new options is then developed against the rationale for the Option A and Status Quo projections, to ensure a consistency of approach.

The following sections outlines the demand projections for the Option A, the iconic Fuksas design for the Australia Forum.

Conferences

The NCCC attracted 44 conferences and 19,995 delegates in 2014. The following factors have impacted the forecast of future conference demand for the Australia Forum:

- Both the CCB and the NCCC have detailed a range of conferences that have been turned away due to meeting space that was either unavailable or not suitable. The NCCC has historically turned away between 22 and 52 conferences per annum for a range of reasons.
- The CCB and the NCCC have detailed a range of events that cannot be accommodated at the NCCC due to size restrictions but could be accommodated at the Australia Forum.
- The PCOs, event organisers and associations that were consulted have indicated that Canberra is not currently on the rotation for a number of major national events due to the size and level of facilities provided at the NCCC.
- The proposed Australia Forum, with its iconic design, prominent location and the range and flexibility of facilities is likely to attract many additional conferences currently not viewing Canberra as an option. While the Australia Forum will be an attractive alternative for conference organisers, other factors such as the proximity to association members, the need to rotate conferences around Australia and the opportunity for pre and post touring will ensure that Canberra will have strong competition from other locations.
- Canberra attracted 10 international events and 2,391 delegates in 2014 (ICCA statistics) although none of these events were held at the NCCC. It is likely that additional international conferences will be attracted to the Australia Forum, although the lack of direct international flights will still have some impact on future demand.
- The number of domestic overnight visitors attending conferences in Australia has increased at an annual rate of 4.2% from FY10 to FY14, although domestic conference visitors have declined in the last 3 years. Tourism Forecasting Committee are forecasting growth in domestic business visitor nights of 0.7% per annum for the 10 years ending 2023.

- The inclusion of the Centre for Dialogue will provide a unique facility that may induce conference organisers to use the Australia Forum.
- The NCCC has historically attracted between 0.6% and 0.8% of the total domestic overnight conference market in Australia.

Based on the factors outlined above the Australia Forum is forecast to attract 1.1% of the total domestic overnight conference market in Australia.

This translates to approximately 35,900 delegates per annum to national conferences or 72 conferences attracting an average of 500 delegates. In addition, the Australia Forum is forecast to attract 6 international conferences per annum accommodating total delegates of 2,400 per annum.

In total the proposed AF is forecast to attract 78 conferences per annum, accommodating approximately 38,300 delegates.

Concerts

The NCCC attracted 14 concerts and 25,500 attendees in 2014, with a budget of 20 concerts in 2015. The following factors have impacted the forecast of future concert demand for the Australia Forum:

- The plenary facility within the Australia Forum will provide an ideal facility for concerts up to 3,000 attendees.
- There are limited mid sized concert facilities in Canberra, with the Canberra Theatre seating around 1,000 attendees and the AIS Arena seating around 4,000 attendees.
- The NCCC has turned away between 1 and 10 concerts per annum over the last 5 years. In addition an average of 50 concert enquiries do not proceed for a range of reasons, including cancelled events and those that are held at other venues.
- The ACT population is projected to grow at around 1.5% per annum over the next 10 years.
- Concerts generally require specific nights, such as Fridays and Saturdays, and may be difficult to schedule at the same time as conferences.

Based on the factors outlined above, the Australia Forum is forecast to attract 25 concerts per annum, with a total attendance of approximately 37,500.

Corporate events (Meetings)

The NCCC attracted 108 corporate meetings and 26,000 attendees in 2014. The level of demand has declined from 195 meetings attracting 35,000 attendees in 2011. The following factors have impacted the forecast of meeting demand for the Australia Forum:

- The corporate meeting market at the NCCC has been negatively impacted in recent years by the decline in Federal Government business.
- ACT's Gross State Product (GSP) growth was approximately 3% in FY10 and FY11, but has declined to 0.7% growth in FY14 and is forecast to grow at 1.75% in FY15.
- The Australia Forum will provide a range of meeting rooms and a flexible ballroom which will be ideal for corporate meetings.
- The NCCC has historically turned away up to 129 corporate meetings per annum. However, the level of turn away of corporate meetings has declined significantly in recent years.
- Hotel properties, such as the Hyatt and Hotel Realm are considered to have more up-to-date facilities for corporate meetings, and the benefit of co-located accommodation.

Based on the factors outlined above the Australia Forum is forecast to attract a similar number of corporate meetings as the NCCC attracted in its best performing year, with additional meetings due to the underlying growth in the market. On this basis, the Australia Forum is forecast to attract 229 corporate meetings and 38,200 corporate meeting attendees annually.

Exhibitions

The NCCC attracted 16 exhibitions in 2014 and approximately 50,000 attendees. Attendee numbers are estimates only, as the NCCC provides the space and exhibition organisers are responsible for attracting attendees. The following factors have impacted the forecast of future exhibition demand for the Australia Forum:

- Revenue from exhibitions has declined in 2014 with the number of exhibitions also declining.
- The NCCC has historically turned away up to 7 exhibitions per annum over the

last 5 years. The NCCC has not indicated that existing exhibitions require further space.

- Exhibitions, both trade and public, are driven by the local population and the volume and type of businesses in the area. Accordingly, Canberra does not attract a significant number of exhibitions.
- Other venues in Canberra such as Exhibition Park can cater to larger exhibitions if they do not require the other facilities provided by the NCCC.
- The ACT population is projected to grow at approximately 1.5% per annum over the next 10 years.

Based on the factors outlined above the Australia Forum is forecast to attract approximately 22 exhibitions per annum, similar to the best performance of the current NCCC.

Other events

Other events include sporting events, weddings and other social events. The NCCC attracted 38 other events and 16,600 attendees in 2014. While only 3-4 weddings were held each year, these events attracted an average of over 1,000 attendees. The following factors have impacted the forecast of future demand for other events at the Australia Forum:

- The Australia Forum will provide an iconic setting for major social events in Canberra.
- The Australia Forum facilities will be designed to be able to cater for both small and large social events.
- The NCCC has turned away between 1 and 4 weddings per annum and 8 to 44 social functions per annum over the last 5 years.
- The current NCCC facilities are not flexible enough to cater for smaller social events, with hotel facilities such as the Hyatt providing more marketable facilities.

Based on the factors outlined above the Australia Forum is forecast to attract 2 social events per week or 100 social events annually. At approximately 450 attendees per event, total attendance at social events is forecast at 45,000 attendees.

Demand projections for Options B and C

Conferences

Option B will allow for concurrent events to be held at the Australia Forum and will provide a new, purpose built centre on a landmark site in Canberra. Accordingly, conference demand is projected to be only marginally lower than Option A (33,800 conference delegates at a stabilised level compared to 38,300 conference delegates for Option A).

Option C will not allow for concurrent events to be held and will provide a lower level of functionality than Option A, although increased functionality compared to the existing NCCC. Accordingly, conference demand is projected to be higher than historic levels at the NCCC, but lower than Option A and B (27,800 conference delegates at a stabilised level compared to around 20,000 conference delegates per annum at the existing NCCC).

Concerts

Concerts are generally attended by the local market and are unlikely to be influenced by the 'iconic' nature of the building. The redevelopment of the NCCC will continue to present challenges with regard to holding concerts and other events concurrently. Accordingly, demand for concerts in Option B is projected to be similar to Option A (25 concerts and 37,500 attendees at a stabilised level). Demand for concerts in Option C is projected at the highest level historically achieved by the NCCC (20 concerts per annum).

Corporate events (meetings)

As Option B is likely to provide the same functionality and number of meeting rooms as Option A, Option B is projected to attract a similar number of meetings as Option A (229 corporate meetings and 38,200 corporate meeting attendees annually). The meeting rooms provided in Option C are likely to be less flexible, with fewer rooms provided, resulted in lower projections of demand for meetings in Option C.

Exhibitions

All options provide 6,000 m² of exhibition space. The demand for exhibitions is

driven by local population and is unlikely to change based on the design of the convention centre. Accordingly all options are projected to attract the same level of exhibition demand (22 exhibitions per annum).

Other events

The demand for weddings and social events is projected to be similar under Option A or Option B (approximately 450 events and 45,000 attendees per annum). The redevelopment of the NCCC will continue to present challenges with regard to holding a range of events concurrently. Accordingly, Option C is projected to attract higher demand for other events than the existing NCCC, but lower demand than the other options (30,000 attendees per annum compared to 16,600 attendees attracted to the existing NCCC in 2014).

The demand for the Centre for Dialogue events under all of the Project Options is considered separately later in this section of the report.

Disruption to operations

Under Option C and D (Option D demand outlined on the following page), the NCCC will be required to close during the period of construction. Under this scenario, Canberra will be without a premier facility for business events for up to two years. The projected demand for these years is as per the Status Quo outlined on the following pages, however, it is not considered that a significant amount of these events leave the Territory.

The type of events most likely to remain at the NCCC under the Status Quo are those events that are likely to remain in Canberra regardless of venue, such as those relating to Federal Government operations or advocacy, Defence events or events of an academic nature. As such, under Option C and D, no economic allowance is made for this disruption to operations. It is however, considered in the financial analysis of the venue.

Demand Projections – Option D

Conferences

Option D is designed to allow concurrent events to be held at the NCCC. The new banquet hall will provide reasonable facilities for a smaller conference (< 500 delegates), although flat floor, rather than tiered seating, will be provided for plenary purposes. Separate exhibition space and/or banquet space could be provided within the subdivided banquet hall.

Conference demand is projected to be lower than Option A or B, which provide state of the art facilities on a land mark site, but higher than Option C, which does not allow for concurrent events. Accordingly, conference demand is projected at approximately 30,000 delegates after the initial ramp up period. No demand from international conventions has been included under Option D.

Concerts

Option D will continue to present challenges with regard to holding concerts and other events concurrently as the Royal Theatre will continue to be the only suitable venue for larger conferences and concerts. Demand for concerts in Option D is projected at the highest level historically achieved by the NCCC (20 concerts per annum). This is the same as the projected demand for concerts under Option C.

Corporate events (meetings)

Under Option D, the banquet hall will be usable as additional meeting space, but is not purpose built for smaller meetings. The number of corporate meetings projected for Option D is similar to the projections for Option C, which is an increase from the base case but a lower level than are projected under Option A or Option B.

Exhibitions

Option D will provide 4,000 m² of exhibition space, compared to 6,000 m² of exhibition space provided under Options A, B and C. Exhibitions, both trade and public, are driven by the local population and the volume and type of businesses in the area, with Canberra not attracting many large exhibitions (with the

exception of a large Defence event). On this basis, Option D is projected to attract 22 exhibition per annum, similar to the best performance of the current NCCC. This in line with all of the other Project Options, as there is not considered to be significant latent demand in the exhibition market in Canberra. It is noted however, that this is similar to the best performance of the current NCCC, and that this extra exhibition space facilitates the greater flexibility of the facility that leads to a greater capacity for conferences.

Other events

The demand for weddings and social events under Option D is projected to improve in comparison to the existing NCCC due to the development of the banquet hall. Demand is likely to be similar to the demand under Option C (30,000 attendees per annum compared to 16,600 attendees attracted to the existing NCCC in 2014).

The demand projections are summarised by option and event type on the following pages.

Option C vs Option D

Option C was designed to deliver the same level of facility specifications as Option A and B, but on the NCCC site. Due to the restrictions involved with construction on the site, this was achieved, but with significant limitations in the design. In particular, Option C is not considered to address the flexibility issues that are apparent with the current NCCC.

In direct comparison, Option D was designed to directly address the issues considered most pertinent at the NCCC, and as such deliver significant benefits despite the reduced cost. It is designed to be a “do minimum” option. It follows that despite the lower cost of Option D, it is predicted to attract a higher number of conferences than Option C.

It is noted that a premium has been added to the LCR requirements under Option D to better represent the issues that will be faced over the project timeline when a large component of the NCCC is not redeveloped.

Option A

There is considerable difficulty in quantifying the potential demand for the Centre for Dialogue. It will present a unique offering in Australia within an emerging market. However, there are enough indicators to suggest that there will be significant demand for the use of an 'in the round' meeting place in a nationally significant building in the Nations capital. This section only considers those events that are drawn to the facility due to the Centre for Dialogue, as those conferences that may also use it will be captured in the conference demand section. The delegates in this category are likely to be overnight visitors only, due to the type of meetings that the Centre will attract.

The demand analysis assumes that an average of 100 delegates will attend meetings at the Centre for Dialogue. While the Centre has a capacity for 180 delegates, many of the meetings that it will attract will be for a smaller number of delegates, as shown by the experience of similar facilities internationally. It was found that although there is a good example of the corporate use of a similar facility in the Swiss Re Centre for Global Dialogue, much of the business is actually considered to be either academic in nature or for a purpose of Government influence and advocacy. Further, it was found through consultation with corporate entities in Australia that many companies were unlikely to use the centre, preferring to use in house facilities.

The number of forecast delegates are indicative of the demand reached from the third year of operations (FY23) onwards. In the demand modelling we have ramped up initial demand to this value in line with the overall event demand. This means that the forecast number of delegates driven to the Australia Forum under Option A specifically for Centre for Dialogue events is 2,000 in FY21, 2,500 in FY22 and 3,000 from FY23 onwards.

Option B

The Centre for Dialogue included in Option B will be purpose built and is anticipated to provide the same level of security and amenity as the Centre in Option A. Accordingly, demand for the Centre in Option B is projected to be similar to the stabilised demand for the Centre in Option A (30 events and 3,000 delegates). Option C and Option D do not include a version of the Centre for Dialogue.

It is noted that much of the benefit of the Centre for Dialogue will not be captured in increased delegate numbers, but instead will be captured in the wider benefits of business events, the benefits of the 'in the round' dialogic method of conversation and the effect these have on the wider business, knowledge and government sectors within Australia.

Centre for Dialogue – Annual demand (FY23 onwards)

| | Option A | | Option B | | Option C / D | |
|--------------|-----------|--------------|-----------|--------------|--------------|-----------|
| | Events | Delegates | Events | Delegates | Events | Delegates |
| Academic | 12 | 1,200 | 12 | 1,200 | na | na |
| Government | 10 | 1,000 | 10 | 1,000 | na | na |
| Association | 8 | 800 | 8 | 800 | na | na |
| Total | 30 | 3,000 | 30 | 3,000 | na | na |

Demand projections for the Status Quo

As per the Project Options demand projections, the Status Quo demand has been projected out to FY23 and then stabilised to represent a structural year going forward.

Conferences

The NCCC attracted a peak of 64 conferences in FY13 declining to a budget of 45 conferences in FY15. In terms of conference delegates, the NCCC attracted a peak of 26,500 delegates in FY13, declining to 20,000 delegates in FY14. The following factors have impacted the forecast of future conference demand for the NCCC:

- The NCCC's market share of the domestic overnight conference visitors in Australia has varied from 0.61% to 0.81%, with 2014 showing a decline in market share to 0.65%.
- The NCCC's decline in market share has occurred during a period of reduced competition in the convention market. Sydney Convention and Exhibition Centre closed in December 2013 for redevelopment and will not reopen until late 2016. Adelaide Convention Centre has been undergoing redevelopment from 2014. Many other convention centres have increased business due to these redevelopments.
- In addition, the competition in the convention market will increase significantly from late 2016 when the International Convention Centre Sydney will open. Adelaide Convention Centre redevelopment is planned to be fully complete in 2017 and the Melbourne Convention and Exhibition Centre expansion project has also received funding.

Based on the factors outlined above the NCCC is forecast to show a decline in conference delegate numbers of 3% per annum from FY17. On this basis, under the Status Quo option the NCCC is forecast to attract approximately 36 conferences and 16,200 conference delegates by 2023.

Concerts

The concert market at the NCCC has declined from 18 events attracting 33,000 attendees in 2010 to 14 events attracting 25,600 attendees in 2014. Both the number of concerts held at the NCCC and the number of concert attendees has declined at 6% per annum from 2010 to 2014. The marketability of the NCCC as a concert venue is likely to decline with no major renovation or renewal of the facilities occurring. The NCCC is forecast to continue to show a decline in concerts and concert attendees at 6% per annum from 2015. On this basis, under the Status Quo option we have forecast that the NCCC will attract approximately 8 concerts per annum and 14,300 concert attendees by 2023.

Corporate events (meetings)

The number of corporate meetings at the NCCC has declined from 195 events and 35,100 attendees in 2011 to 108 events and 26,000 attendees in 2014. The competitive hotels in Canberra are likely to continue to upgrade to attract corporate events. The marketability of the NCCC as a corporate meeting venue is likely to decline due to no major renovations occurring. The NCCC is forecast to show a decline in corporate meetings and attendees at 3% per annum from 2016.

Exhibitions

The NCCC is forecast to retain the current level of exhibitions under the Status Quo as there are limited comparable venues available in Canberra.

Other events

The demand for weddings and social events is projected to decline at 3% per annum from 2016 as competitive hotels in Canberra are likely to continue to upgrade to attract social events and the marketability of the NCCC decreases as no major renovations occur.

The table below outlines the demand projections for the Project Options and the Status Quo for an indicative year.

| Australia Forum Demand Projections - Structural Year (FY23) | | | | | | | | | | |
|---|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|
| | Status Quo | | Option A | | Option B | | Option C | | Option D | |
| | Events | Delegates |
| National convention | 36 | 16,156 | 72 | 35,914 | 65 | 32,649 | 56 | 27,752 | 60 | 30,201 |
| International convention | - | - | 6 | 2,400 | 3 | 1,200 | - | - | - | - |
| Concerts | 8 | 14,335 | 25 | 37,500 | 25 | 37,500 | 20 | 30,000 | 20 | 30,000 |
| Corporate meetings | 82 | 19,739 | 212 | 38,200 | 212 | 38,200 | 174 | 31,400 | 174 | 31,400 |
| Exhibitions | 16 | 50,000 | 22 | 68,750 | 22 | 68,750 | 22 | 68,750 | 22 | 68,750 |
| Other events | 29 | 12,596 | 100 | 45,000 | 100 | 45,000 | 67 | 30,000 | 67 | 30,000 |
| Centre for Dialogue | - | - | 30 | 3,000 | 30 | 3,000 | - | - | - | - |
| Total | 171 | 112,826 | 467 | 230,764 | 457 | 226,299 | 339 | 187,902 | 343 | 190,351 |

The table below outlines the projected demand incremental to the Status Quo.

| Australia Forum Demand - Incremental to the Status Quo - Structural Year (FY23) | | | | | | | | | |
|---|------------|----------------|------------|----------------|------------|---------------|------------|---------------|--|
| | Option A | | Option B | | Option C | | Option D | | |
| | Events | Delegates | Events | Delegates | Events | Delegates | Events | Delegates | |
| National convention | 36 | 19,759 | 29 | 16,494 | 20 | 11,596 | 24 | 14,045 | |
| International convention | 6 | 2,400 | 3 | 1,200 | - | - | - | - | |
| Concerts | 17 | 23,165 | 17 | 23,165 | 12 | 15,665 | 12 | 15,665 | |
| Corporate meetings | 130 | 18,461 | 130 | 18,461 | 92 | 11,661 | 92 | 11,661 | |
| Exhibitions | 6 | 18,750 | 6 | 18,750 | 6 | 18,750 | 6 | 18,750 | |
| Other events | 71 | 32,404 | 71 | 32,404 | 38 | 17,404 | 38 | 17,404 | |
| Centre for Dialogue | 30 | 3,000 | 30 | 3,000 | - | - | - | - | |
| Total | 296 | 117,938 | 286 | 113,473 | 168 | 75,076 | 172 | 77,524 | |

The iconic impact on the ACT

To estimate the magnitude of the possible uplift in visitation to the ACT and the pieces of the puzzle required to achieve the uplift, four different examples of iconic buildings were studied.

The Guggenheim in Bilbao was found to be a good example of an iconic building that was the face and catalyst of a reimagining of the City. There are strong similarities between the Guggenheim and the role it played in the formation of the cultural precinct in Bilbao, and the Australia Forum and the role it can potentially play in the 'City to the Lake' plan in Canberra. The National Centre for Popular Music in Sheffield is a good example of the opposite, where an iconic building was built with an idea to attract significant visitors without surrounding development, and closed within a year.

While the Sydney Opera House is recognised as a once in century opportunity that became an icon of the entire nation, it gives a good example of the longer term value generated by a truly iconic building. It is from this idea that the terminal value of the Australia Forum is generated, as the iconic value of the building will likely continue beyond the project timeline.

There are clear differences between MONA and the proposed Australia Forum, and also between Tasmania and the ACT, that will prevent the Australia forum from having the same potential effect on visitation. While the effect of MONA on visitation expenditure in Tasmania has been estimated at close to an 8% uplift, the facilities have significantly different purposes. That is, the Australia Forum is not a museum that will attract visitors for the exhibits inside, rather the iconic effect we are capturing is that of the building and precinct alone.

Using the following data taken from the TRA, a best estimate is made of the increase in visitor expenditure in FY15 dollars in the ACT as a direct result of the iconic nature of the facility, using forecasts of 1.0%-3.0% increase in visitors.

Based on the information provided in the table below, Option A is assumed to generate an uplift of 2% in visitation to Canberra, giving an incremental benefit to the state of \$35.64 million in the first year of operation.

Option B is intended to provide an impressive building on a landmark site. Accordingly, Option B is also assumed to attract additional visitation to Canberra.

The level of uplift in visitation to Canberra due to Option B has been assumed at 1%. The rationale is based on the differences in design. While Option B has a subtler design in comparison, it is iconic in a different and less direct way. Additionally, any development on the City Hill site will form the apex of the parliamentary triangle, and combined with the surrounding City to the Lake development will likely be added to the agenda of many visitors to the ACT.

Options C and D are assumed to generate no uplift in visitation, similar to the existing NCCC. Sensitivity analysis has been undertaken in a later chapter to determine how these estimates of the impact of the "iconic" building affect overall the Cost Benefit results.

| Induced visitation – The iconic impact | |
|--|---------------|
| Tourism Research Australia (FY14 data) - ACT | |
| Average visitor nights | 4.2 |
| Average spend per visitor night (\$) | 180.00 |
| Average spend per visitor (\$) | 774.00 |
| Total visitors (million) | 2.195 |
| Forecast visitor expenditure growth | 0.80% |
| Incremental benefit in first year of operations (FY21) | |
| Increase in visitation | Benefit (\$m) |
| 1.0% | 17.82 |
| 1.5% | 26.73 |
| 2.0% | 35.64 |
| 2.5% | 44.55 |
| 3.0% | 53.46 |



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4. Governance and Delivery Models

Delivery model assessment methodology

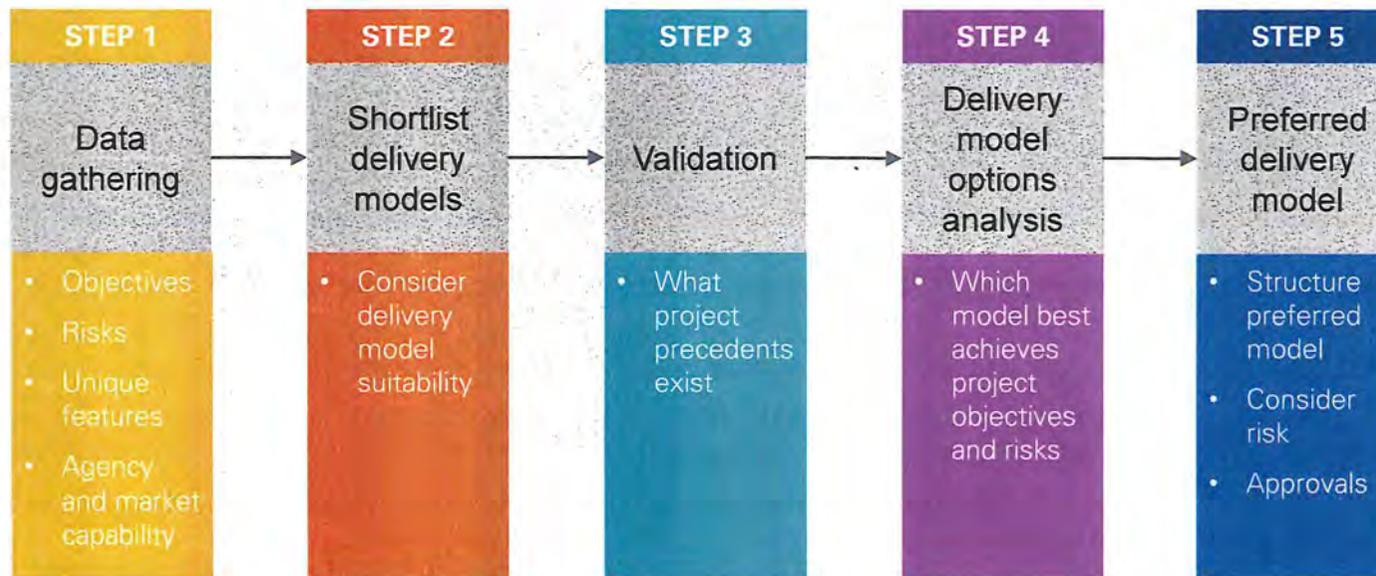
Delivery model assessment methodology

The delivery model assessment has been undertaken consistent with the framework presented in the Single Assessment Framework. A workshop was held with representatives from the Chief Minister, Treasury and Economic Development Directorate to discuss the potential delivery model options applicable to the different Project Options. Attendees included:

- Geoff LeCouteur (Senior Infrastructure Analyst, Infrastructure Advisory Division).
- Ron Maginness (Office of the Coordinator-General, Urban Renewal).
- Andrew Parkinson (A/g Director, Civil Infrastructure, Procurement and Capital Works) .
- KPMG: Tom Lord, Lise Sibinovic (in person), Mitchell Malone (by phone).

The analysis has been structured to match the first four steps in the five step framework (shown diagrammatically below) in the Single Assessment Framework. The final selection of a preferred delivery model would be undertaken as part of a subsequent stage of project development, following further technical analysis.

The resulting shortlists are shown on the following pages, and the full delivery model assessment is included in Appendix C.



Delivery model shortlist – Options A and B

- DCMO and PPP (Availability) appear to be the most effective models for the **new build options (A and B)**.
- Under both models the role of the operator would not normally include full transfer of the economic and financial risk of the convention business. The Territory may also elect to extend the contract of IHG and partner with them (and potentially the Canberra Convention Bureau) to assist in guiding the tender process.
- Model selection will depend on further determination of the project packaging and whether there would be value in bundling ancillary real estate development rights (for a supporting hotel and car park). The PPP model is better suited for projects that require arrangement of development capital.
- PPPs also deliver a high level of delivery discipline, however the reference scheme for Option A may be too prescriptive to allow the tendering proponents to deliver value for money through innovative solutions.

| Delivery Model Assessment - Option A and B | | | | | | | | | | | | |
|--|---|----------|--------|-----|-----|------|--------|-----------|-----|-----|-----|-----|
| Criteria | | Priority | Rating | | | | | | | | | |
| | | | C | D&C | DCM | DCMO | PPP(A) | PPP(BOOT) | PMA | MC | A | ECI |
| 1. | Expected timeliness of procurement and delivery | Medium | ✗ | ✓✓✓ | ✓✓ | ✓ | ✓ | ✓ | ✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ |
| 2. | Certainty of completion and operational commencement | High | ✗ | ✓ | ✓ | ✓ | ✓✓✓ | ✓✓✓ | ✓ | ✓ | ✓ | ✓✓ |
| 3. | Whole-of-life design and maintenance | High | ✓ | ✓ | ✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓ | ✓✓ | ✓✓ | ✓✓ |
| 4. | Level of risk transfer | High | ✗ | ✓ | ✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✗ | ✓ | ✗ | ✓ |
| 5. | Opportunity to deliver innovative operational and service solutions | Medium | ✓ | ✓ | ✓ | ✓✓ | ✓✓ | ✓✓ | ✓ | ✓ | ✓ | ✓✓✓ |
| 6. | Cost efficiency and budget certainty | High | ✓ | ✓ | ✓✓ | ✓✓✓ | ✓✓✓ | ✓ | ✓ | ✗ | ✗ | ✓✓ |
| 7. | Market appetite and capability | Medium | ✓✓✓ | ✓✓ | ✓✓ | ✓✓ | ✓✓✓ | ✗ | ✓✓ | ✓✓✓ | ✓✓ | ✓✓✓ |

Delivery model shortlist – Options C and D

- Eligible delivery models for **Option C and D** include D&C and relationship contracting models such as a Managing Contractor or ECI, and the potential for a PPP under an availability payment arrangement.
- The selection of which model to pursue will depend on further technical assessment of the delivery risks associated with refurbishing and extending the current site. Further technical analysis and planning will inform whether it would be better value for money to use the ECI to engage a contractor to help mitigate and solve some of the complex site issues, or whether it would be more efficient for the Territory to mitigate risks to the extent that price risk transfer can be achieved under a fixed price and time D&C contract.
- The MC and ECI models can also lead into delivery under a fixed price and time D&C contract.

| Delivery Model Assessment - Option C and D | | | | | | | | | | | |
|--|--|----------|--------|-----|-----|------|--------|-----------|-----|----------|----------|
| Criteria | | Priority | Rating | | | | | | | | |
| | | | C | D&C | DCM | DCMO | PPP(A) | PPP(BOOT) | PMA | MC / ECI | Alliance |
| 1. | Expected timeliness of procurement and delivery | Medium | ✗ | ✓✓✓ | ✓✓ | ✓ | ✓ | ✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ |
| 2. | Certainty of completion and operational commencement | High | ✗ | ✓ | ✓ | ✓ | ✓✓✓ | ✓✓✓ | ✓ | ✓ | ✓ |
| 3. | Whole-of-life design and maintenance | High | ✓ | ✓ | ✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓ | ✓✓ | ✓✓ |
| 4. | Level of risk transfer | High | ✗ | ✓✓ | ✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✗ | ✓ | ✗ |
| 5. | Opportunity to deliver innovative operational and service solutions | Medium | ✓ | ✓ | ✓ | ✓✓ | ✓✓ | ✓✓ | ✓ | ✓✓ | ✓ |
| 6. | Cost efficiency and budget certainty | High | ✓ | ✓ | ✓✓ | ✓✓✓ | ✗ | ✗ | ✓ | ✗ | ✗ |
| 7. | Market appetite and capability | Medium | ✓✓✓ | ✓✓ | ✓✓ | ✓✓ | ✓ | ✗ | ✓✓ | ✓✓✓ | ✓✓ |

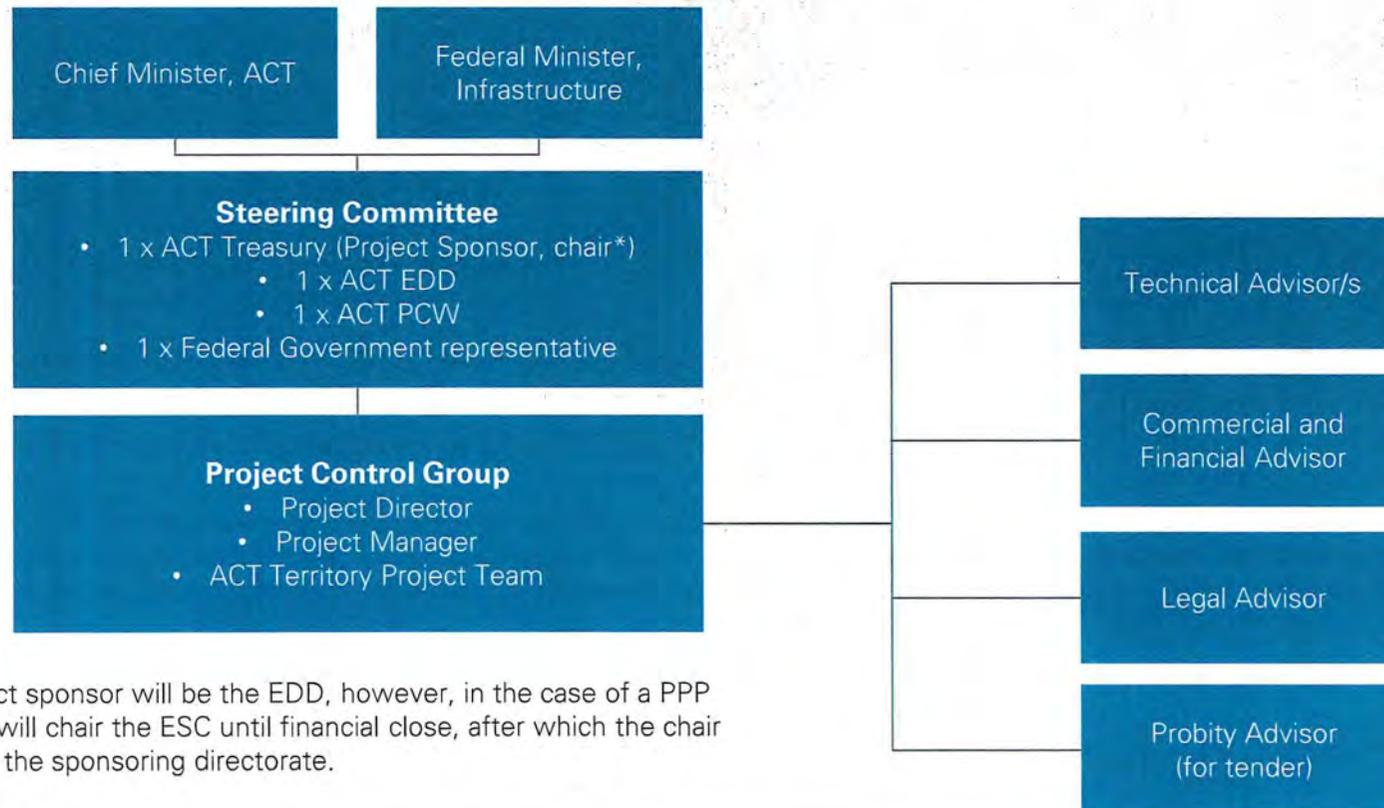
Overview

The ACT's Single Assessment Framework describes a suitable governance structure for Tier 3 projects > \$50m. The structure includes a:

- Steering Committee to steer major project decisions and to oversee progress; and a
- Project Control Group to manage the project day to day and to manage the budgets, program and delivery through contracts.

For this project and for Options A and B in particular, Federal Government funding is being sought, while the project will be managed by the Territory. Therefore dual governance will be required to provide visibility and steering control to both the Federal Government in its role as the funder and the Territory in its role as project delivery management.

It is therefore recommended for the Federal Government to have representation on the Steering Committee, and that the Steering Committee is made responsible to brief both the Chief Minister of the Territory and the Federal Minister for Infrastructure.



*Note: The project sponsor will be the EDD, however, in the case of a PPP project Treasury will chair the ESC until financial close, after which the chair transfers back to the sponsoring directorate.

The roles of the Steering Committee and Project Control Group are as set out in the SAF and listed below:

| Steering Committee responsibilities | Project Control Group |
|---|--|
| <ul style="list-style-type: none"> ■ Determine strategic direction of the project - related to the current exercise to evaluate four options, this would include as a first task to decide the desired balance between design excellence (impacting cost) and value for money and to oversee how this message would be communicated to the contracting market. ■ Oversee the operations of the Project Control Group – the Steering Committee will need to maintain visibility over project budgets and progress and decide appropriate action as may be needed. ■ Consider and determine preferred positions on key commercial and policy issues – in the short term the Steering Committee should establish itself as a forum for productive intergovernmental discussions regarding federal government funding and involvement. The Steering Committee should also lead the consideration of delivery models and what land parcels might be included to facilitate value for money and promote urban renewal for Canberra. ■ Oversee the competitive bid process and evaluation of competitive bids – the Steering Committee should establish project objectives which can be mapped to evaluation criteria, and be responsible for final shortlisting and selection recommendations to the Minister/s. ■ Make recommendations to Cabinet through the Chief Minister and Treasury and facilitate timely decision-making at the highest level of government. | <ul style="list-style-type: none"> ■ Project Director will manage the project day to day, which includes monitoring expenses versus an established and approved budget, tracking progress versus program, and ensure outcomes are directed at meeting objectives. ■ Project Director will also manage advisors and the project team. ■ Project Director will periodically meet and brief the Steering Committee. ■ Project Team and advisors will develop positions on policy, commercial and administrative matters to be considered by the Steering Committee – for example an appropriate commercial structure and risk allocation for the operator contract. ■ Project Team will manage the competitive bid process. ■ Provide advice to the Steering Committee and evaluation committee regarding tendered submissions to assist with assessment. ■ Contract administration. ■ Prepare financial and progress reports for Steering Committee. |

The governance structure comprising a Steering Committee and PCG will apply well to the tender and construction phases of the project.

- The operations phase of the project is likely to require a different level and type of governance and government involvement to promote the convention and exhibition facilities and to support the marketing efforts of the operator.
- The appropriate governance structure for the operating phase of the project should involve both Territory and federal resources that are skilled in tourism marketing and that have the ability to oversee, manage and if needed, assist the operator to attract events to Canberra.



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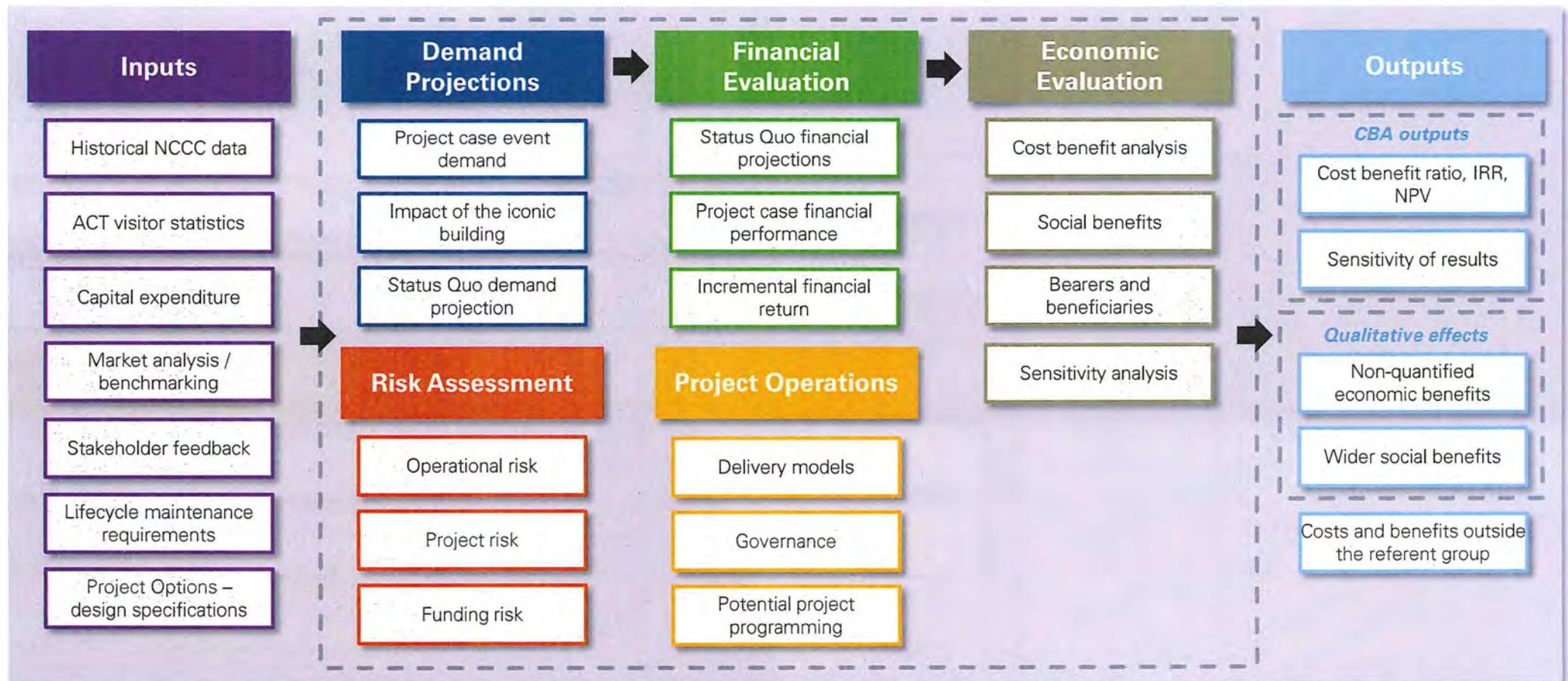
5. Comparative Analysis

Major venues and assets such as convention centres in many instances do not generate a commercial return to the owner, especially once whole of life cost are considered, and are therefore commonly considered social assets. Such assets do, however, generate a range of economic and social benefits for the communities in which they are located.

The potential Project Options for Canberra need to meet a different set of criteria to more commercial projects. The nature of social infrastructure means a

stronger weighting is put on the wider economic benefits and the qualitative analysis including comparative risks, social benefits, environmental considerations as well as equity considerations and value-for-money of each potential solution.

The chart below outlines the evaluation framework that will be used to determine which of the potential Project Options best meets the needs of the Canberra community.





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5.1 Financial Analysis

Overview

While much of the incremental cost and benefit of the project will not be captured within the financial analysis, it is important to ensure the financial operation of the facilities under the different options is accurately modelled, and the overall investment impact of the Project Options are compared.

The historical financial performance of the NCCC (outside of the publicly available information) as well as the financial metrics used for benchmarking within the industry are considered commercial in confidence and as such are not able to be included in the report. The benchmarks obtained by KPMG are a result of the experience of the team members within the industry, and they include the results of recent analysis of comparable facilities within Australia.

As a result of this, the financial projections for the NCCC will only include the rental stream received by the ACT Government for the lease of the facility and relevant life cycle costs. These are the only flows that will factor in the cost benefit analysis. The profit extracted from the operation of the centre is considered to leave the ACT and be retained by IHG.

This section of the report will first outline the methodology and assumptions used in the financial projections, including the car parking performance and any benchmarking used to construct the future estimates of financial flows. The Project Options are considered first, using the demand projections developed in this report. This analysis includes the financial performance of the car park and the estimated life cycle costs.

The financial analysis and projections of the Status Quo follows, including the relevant inputs, assumptions and outputs. Finally, the options are analysed using a whole of project investment approach.

Assumptions

The operational cash flow projections under the Australia Forum option have been based on the following assumptions:

- The new venue under all options will become fully operational from 1 July 2021. The facility will be maintained to a sufficient level throughout the 30 year horizon to 30 June 2050;
- Inflation has not been applied to the model resulting in all financial information

being presented in 2015 real prices;

- The new venue will be a standalone convention centre that will be managed by a professional management company for an annual management fee; and
- Lifecycle capital replacement requirements have been calculated by Wilde and Woollard and include both preventative maintenance and the capital replacement requirements for the 30 year timeline.

Car park financial performance

The performance of the car park has been separated from the convention centre operating performance. For the Project Options on both sites, the car park financial performance is built out using the historical performance of the car park at the NCCC, assuming that the average revenue per car park is comparable between the facilities.

Option A and B will replace a current car park that has a capacity of approximately 600 cars, with approximately 300 new car spaces. The removal of car parks is assumed to lead to no change in demand for the spaces as they are already very well utilised. The car park operational expenses are also assumed to be in line with the experience of the NCCC historically, at 4.2% of car parking revenue.

Operations and programming

Under Option C, the NCCC redevelopment will require construction for two years. As a result, the facility will be closed for these two years. Similarly, under Option D, the NCCC redevelopment is estimated to require construction for one year. These closure periods have been reflected in the financial projections.

Project programming has only been considered at a high level for this analysis. Construction has been rounded to whole years such that Option A and B are constructed over three years, while Option C is constructed over two and Option D is constructed over one year. Additionally, the capital cost of construction is programmed evenly over the construction period.

If Options C or D are identified as the preferred solution going forward, further consideration will need to be given to the change management of the project, including the potential for operator compensation, temporary or partner facilities to provide continuation of services over the closure, and the timing of the construction to minimise the impact on the event calendar.

Project financial projections (cont.)

Lifecycle capital replacement

Lifecycle capital replacement requirements have been calculated by Wilde and Woollard and include both preventative maintenance and the capital replacement requirements for the 30 year timeline. These have been constructed to include a significant refurbishment in the fifteenth year of operation. Additionally, these costs have been calculated under the assumption that at the end of the 30 years, the building is vacated and no longer required to be maintained, representing the end of the economic useful life of the asset.

The table below outlines the lifecycle capital replacement requirements including average annual costs and the average annual cost as a percentage of capital cost.

| Australia Forum - Lifecycle capital replacement (\$) | | | | |
|--|-------------|-------------|-------------|-------------|
| | Option A | Option B | Option C | Option D* |
| Building area (m ²) | 103,855 | 72,466 | 51,689 | 20,858 |
| Capital cost (excl. escalation) | 630,543,985 | 538,366,105 | 306,584,518 | 137,263,592 |
| Maintenance | | | | |
| Maintenance cost over project timeline | 152,645,694 | 126,111,473 | 94,303,718 | 46,741,098 |
| Average annual maintenance cost | 5,088,190 | 4,203,716 | 3,143,457 | 1,558,037 |
| Annual percent of capital cost | 0.81% | 0.78% | 1.03% | 1.14% |
| Replacement | | | | |
| Replacement cost over project timeline | 137,155,474 | 90,662,145 | 82,870,585 | 39,047,158 |
| Average annual replacement cost | 4,571,849 | 3,022,072 | 2,762,353 | 1,301,572 |
| Annual percent of capital cost | 0.73% | 0.56% | 0.90% | 0.95% |
| Total lifecycle capital replacement | | | | |
| LCR cost over project timeline | 289,801,168 | 216,773,618 | 177,174,303 | 85,788,256 |
| Average annual LCR cost | 9,660,039 | 7,225,788 | 5,905,810 | 2,859,609 |
| Annual percent of capital cost | 1.53% | 1.34% | 1.93% | 2.08% |

*Note: Option D in this table is for the redeveloped section of the NCCC only.

As the above table only outlines the LCR requirements for the redeveloped component of the NCCC, the residual LCR requirements need to be calculated. These have been estimated by determining the percentage of the NCCC that is not redeveloped, and then applying the ACT Treasury Guidelines (2% after the fifth year of operation) to that component of the Asset Replacement Value (ARV).

A premium of 1% of ARV has been added to the LCR requirements of the older components of the venue (under Option D) to represent the higher maintenance requirements of an aged asset, with consideration of the demand projections and competition in the market. The venue will be required to update aesthetic components on a regular basis.

The ARV has been calculated based on the Colliers Valuation Certificate which gave a first year of useful life value of \$77.75m, This is escalated to the current year prices and then a 20% contingency is applied as per the Wilde and Woollard estimates. This results in an ARV of \$103.6m. The calculations for the LCR requirements under Option D are outlined in the table below.

| Australia Forum - Lifecycle capital replacement - Option D (\$) | | |
|--|---------------------------|-------------|
| | Calculations | Option D |
| Area calculations | | |
| Option D building area (m ²) (redevelopment + original NCCC) | (1) | 40,093 |
| Redevelopment area (m ²) | (2) | 20,858 |
| Residual NCCC area (m ²) | (3) = (1) - (2) | 19,235 |
| Original NCCC area (m ²) | (4) | 32,000 |
| % of NCCC not redeveloped | (5) = (3) / (4) | 60.11% |
| Asset replacement value | | |
| Original NCCC ARV | (6) | 103,563,000 |
| NCCC ARV for the area not redeveloped | (7) = (5) * (6) | 62,251,072 |
| Capital cost of redevelopment (excl escalation) | (8) | 137,263,592 |
| Average annual LCR cost | | |
| Redevelopment | (9) | 2,859,609 |
| Remainder of the NCCC | (10) = 3% * (7) | 1,867,532 |
| Total lifecycle capital replacement | | |
| LCR cost over project timeline | (11) | 141,814,227 |
| Average annual LCR cost | (12) = (9) + (10) | 4,727,141 |
| Annual percent of capital cost | (13) = (12) / [(7) + (8)] | 2.37% |

Lifecycle capital replacement requirements are outlined in detail for the Project Options in appendix E.

Project financial projections (cont.)

Revenue projections

The table below outlines the breakdown of revenue by the percentage used in the convention and attendee revenue assessment. The percentages are based on the historical revenue profile of the NCCC, aligned with industry benchmarks derived from KPMG sources.

| Delegate revenue breakdown | |
|---------------------------------------|------------|
| Event revenue source | Percentage |
| Catering revenue | 53% |
| Beverage revenue | 8% |
| Other revenue (Incl AV and room hire) | 39% |

Based on the historical proportion of revenue by event type, the average revenue generated per delegate for each event category has been determined using industry benchmarked delegate spends. These values were sourced from similar scaled convention centres in Australia. The table below outlines the forecast revenue per delegate broken down into the different event categories:

| Forecast revenue per delegate (\$) | | | | |
|------------------------------------|-------|----------|-------|-------|
| Event Type | Food | Beverage | Other | Total |
| Conventions (national) | 184.2 | 28.5 | 137.3 | 350.0 |
| Conventions (international) | 231.5 | 35.9 | 172.6 | 440.0 |
| Corporate events | 39.5 | 6.1 | 29.4 | 75.0 |
| Centre for Dialogue | 78.9 | 12.2 | 58.8 | 150.0 |
| Exhibitions | 4.2 | 0.7 | 3.1 | 8.0 |
| Concerts | 6.3 | 1.0 | 4.7 | 12.0 |
| Other (Social events) | 36.8 | 5.7 | 27.5 | 70.0 |
| Visitor | 5.0 | - | - | 5.0 |

The forecast convention spend per delegate from both national and international origins are in line with comparable facilities available in Australia. The Centre for Dialogue spend is reflective of the premium nature of the Centre for Dialogue

meeting space for delegates and the one day length of the events. Additionally, the revenue per delegate and revenue breakdown have been considered to be the same for all of the Project Options.

Expense projections

The historical performance of the NCCC has been used as a basis for the expense profile under the Project Options. This has been built upon using industry benchmarking and reasonable assumptions. The table below outlines the expense assumptions used in the modelling:

| Expense assumptions | | |
|----------------------------|--|-----------------------|
| | Value | Relationship |
| Catering costs | 80% | % of F&B revenue |
| Other COGS | 20% | % of other revenue |
| Car park expenses | 4.2% | % of car park revenue |
| Sales and marketing | 4.5% | Total revenue |
| Administration and general | 5.7% | Total revenue |
| Energy | 5.8% | Total revenue |
| Management fee | 2% | Total revenue |
| Insurance (\$) | \$750k (Option A and B), \$500k (Option C and D) | |

The expense assumptions have also been applied consistently across the Project Options with the exception of insurance which carries with the size of the venue. Historically the NCCC has operated under a rental agreement, but the assumption has been made that the new venue will use a management agreement, in line with the large majority of comparable facilities in Australia. The management fee is based on 2% of total revenue drawn from benchmarking against these similar facilities. It is assumed that under the Status Quo, IHG continues to operate the venue under a similar agreement to that currently in place. Due to the significant changes in operations under Option C and D and the uncertainty surrounding the details of the exact calculation of the revenue share, it is considered appropriate to model those options under a management fee as per Option A and B.

Project financial projections (cont.)

Projected operating result

The adjacent table details projected operating result for the four Project Options in an average year.

All four Project Options are projected to achieve a net operating surplus from event operations in an average year, with Option A resulting in the highest surplus at \$5.31m, Option B resulting in a surplus of \$4.85m, Option C resulting in a surplus of \$3.65m and Option D resulting in a surplus of \$3.89m. The key driver of the different results is the demand projections, as most of the revenue and expense assumptions are consistent between the options.

Options C and D achieve a higher car parking net operating result due to the higher number of parking spaces.

When lifecycle capital replacement requirements are included, all of the Project Options, with the exception of Option D, achieve a negative net operating result, summarised below:

- Option A achieves the lowest net operating result after LCR, at -\$4.09m;
- Option B achieves a net operating result after LCR of -\$2.09m;
- Option C achieves a net operating result after LCR of -\$1.31m; and
- Option D achieves a net operating result after LCR of \$0.09m.

These differences are driven by significant differences between the projected LCR costs for each of the Project Options.

Note: Due to the inclusion of maintenance in the Wilde and Woollard lifecycle capital replacement calculations, it has not been included in the overhead expenses to avoid double counting.

| Australia Forum Financial Projections - Average Year (\$) | | | | |
|---|------------------------|------------------------|------------------------|------------------------|
| | Option A Projection | Option B Projection | Option C Projection | Option D Projection |
| Revenue | | | | |
| Catering - Food | 11,214,154 | 10,277,012 | 7,934,188 | 8,385,167 |
| Catering - Beverage | 1,719,365 | 1,583,165 | 1,229,192 | 1,299,060 |
| Other revenue | 8,273,430 | 7,618,049 | 5,914,763 | 6,250,958 |
| Operating Expenses | | | | |
| Catering costs - Food | 8,781,889 | 8,032,176 | 6,347,350 | 6,708,134 |
| Catering costs - Beverage | 1,346,144 | 1,237,185 | 983,354 | 1,039,248 |
| Other COGS | 1,619,381 | 1,488,305 | 1,182,953 | 1,250,192 |
| Overhead Expenses | | | | |
| Administration and general | 1,211,531 | 1,112,771 | 861,399 | 910,361 |
| Utilities | 1,230,003 | 1,129,737 | 874,532 | 924,241 |
| Sales and Marketing | 954,313 | 876,520 | 678,516 | 717,083 |
| Insurance and other | 750,000 | 750,000 | 500,000 | 500,000 |
| Net operating result - Convention centre | 5,313,687 | 4,851,532 | 3,650,039 | 3,885,927 |
| Car Parking | | | | |
| Revenue | 721,458 | 721,458 | 1,331,550 | 1,331,550 |
| Expenses | 30,301 | 30,301 | 55,925 | 55,925 |
| Net operating result - Car parking | 691,157 | 691,157 | 1,275,625 | 1,275,625 |
| Net operating result - Total result | 6,004,844 | 5,542,689 | 4,925,663 | 5,161,552 |
| Management Fee | | | | |
| Management fee / rental agreement | 438,568 | 403,994 | 328,194 | 345,335 |
| Net operating result - After fee / rent | 5,566,275 | 5,138,695 | 4,597,470 | 4,816,217 |
| Life Cycle Capital Replacement | | | | |
| LCR requirements | 9,660,039 | 7,225,788 | 5,905,810 | 4,727,141 |
| Net operating result - After LCR | (4,093,764) | (2,087,092) | (1,308,340) | 89,076 |

Surprisingly, and despite the LCR premium applied, under Option D the NCCC is forecast to make an operating profit after LCR. This is driven by the favourable demand projections, the rationale for which is outlined on page 30 of this report.

Status Quo financial projections

Overview

As previously mentioned, much of the historical financial performance of the NCCC (outside of the publicly available information) as well as the financial metrics used for benchmarking within the industry are considered commercial in confidence and as such are not able to be included in the report. As a result, the forecast financial performance under the Status Quo will be restricted to that which is relevant to the economic analysis, in this case the rental stream and the lifecycle capital replacement costs, or aggregated to protect the confidential nature of the underlying data.

Status Quo Assumptions

The operational cash flow projections under the Status Quo option have been based on the following assumptions:

- The NCCC will remain fully operational through to 30 June 2050 and therefore the facility will be maintained to a sufficient standard throughout this time horizon;
- NCCC LCR costs are not financed through the operational cash flows of the convention centre but will be financed by the ACT Government. Lifecycle costs are calculated at 2.0% of the asset replacement value (estimated to be \$103m in FY15) per annum;
- The NCCC will continue to be professionally managed and marketed throughout the projection period;
- The ACT Government will continue to receive a rental income under the existing rental agreement, currently estimated to be 13.4% of NCCC operating profit (convention centre and car park); and
- Regarding the NCCC, the current expense and revenue profile is indicative of the future expense and revenue profile.

Australia Forum Financial Projections - Status Quo Average Year (\$)

| | Average year Projection |
|---------------------------------------|-------------------------|
| Rental Payments | |
| Rent | XXXXXX |
| Life Cycle Capital Replacement | |
| LCR requirements | 2,071,260 |
| Net result to Government | XXXXXX |

As shown above, the rental stream under the Status Quo is approximately \$XXXXk per annum and the LCR requirements are approximately \$2.07m per annum, with a net result to government of XXXXm annually.

Project investment analysis

The financial return to the Government of each of the Project Options is explored in this section, using discounted cash flow analysis. The table below outlines the forecast total financial deficit to the Territory Government as a result of each of the Project Options (assuming direct Government funding for simplicity of analysis) on a NPV basis. The SAF outlines the used of 4% (low), 7% (base) and 10% (high) real discount rates.

| Australia Forum Project Investment Analysis to FY50 (\$m) | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|---------------|
| | Option A | Option B | Option C | Option D | Status Quo |
| Total net operating result | 179.69 | 166.87 | 147.05 | 155.62 | 71.23 |
| Total LCR costs | (302.23) | (227.03) | (185.46) | (152.17) | (74.57) |
| Result after LCR | (122.54) | (60.16) | (38.40) | 3.45 | (3.33) |
| Capital cost | (680.99) | (581.44) | (338.78) | (151.68) | na |
| Total project return | (803.52) | (641.60) | (377.18) | (148.22) | (3.33) |
| Net present value (\$FY15): | | | | | |
| 4% | (611.35) | (503.35) | (287.70) | (116.68) | (0.67) |
| 7% | (513.66) | (428.17) | (240.09) | (97.85) | 0.14 |
| 10% | (438.93) | (368.59) | (203.09) | (82.53) | 0.54 |
| Profitability ratios | | | | | |
| Project profitability ratio | (0.18) | (0.10) | (0.11) | 0.02 | |
| Incremental project profitability ratio | (0.18) | (0.10) | (0.10) | 0.04 | |

The total project return to Government is negative for the Status Quo and all of the Project Options. Using the base discount rate of 7%, the NPV of the project is a deficit of \$514m for Option A, a \$428m deficit for Option B, a \$240m deficit for Option C, and a \$98m deficit for Option D.

Profitability ratio

In addition to the NPV of the project, profitability ratios have also been calculated for each Project Option. These represent the forecast return to Government for every dollar of investment in the project. The two profitability ratios that have been calculated are:

- **Project profitability ratio** – The dollar return for every dollar of capital investment in the project; and
- **Incremental project profitability ratio** – The incremental dollar return, in comparison to the Status Quo, for every dollar of capital investment in the project.

A profitability ratio greater than one indicates a positive total project return, while a profitability ratio of less than one indicates a negative total project return. A negative profitability ratio indicates that for every dollar of capital investment an extra amount is required to be spent over the life of the project.

Option A, B and C result in a negative project profitability ratio, representing that the result after the initial investment represents a negative net return. Of the Project Options, Option A represents the lowest project profitability ratio, and also the lowest incremental project profitability ratio. This indicates that for every dollar of upfront capital investment, more has to be spent under Option A over the project timeline than under the other options.

Option D results in a positive incremental project profitability ratio, indicating an additional incremental return (compared to the Status Quo) of \$0.04 for every dollar of initial capital investment in the project.

Overall, the profitability indices show that there are significant net costs after the initial capital investment for Options A, B and C. Option A requires an additional incremental spend (compared to the Status Quo) of \$0.18 for every dollar of initial capital investment over the project timeline.



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5.2 Economic Analysis

Outline

This section of the report details the cost benefit analysis of the Australia Forum project. First the methodology and approach is outlined, including definitions of key inputs and assumptions. These are then fed into the cost benefit framework to identify and quantify the key incremental costs and benefits associated with the project, and calculate the relevant outputs.

The key processes involved in the preparation of the cost benefit analysis are:

- Identification of the referent group;
- Definition of the scope of the project, including timeline;
- Articulation of the scenarios for analysis and the base case;
- Identification of the incremental costs and benefits associated with the project;
- Quantification of these costs and benefits, where possible;
- Generation of performance measures such as the net present value (NPV), benefit cost ratio (BCR) and the economic internal rate of return (EIRR); and
- Sensitivity analysis to assess the sensitivity of performance measures to changes in key variables or assumptions.

The referent group

In social cost benefit analysis, the referent group is the group of individuals deemed by the decision maker to be relevant to the analysis. The first step is to strictly define both the referent group and those potential bearers or benefactors of the incremental costs and benefits that lie within the referent group and outside it (the non-referent group).

The referent group for this project is considered to be the entire ACT community – including residents of the Territory, locally owned businesses and the ACT Government.

For this project, the non-referent group can then be defined as any bearers or

benefactors of the costs or benefits that are not within this referent group, including businesses based outside of the ACT and residents of other States or Territories. A key non-referent group entity in this analysis is the Intercontinental Hotel Group (IHG), the current operators of the NCCC. It follows that the profits captured by IHG are considered to leave the ACT.

Definition of the project

An outline of the cases to be analysed and the difference between those cases and the base case was included in the Project Overview section of this report. For all four of the Project Options, the project case is evaluated incremental to the base case, the Status Quo.

The incremental costs and benefits

The incremental costs and benefits of the project will be identified, analysed and where possible quantified in this section of the report. These will include both qualitative and quantitative:

- Direct incremental costs and benefits; and
- Indirect incremental costs and benefits (externalities, opportunity costs and wider economic benefits).

The outputs

The key outputs of this cost benefit analysis are:

- BCR – The ratio of quantifiable incremental benefits to quantifiable incremental costs. A BCR greater than one indicates that the benefits of the project exceed the costs of the project over the evaluation period.
- NPV – The difference between the present value of the total incremental benefits and the present value of the total incremental costs. Projects that yield a positive NPV indicate that the benefits of the project exceed the costs of the project over the evaluation period.
- EIRR – The discount rate at which the present value of costs equals the present value of benefits. A project is potentially worthwhile if the EIRR is greater than the discount rate used in the analysis.

Assumptions

The table below outlines the assumptions that will be used in the cost benefit analysis:

| Assumption | Value / Methodology | Source |
|----------------------------|---|--|
| Discount rate | A 7% per annum real discount rate is applied as the base case in the analysis to calculate present values of costs and benefits. The analysis is also conducted using 4% (low) and 10% (high) discount rates. | The Capital Framework – Single Assessment Framework Business Case Guidelines. |
| Price year | All costs and benefits in the analysis are presented in FY15 prices. | The Capital Framework – Single Assessment Framework Business Case Guidelines. The guidelines outline that analysis should be conducted using real prices in the current year. While the framework allows for real change in prices such as real wage growth and other forms of escalation, it does not suggest nominal changes. |
| Evaluation period | The full evaluation period is for 30 years of operation plus the construction period, aligning for all of the Project Options to cover construction followed by operation from FY21 to FY50. | The Capital Framework – Single Assessment Framework Business Case Guidelines. The guidelines outline that choice of timeline is flexible depending on the type of project. As such the evaluation period has been chosen to align with the predicted effective economic useful life of the new venue (discussed in more detail later in this section). |
| Project programming | Project programming has only been considered at a high level for this analysis. Construction has been rounded to whole years such that Option A and B are constructed over three years, while Option C is constructed over two years and Option D is constructed over one year. Additionally, the capital cost of construction is programmed evenly over the construction period. | Benchmarking against recent similar projects Simplified for ease and consistency of analysis. |
| Referent group | The referent group for this project is considered to be the entire ACT community – including residents of the Territory, locally owned businesses and the ACT Government. | KPMG social cost-benefit methodology. In line with previous Commercial and Economic Analysis. |

The incremental costs associated with the project are outlined below.

Capital expenditure

The capital expenditure associated with the construction of the Australia Forum and other infrastructure required for the project. The values used in the cost benefit analysis is a result of the Indicative Cost Plans provided by Wilde and Woollard, as outlined in the Project Overview section of this report. For simplicity of analysis, these costs are assumed to be born by the referent group regardless of the source and breakdown of the funding.

Operating expenditure

The operating expenditure considered in the analysis is the component of incremental expenditure associated with the operation of the new venue, over that of the NCCC, that is associated with an incremental cost to the Territory. As the NCCC is assumed under the Status Quo to continue to operate under a rental agreement, there is no operating expenditure attributable to the referent group. Therefore the incremental operating expenditure is the relevant component of the new venue operating expenditure.

The operating expenditure calculated in the financial projections is used in this analysis, but not all of it is considered to be attributed to the generation of incremental benefits (producer surplus) due to the consideration above of IHG to be outside the referent group. A ratio was constructed to correctly capture the relevant component of this expenditure. Using the revenue projections, those costs that are specifically attributable to an incremental benefit to the state were added to the overhead costs of the operation of the facility. These costs were then fed into the analysis as the incremental cost to the referent group associated with the project.

The value that was used in the analysis is 54% of the total operating expenditure for all of the Project Options.

Lifecycle capital replacement

The lifecycle capital replacement requirement of the new venue is a significant cost of the project. These are as outlined in the financial analysis section of the report. For simplicity and consistency of analysis the incremental life cycle costs are considered to be born by the ACT Government.

Opportunity cost associated with the site

The opportunity cost associated with the redevelopment of the NCCC under Options C and D is considered to be zero, as the highest and best alternative use of the site given the current state is the Status Quo.

The opportunity cost associated with the City Hill site will not be zero, but needs to be viewed in the context of the City to the Lake development and the primacy of the site within Canberra, as well as the current use of the land as an at-grade car park. If the site is not used for a new convention centre, it will be saved for another significant piece of cultural infrastructure to tie into the City to the Lake development. As such, the opportunity cost is acknowledged, however no attempt has been made to quantify it. Additionally, it is assumed that associated developments will have replaced the at-grade car park by year one of operation.

Increased marketing expenditure

To attract the increased demand outlined in the demand projections, the CCB will be required to increase the amount that is spent on the marketing of the Canberra facilities. The assumption is made that all of the increases in marketing spend is used to attract incremental interstate and international delegates to avoid a dead weight loss to the Territory.

The CCB received State Government funding of \$1.4 m in FY13 increasing to \$1.7 m in FY14. In comparison, convention bureaux in the large capital cities, receive significantly higher funding, but the majority of this funding is earmarked to attract international conventions. For example Business Events Sydney received state government funding of \$9.3 m in FY14. The Adelaide Convention Bureau (ACB) has a stronger focus on the national convention market, similar to Canberra, and received funding of \$1.1 m in FY14 increasing to \$1.8 m in FY15 with the redevelopment of the ACC. This funding is likely to increase with the redevelopment of the Canberra facilities. Based on these comparisons, to attract the level of demand outlined in this report the CCB would require similar total funding to the ACB, equating to additional funding of approximately \$500k per annum. There was considered to be no significant difference in the required marketing budget for Options A and B, but Options C and D is considered to only require an additional \$300k annually due to the lower forecast demand and flexibility.

Loss of NCC rental income

The income stream to the ACT Government from the lease of the NCCC facility is lost when the NCCC is closed. This income stream is determined from net operating profit and, as outlined in the financial projections, and is more than offset by the proposed management fee arrangement.

Non-quantified costs

Congestion – With the increased visitation and increased number of delegates equating to a higher use of public and private transport, there is likely to be a negative effect on the amount of congestion around the project site. While this is not quantified, it will need to be kept in mind when considering the rest of the 'City to the Lake' development and the other surrounding infrastructure.

Environmental costs – Although Options A and B are likely to be more energy efficient than the Options at the NCCC site due to the high use of natural light and newer construction, there are also environmental costs associated with the increased patronage and congestion. Environmentally sustainable development methods should be considered in detail during the final design process.

Crowding out of other business – All four of the Project Options will likely cannibalise events and other business from smaller ACT venues. The iconic design and grand nature of Options A and B, as well as the increased capacity and flexibility under all four options mean that the new venues are likely to attract much of the local meeting and smaller business event market that had previously opted for the newer hotel facilities in Canberra. While this does not represent a net loss of business to the territory, it does require consideration.

The increase in interstate delegates when the new venue becomes operational will be a net loss of those delegates to other states. While this is outside the referent group, it follows that there is a deadweight loss to the nation associated with the increased spend, only to result in the cannibalisation of the business of other States and Territories. However, there may be efficiency gains to the business events sector as events that had previously preferred Canberra but had to move interstate due to facility constraints would be able to capture the extra value associated with using the preferred location.

| Quantified costs | | | |
|--------------------------------|----------------|---|--|
| | Bearer | Description | Source |
| Capital expenditure | ACT Government | The upfront capital cost of the project and associated infrastructure. | Wilde and Woollard cost plans. |
| Operating expenditure | ACT Government | The incremental expenditure associated with the project compared to the Status Quo. | KPMG financial modelling |
| Increased marketing spend | ACT Government | The increased marketing spend that is required to attract the additional demand outlined in the demand projections. | Convention bureau benchmarking |
| Lost rental income (NCCC) | ACT Government | The income stream to the ACT Government from the lease of the NCCC is lost when the building is sold. | KPMG financial modelling |
| Life cycle capital replacement | ACT Government | The whole of life costs for the new venue, including preventative maintenance and life cycle capital replacement requirements, net of similar costs under the Status Quo. | Wilde and Woollard whole of life assessment. |

Incremental visitation – Event demand

Much of the increased business captured by the new venue will not be incremental to the Territory. It is either local business or a transfer of local spend from one activity to another. It follows that the incremental benefit driven by the increase in event demand is due to the interstate and international delegates that would not otherwise have come to the ACT, and the value they bring to the state.

In valuing this benefit, there are two components to consider. The spend of the delegate that is included in the revenue of the new venue, and the spend of the delegate elsewhere in the territory. The Business Events Council of Australia (BECA) visitor expenditure data covers business visitors only and includes the visitor spend at the facility. Therefore to avoid double counting, none of the revenue of the new venue is included as an input into the analysis, and the component of the project revenue that is an incremental benefit to the state is captured within the visitor spend.

The BECA Value of Business Events study identified that on average throughout Australia, national conferences attract 10% international delegates, 55% interstate delegates and 35% local delegates. Due to the limited size of the ACT population, the level of local participation at conferences is likely to be lower. The University of Canberra conducted a survey of conference delegates in Canberra from October 2010 to May 2011 focusing on visitor perceptions and expenditure patterns. The survey was based on a small sample of 442 respondents, but indicated that less than 10% of conference delegates were from the ACT.

It is important to note in this analysis not all of those are local delegates in the Project Options would have been included in the base case demand, as some business is forecast to leave the Territory under the Status Quo. There will be some locals who pertain to 'retained local business' in the project case, that is they are local delegates who would have been required to travel interstate for business events under the Status Quo. Based on the survey data and discussions with the Canberra Convention Bureau, we have assumed that 20% of all conference delegates attending a new venue will be local delegates, net of this retained local business.

For convention events under the Project Options, the inputs used are an average spend of \$595 per delegate day with an average length of stay of 3.1 days. This is

then multiplied by the incremental convention demand to Canberra, less the 20% of those that would be local, to get the incremental benefit to the ACT of the increased event demand.

For the Centre for Dialogue events, the same expenditure per day and percentage of local delegates are assumed, but due to the different nature of the events that the Centre will attract, an average length of stay of 1 day has been assumed.

Incremental visitation – Iconic building

The benefit derived from the incremental visitation that is driven by the iconic building and the 'City to the Lake' precinct that it represents is outlined in the demand section of the report. For the expenditure value, the Tourism Research Australia (TRA) National Visitor Survey (NVS) is used to calculate an average stay and average spend per day for tourism visitors to the ACT. The rationale for the uplift forecasts for each option are outlined in detail in the demand section of this report.

Terminal value

Under the Status Quo, the NCCC is considered to be run until it is no longer operable, at which point the terminal value of the building is considered to be negligible.

Under the Project Options, the building is considered to have an economic useful life of thirty years, aligning with the timeframe chosen for this analysis. Therefore, the terminal value of the new venue is also able to be deemed negligible under all of the Project Options.

However, the experience of the Sydney Opera House has shown that the iconic effect of the building will likely continue further than this timeframe, and as such a terminal value of this iconic influence would exist as an incremental benefit of this project. This effect is not quantified in this analysis due to the large uncertainty surrounding this benefit stream and the associated costs required for it to be realised.

Note: The transfer of land is considered a 'within ACT' transfer because it is already on the balance sheet of the Territory and therefore the residual value of land is not materialised in any of this analysis.

Non-quantified benefits

Wider benefits of business events – The market prices of business events do not capture either the full consumer surplus of attendees or the indirect benefits to the community of the increased knowledge, collaboration and dialogue. The social marginal benefit will include the extra value gained from delegates above the price of the event, including the positive externalities associated with the uplift in human capital and the share of productivity enhancing practices. It will also include the wider benefit to industry, government and the community through innovation, education, networking, trade, research and practice, which are likely to far outweigh the financial value quantified in this analysis.

Catalytic effect of the development – While a large component of the effect of the grand and iconic nature of Options A and B will be captured by the incremental visitation, there will likely also be a catalytic effect, whereby the new venue provides further impetus for the rest of the 'City to the Lake' development. The entire precinct redevelopment is likely to generate benefits that are greater than the sum of the individual developments, and the City Hill site will be an important component of the project.

Internationally significant events – Currently there are no venues in Canberra that are capable of holding internationally significant events such as a meeting of the G20. There is likely a benefit to both the Territory and the nation of holding such events in the National Capital.

Amenity uplift – The construction of a new venue on the City Hill site and the resulting increased economic activity will have an effect on the value that is able to be captured from nearby land. While the transfer of land is not considered an incremental benefit to the Territory as it is already on the balance sheet, the uplift in the value of the land can be considered a benefit as it is representative of the increased value that can be derived from the land. Due to the complex nature of this type of analysis, including identifying likely uses of surrounding land, the value of that land and then the likely uplift in value due to the project, we have not sought to quantify this benefit but instead note that it exists as a positive externality.

Public realm – The effect of the increase in the quality of the unrestricted street side infrastructure will be a benefit to the wider Canberra community, as it is likely to flow beyond the users of the new venue.

| Quantified benefits | | | |
|--|--------------------------------------|---|--|
| | Benefactor | Description | Source |
| Incremental visitation – event demand | Wider ACT community / ACT Government | The increase in visitor expenditure as a result of the increase in interstate and international visitors from the incremental event demand. | KPMG benchmarking and demand projections |
| Incremental visitation – C4D event demand | Wider ACT community | The increase in visitor expenditure as a result of the increase in interstate and international visitors from the Centre for Dialogue event demand. | KPMG benchmarking and demand projections |
| Incremental visitation – Iconic building | Wider ACT community | The increase in visitor expenditure as a result of the induced tourism driven by the iconic nature of the building and the wider City to the Lake precinct. | KPMG benchmarking and demand projections |

Note: Options A and B involve the operation of the NCCC until the opening of the new facility, and therefore there are no disruption to operations under these Options. Options C and D do involve disruption to operations, and therefore involve dis-benefits relative to the Status Quo in these years. In particular, it is considered that the visitation as a result of national conferences is lost to the Territory for the construction years (i.e. two years under Option C and one year under Option D).

| Australia Forum Cost Benefit Analysis - NPV (\$m) (\$FY15) | | | | |
|--|----------------|-----------------|-----------------|----------------|
| | Option A | Option B | Option C | Option D |
| Costs | | | | |
| Project capital expenditure | 486.37 | 415.27 | 233.69 | 101.09 |
| Operating expenditure | 69.91 | 64.26 | 50.67 | 53.24 |
| Increased marketing spend | 5.21 | 5.21 | 2.89 | 2.68 |
| NCCC rental lost | 2.45 | 2.45 | 2.45 | 2.45 |
| Life cycle cost | 56.76 | 38.84 | 25.34 | 18.96 |
| Total | 620.70 | 526.02 | 315.04 | 178.41 |
| Benefits | | | | |
| Incremental visitation expenditure - convention demand | 230.39 | 190.60 | 98.67 | 145.54 |
| Incremental visitation expenditure - C4D | 11.37 | 11.37 | - | - |
| Incremental visitation expenditure - Iconic effect | 319.22 | 159.61 | - | - |
| Total | 560.98 | 361.59 | 98.67 | 145.54 |
| Outputs | | | | |
| Net Benefit | (59.72) | (164.44) | (216.37) | (32.88) |
| Benefit Cost Ratio | 0.9038 | 0.6874 | 0.3132 | 0.8157 |
| EIRR | 5.88% | 3.07% | -3.95% | 4.12% |

Outputs

The outputs of the cost benefit analysis using a 7% discount rate are outlined in the table above, and summarised below:

- **Option A** results in a total incremental benefit of \$561m for an incremental cost of \$621m, resulting in a net benefit of -\$60m and a BCR of 0.9038.
- **Option B** results in a total incremental benefit of \$362m for an incremental cost of \$526m, resulting in a net benefit of -\$164m and a BCR of 0.6874.
- **Option C** results in a total incremental benefit of \$99m for an incremental cost of \$315m, resulting in a net benefit of -\$216m and a BCR of 0.3132.
- **Option D** results in a total incremental benefit of \$146m for an incremental cost of \$178m, resulting in a net benefit of -\$27.73m and a BCR of 0.8157.

The key drivers of the differences in the results are in the induced visitation from the iconic building, the differences in capital and whole of life costs, and the differences in forecast demand. Option A has the highest BCR, with the majority of the benefit over Option B a result of the higher projection for induced visitation. Option D captures a significant amount of benefit from induced visitation from incremental demand for a lower project cost, and therefore has the second highest BCR.

Sensitivity analysis of the cost benefit results is included in Appendix A, and scenario analysis showing the outputs without the induced tourism benefits of the iconic building are included on the following page.

Scenario analysis – Without iconic visitation

| Australia Forum Cost Benefit Analysis - NPV (\$m) (\$FY15) | | | | |
|--|-----------------|-----------------|-----------------|----------------|
| | Option A | Option B | Option C | Option D |
| Costs | | | | |
| Project capital expenditure | 486.37 | 415.27 | 233.69 | 101.09 |
| Operating expenditure | 69.91 | 64.26 | 50.67 | 53.24 |
| Increased marketing spend | 5.21 | 5.21 | 2.89 | 2.68 |
| NCCC rental lost | 2.45 | 2.45 | 2.45 | 2.45 |
| Life cycle cost | 56.76 | 38.84 | 25.34 | 18.96 |
| Total | 620.70 | 526.02 | 315.04 | 178.41 |
| Benefits | | | | |
| Incremental visitation expenditure - convention demand | 230.39 | 190.60 | 98.67 | 145.54 |
| Incremental visitation expenditure - C4D | 11.37 | 11.37 | - | - |
| Incremental visitation expenditure - Iconic effect | - | - | - | - |
| Total | 241.76 | 201.98 | 98.67 | 145.54 |
| Outputs | | | | |
| Net Benefit | (378.94) | (324.04) | (216.37) | (32.88) |
| Benefit Cost Ratio | 0.3895 | 0.3840 | 0.3132 | 0.8157 |
| EIRR | -3.00% | -2.85% | -3.95% | 4.12% |

Outputs

The outputs of the scenario analysis excluding induced visitation from the iconic building and using a 7% discount rate are outlined in the table above, and summarised below:

- **Option A** results in a total incremental benefit of \$242m for an incremental cost of \$621m, resulting in a net benefit of -\$379m and a BCR of 0.3895.
- **Option B** results in a total incremental benefit of \$202m for an incremental cost of \$526m, resulting in a net benefit of -\$324m and a BCR of 0.3840.
- **Option C** results in a total incremental benefit of \$99m for an incremental cost of \$315m, resulting in a net benefit of -\$216m and a BCR of 0.3132.
- **Option D** results in a total incremental benefit of \$146m for an incremental

cost of \$178m, resulting in a net benefit of -\$28m and a BCR of 0.8157.

Under this scenario, the key drivers of the differences in the results are in the differences in capital and whole of life costs, and the differences in forecast demand. Option A has a higher BCR than Options B and C, but only marginally, and Option B has a higher net benefit. Option D is unaffected by the change as it is not forecast to have any iconically induced demand, and therefore under this scenario scores the highest BCR and the highest net benefit.

KPMG experience with analysis of similar large social infrastructure developments suggests that a good BCR for the quantifiable costs and benefits is in the order of 0.4 to 0.6. Consideration of the wider economic, social and community benefits is an important step in the decision making process to determine the feasibility and overall benefit of such projects.



cutting through complexity

5.3 Risk Analysis

Approach to the assessment of risks

A desktop assessment of potential project risks has been undertaken based on risks identified for similar projects across Australia and some of the known risks for this specific project. The objective of the risk analysis is to assist with the project risk management process, inform the future development of project documents and to address the requirements of The Capital Framework Single Assessment Framework. The risk analysis involves the following steps:

- Risk identification – identification of all material project risks.
- Risk impact – determination of whether there is a cost or delay impact, or less tangible impact (e.g. stakeholder objection).
- Risk exposure – determination of the risk exposure, being a function of:
 - Risk consequence – being the consequence the risk will have, on a scale of 1 to 5; and
 - Risk likelihood – being the likelihood or probability of the risk occurring, on a scale of 1 to 5.
- Mitigation strategy – identification of possible mitigation strategies to reduce the risk exposure.

The key areas of risk associated with the project have been identified as follows:

- Scoping, procurement and tender risks;
- Financial / funding risks;
- Design, planning and approval risks;
- Construction risks;
- Facilities management and lifecycle risks
- Business and operational risks;
- Stakeholder and community risk; and
- Project management.

It is proposed that a risk workshop is undertaken during the early design stages of the development.

The risk exposure for identified risks has been determined in accordance with the following scale:

Risk exposure = Consequence x Likelihood

| | | Likelihood | | | | |
|-------------|-------------------|------------|--------------|--------------|------------|--------------------|
| | | Rare = 1 | Unlikely = 2 | Moderate = 3 | Likely = 4 | Almost certain = 5 |
| Consequence | Very high = 5 | 5 | 10 | 15 | 20 | 25 |
| | Major = 4 | 4 | 8 | 12 | 16 | 20 |
| | Moderate = 3 | 3 | 6 | 9 | 12 | 15 |
| | Minor = 2 | 2 | 4 | 6 | 8 | 10 |
| | Insignificant = 1 | 1 | 2 | 3 | 4 | 5 |

Risk exposure Very high High Moderate Low

The following pages present a summary of those risks that have either scored higher or above, or have significantly different scores across the Project Options. This leads into a comparative evaluation of the risks for each project option, ranked by risk exposure scores in each category.

The complete risk assessment is outlined in detail in Appendix B.

| No. | Description | Impact | Consequence (a) | Likelihood (b) | | | | Risk exposure (a x b) | | | | Mitigation strategy |
|--|--|--|-----------------|----------------|--------------|--------------------|--------------------|-----------------------|--------------|---------------|---------------|--|
| | | | | Option A | Option B | Option C | Option D | Option A | Option B | Option C | Option D | |
| 1 Scoping, Procurement and Tender Risks | | | | | | | | | | | | |
| 1.1 | Federal funding uncertainty | Uncertainty over total funding discourages market appetite to participate or causes shortlisted bidders to withdraw | Moderate (3) | Likely (4) | Unlikely (2) | Na (0) | Na (0) | High (12) | Low (6) | Low (0) | Low (0) | Early engagement of federal government in facility planning and funding discussions. Early establishment of joint governance structures involving appropriate Federal Government representatives. Identify and cultivate Federal Government champion. |
| 1.8 | Limited number of financial arranging firms limits competition | Diminished competition | Moderate (3) | Moderate (3) | Unlikely (2) | Na (0) | Na (0) | Moderate (9) | Low (6) | Low (0) | Low (0) | Ensure procurement model and evaluation criteria do not preclude or discourage financial arranging firms (PPP only) that have not yet delivered a convention centre PPP. |
| 1.9 | Risk that tendered prices are higher than predicted in the Business Case and allocated funding | Funding shortfall | Major (4) | Moderate (3) | Moderate (3) | Unlikely (2) | Unlikely (2) | High (12) | High (12) | Moderate (6) | Moderate (6) | Ensure that Business Case costs are based on reasonable estimates for a sufficiently detailed design. Ensure that value of risks is incorporated in Business Case (or PSC for PPPs) |
| 1.10 | Risk of conflict of interest from owners / operators of competing convention centres in Sydney and Melbourne | Facility is not marketed to its full potential | Moderate (3) | Moderate (3) | Moderate (3) | Na (0) | Na (0) | Moderate (9) | Moderate (9) | Low (0) | Low (0) | Create independent contracting structure with appropriate financial incentives for marketing and operation of Australia Forum. |
| 1.11 | Scoping does not take into account nearby hotel and other ancillary development e.g. by casino | Lack of coordination means missed opportunity for shared facility provision (e.g. accommodation, retail, business/meeting rooms and entertainment) and costs | Moderate (3) | Likely (4) | Moderate (3) | Moderate (3) | Moderate (3) | High (12) | Moderate (9) | Moderate (9) | Moderate (9) | Engagement with casino developer and other potential developers of nearby and adjacent land to understand total accommodation and car parking capacity and potential for synergistic facilities |
| 1.15 | Reference scheme too prescriptive with respect to design intent | Does not allow the tendering proponents enough flexibility to develop innovative solutions | Moderate (3) | Likely (4) | Moderate (3) | Unlikely (2) | Rare (1) | High (12) | Moderate (9) | Low (6) | Low (3) | Develop a reference scheme that is based on the functional and performance requirements of a world class facility. Provide appropriate budget for the clear goal of an 'iconic' venue |
| 2 Financial / Funding Risk | | | | | | | | | | | | |
| 2.2 | Cost of external infrastructure works is not included in budget funding | Extra funding is to be sourced to complete the precinct and best activate the surrounding public realm | Major (4) | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | High (12) | High (12) | High (12) | High (12) | Plan for staged and coordinated development of works outside the main venue and infrastructure in master plan area. Reinforce community and transport benefits. |
| 2.4 | Change of Federal / Territory Government leads to loss of political support for the project | Delays or cancellation of the project. | Major (4) | Moderate (3) | Unlikely (2) | Unlikely (2) | Unlikely (2) | High (12) | Moderate (6) | Moderate (6) | Moderate (6) | Seek bipartisan support for project. |
| 2.9 | Interest rates increase prior to financial close | Increase of total capital requirement (PPPs only) | Moderate (3) | Likely (4) | Likely (4) | Na (0) | Na (0) | High (12) | High (12) | Low (0) | Low (0) | Regularly monitor interest rates and update expected funding costs |
| 2.10 | Interest rates increase after financial close | Increase in unhedged capital repayments and refinancing costs | Moderate (3) | Likely (4) | Likely (4) | Likely (4) | Likely (4) | High (12) | High (12) | High (12) | High (12) | Optional - transfer interest rate risk, or hedge payable floating rate |
| 3 Design, Planning and Approval Risk | | | | | | | | | | | | |
| 3.4 | Stakeholder requirements not met. | Lower stakeholder support. | Moderate (3) | Unlikely (2) | Moderate (3) | Likely (4) | Almost Certain (5) | Low (6) | Moderate (9) | High (12) | High (15) | Key stakeholder consultation to alleviate risk. |
| 3.7 | Maintaining minimum standard of service and revenue streams during construction (NCCC) | High transitional cost and loss of events. | Minor (2) | Na (0) | Na (0) | Almost Certain (5) | Almost Certain (5) | Low (0) | Low (0) | Moderate (10) | Moderate (10) | For Option A and B - Development to occur on a separate site. Transfer of activities to new venue only to occur once fully operational. For Option C and Base Case - Event planning to include loss of event space during redevelopment and marketing strategy to balance downtime against the increased demand post construction. |

| No. | Description | Impact | Consequence (a) | Likelihood (b) | | | | Risk exposure (a x b) | | | | Mitigation strategy |
|---|--|--|-----------------|----------------|--------------|--------------------|--------------------|-----------------------|--------------|---------------|---------------|---|
| | | | | Option A | Option B | Option C | Option D | Option A | Option B | Option C | Option D | |
| 3 Design, Planning and Approval Risk | | | | | | | | | | | | |
| 3.10 | Output specification does not match demand requirement in terms of facility configuration | Facility is unable to attract / support a segment of demand | Moderate (3) | Unlikely (2) | Unlikely (2) | Unlikely (2) | Likely (4) | Low (6) | Low (6) | Low (6) | High (12) | Analysis of current and future event profiles to inform size and configuration requirement |
| 3.14 | Delays / issues obtaining the City Hill site or any further land required at the NCCC. | Delay and additional cost for redesign, with potential for major delays. | Major (4) | Likely (4) | Likely (4) | Likely (4) | Likely (4) | High (16) | High (16) | High (16) | High (16) | For Option A and B - Consideration of the complexity, time and cost related to obtaining planning and works approval from the NCA. For all options - Early engagement with the required parties to gain commitment of the parcels of land before the commencement of the tender process. |
| 4 Construction Risk | | | | | | | | | | | | |
| 4.2 | Lack of competitive contractors. | Required to pay a premium for the services. | Major (4) | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | High (12) | High (12) | High (12) | High (12) | Seek early expressions of interest from major national contractors to gauge contract interest. Go to market early to take advantage of current advantageous market conditions. |
| 4.3 | Project delays. | Cost increases. | Major (4) | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | High (12) | High (12) | High (12) | High (12) | Detailed project programme and effective project monitoring. |
| 4.15 | Risk of noise, dust and traffic disruption affecting nearby residences or businesses during construction | Community opposition | Minor (2) | Unlikely (2) | Unlikely (2) | Almost Certain (5) | Almost Certain (5) | Low (4) | Low (4) | Moderate (10) | Moderate (10) | Require proposals to include approach to containing noise, dust and minimise traffic disruption. Proposals should also include public communications strategy to manage these risks. |
| 5 FM and Lifecycle Risks | | | | | | | | | | | | |
| 5.2 | Venue is not appropriately maintained post completion of development. | Loss of venue amenity. | Moderate (3) | Rare (1) | Rare (1) | Unlikely (2) | Likely (4) | Low (3) | Low (3) | Low (6) | High (12) | Establish appropriate KPIs and financial penalties (abatement of payment) and default triggers for failure to meet KPIs |
| 6 Business and Operational Risks | | | | | | | | | | | | |
| 6.4 | Federal Government withdraws ongoing financial and operational support to attract (major) events | Drop in ability to attract events as subvention funding support is withdrawn | Moderate (3) | Likely (4) | Likely (4) | Na (0) | Na (0) | High (12) | High (12) | Low (0) | Low (0) | Governance structures and financial incentives to ensure ongoing Federal Government interest and involvement in the business performance of the Australia Forum |
| 6.6 | Design does not allow flexibility to add future capacity or reconfigure convention facilities | Inability to meet future / changing requirement of event market | Moderate (3) | Moderate (3) | Unlikely (2) | Likely (4) | Almost Certain (5) | Moderate (9) | Low (6) | High (12) | High (15) | Include flexibility of design as an evaluation criteria |
| 6.9 | Increased competition from other venues in the ACT and interstate | Loss of events | Major (4) | Unlikely (2) | Unlikely (2) | Unlikely (2) | Likely (4) | Moderate (8) | Moderate (8) | Moderate (8) | High (16) | Appropriate sensitivity of key revenue drivers allowed for in the decision making process. Lifecycle planning to include facility amenity updates as required. |
| 7 Stakeholder and Community Risks | | | | | | | | | | | | |
| 7.1 | Community concerns over funding requirements and priorities. | Image and community support issues. | Moderate (3) | Likely (4) | Unlikely (2) | Unlikely (2) | Rare (1) | High (12) | Low (6) | Low (6) | Low (3) | Establish and communicate clear vision for the new facility and political leadership. |
| 7.3 | Lack of community support for recommended option. | Low stakeholder support. | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | Likely (4) | Moderate (9) | Moderate (9) | Moderate (9) | High (12) | Proactive engagement with the community. |
| 7.4 | Lack of ongoing community engagement. | Image and community support issues. | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (3) | Moderate (9) | Moderate (9) | Moderate (9) | Moderate (9) | Proactive commitment to ongoing community engagement. |

Comparative risk analysis

Methodology

Using the risk consequence, likelihood and exposure scores in the risk assessment (outlined in detail in appendix B), each project option is compared below.

The aggregate risk exposure scores for each option were tallied for each risk category, with options then ranked between 1 and 3 (i.e. a rank of 1 refers to the lower risk option for a particular risk category) for each risk category based on the total score for that category. Rankings for each risk category were then summed on a non-weighted and weighted basis.

The following table presents the results of the comparative assessment of risk rankings.

| Project risk ranking matrix | | | | | |
|---|--------|-------------|-------------|-------------|-------------|
| Risk category | Weight | Rank | | | |
| | | Option A | Option B | Option C | Option D |
| 1. Scoping, Procurement and Tender Risk | 15% | 4 | 3 | 2 | 1 |
| 2. Financial / Funding Risk | 15% | 4 | 3 | 2 | 1 |
| 3. Design, Planning and Approval Risk | 15% | 1 | 2 | 4 | 3 |
| 4. Construction Risk | 20% | 3 | 3 | 1 | 1 |
| 5. FM and Lifecycle Risk | 10% | 2 | 2 | 1 | 4 |
| 6. Business and Operational Risk | 15% | 3 | 2 | 1 | 4 |
| 7. Stakeholder and Community Risk | 5% | 4 | 3 | 1 | 1 |
| 8. Project Management Risk | 5% | 1 | 1 | 1 | 1 |
| Rank Sum | | 22 | 19 | 13 | 16 |
| Weighted Rank Sum | | 2.85 | 2.50 | 1.75 | 2.05 |

Scoping, procurement and tender risk

The differences between the Project Options in this risk category stem from the different delivery and governance models that are likely for each option, as well as the level of funding required and the likely source.

Option A scores highest in several risks within this category, including:

- Bearish market tendencies driven from uncertainty surrounding federal

funding; and

- The likelihood that the reference scheme is too prescriptive and prevent the tendering proponents from having the flexibility to develop innovative solutions.

Additionally, the two higher cost options (A and B) score higher in issues arising from conflicting interests in the market, and those risks pertaining to tender documentation and processing.

Financial and funding risk

The differences between the Project Options in this risk category stem from the capital cost and the likely source of the funding for each option.

Option A, with the highest capital expenditure requirement scored the highest on several risks, including:

- Risk of insufficient government funding to meet the design brief; and
- Exposure to changes in Federal or Territory Governments.

Additionally, Option C and D have the highest risk exposure to issues arising from external infrastructure requirements.

Design, planning and approval risk

The different planning requirements for the project sites and the constrained space on the NCCC site are the main differentiators in this risk category.

Option C and D have the highest risk exposure for a number of risks in this category, including:

- Service interruption during construction;
- Risk of the final design not meeting the requirements of key stakeholders; and
- Issues obtaining further land required prior to construction.

Options A and B are subject to the complexity, time and cost related to obtaining planning and works approval for the NCA for the City Hill site, increasing the risk of delay.

Comparative risk analysis (cont.)

Construction risk

While Options A and B score the same for construction risk, they both receive a higher risk exposure score than Option C and D. The differences between the Project Options in this risk category stem from the differences between the sites and the surrounding infrastructure and developments.

In particular, the City Hill site poses more construction risk because:

- The exposure to site unknowns such as native title, environment and site works issues; and
- The enclosure of the City Hill site between Vernon and London Circuits, with comparatively higher traffic movements than past the NCCC site.

However, Options C and D have a higher exposure to risks associated with the disruption of nearby residences and businesses due to the residential building to the north, and the casino to the west.

FM and lifecycle risk

Facilities maintenance risk is relatively similar between the different options, however Options A and B are considered to have a higher risk exposure to contractor insolvency and the risk of higher maintenance costs due to a trade off between design complexity and maintenance simplicity / cost.

Options C and D are considered to have a higher risk exposure to the venue not being maintained to the required standard or not being preventatively maintained, due to the lower commercial return and the already aged state of some of the venue. This is particularly relevant to Option D, as a significant amount of the venue is not redeveloped.

Business and operational risk

The differences in business and operational risk between the Project Options are driven by the projected marketing requirements, and the flexibility of the different designs.

Options C and D are considered to have significantly lower exposure to withdrawal of marketing funding support from the Canberra Convention Bureau

or the Federal Government due to the lower marketing requirement. Option C and D are also considered to have the highest exposure to risks associated with inflexible design due to the significant space restrictions at the site and the fact that the Option C is already utilising sub-optimal design components to meet the brief (multi-level exhibition space), with Option D continuing to operate ageing facilities.

Option D is considered to have the highest exposure to competition from other local and interstate venues, due to the ageing facilities and the smaller size of some of the componentry.

Stakeholder and community risk

The stakeholder and community support for the project is a balance between two key driver, namely:

- The high funding requirements and the related concerns of prioritisation of Government expenditure; and
- The high media coverage of the Australia Forum reference design and the expectation that this has place within community and stakeholder groups.

The funding requirement is considered to be the stronger of these two effects in the current economic environment, and as such Option A is exposed to the highest stakeholder and community risk of the Project Options.

However, the reduction in publicly available parking on City Hill is likely to create community support issues unless it is adequately replaced nearby.

Project management risk

The four Project Options are considered to have equal exposure to project management risk, with the majority of this risk category driven by Government capability and capacity constraints.