NAPIER CITY COUNCIL
COMMUNITY SERVICES: FACILITIES BUSINESS REVIEW

Final Report, November 2023

Prepared by:
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2.0 EXECUTIVE SUMMARY

The stated objective of this review was to make recommendations on how Napier City Council (NCC) could "look for efficiencies and models of operations to improve financial performance and determine the best strategic direction for financial sustainability". NCC was looking for a model that would help to keep rates down and return surplus to the Council.

This review had to be more than just financial. It needed to consider the backdrop of the Council's recent strategic objectives and city vision – its intent for the future of Napier and the community's needs – as well as honouring existing legislative and policy commitments such as for the Napier War Memorial.

The review included all 10 revenue-generating business activities within the Community Services Directorate, namely Kennedy Park Resort, McLean Park, National Aquarium of New Zealand, Napier Conferences & Events (at the War Memorial), Napier i-SITE, Par2 MiniGolf, Napier Municipal Theatre, Ocean Spa, Bay Skate, and Napier Aquatic Centre.

The Business Review was to be broken into two phases; Phase One to assess the commercial viability of the facilities and develop a commercial operating model, and Phase Two to develop the business case to adopt the recommended model(s).

This report is in response to Phase One only, and was to be in two stages:

1. A high-level current state assessment of the 10 identified business activities within the Community Services Directorate, identifying performance of all business activities and their viability to be genuine commercial businesses.

2. An options analysis, working with NCC on an extensive list of commercial models of operations that consider governance, funding, and service delivery. Through options workshops, the outcome is to present Elected Members with a model for identified commercially viable business activities as well as appropriate grouping/s for identified non-commercial business activities.

It became apparent to the consultant team that providing definitive advice as per the scope of work would leave Napier City Council at risk of making ill-informed decisions, given the data deficiencies. These deficiencies include:

- Poor CapEx forecasts which are in many cases based on old or incomplete asset condition data and/or assessments. The consultant team did not have faith these data painted an accurate position now, let alone a reliable projection.
- OpEx was often based on historic data alone. Given the sharp increase in costs over the last three years, an accurate financial picture cannot be ascertained and is very likely to be understated.
- Existing facility assessments, notably the economic multiplier/economic impact assessments, are now outdated and based on old data. In the consultant team's view they are often optimistic or too high-level to provide sufficient certainty for decision making.
- The LTP information provided was the FY2022 LTP projections. This is being revised within the current LTP cycle and we are aware that LTP FY2023 has some significant

changes (i.e. increases), notably in facility CapEx allocations. At the time of writing, the consultant team did not have access to these data.
- In many instances only limited work has been undertaken on what the facilities could look like in an optimised state. With some exceptions, most planning at an individual facility level has been undertaken on an ad hoc basis and is not considered either holistic or strategic. It is also unlikely to have been supported by any form of structured business analysis.
- None of the facilities under review were developed for purely commercial reasons. They all have wider community/social benefits and contribute to Council's wider strategic objectives. In many cases these benefits have not been fully defined.

The impact of these limitations, and given Council is still in the process of determining what level of cost savings are required (due to the overall Council position and LTP still being under development), meant fulfilling the initial project scope was restricted. Pushing ahead would have left Council exposed to valid criticism from Council facility staff and the community and would have risked Council making decisions which would not have followed a best practice process or been fully evidence-based. This could have heightened the risk of "throwing the baby out with the bathwater" and Council potentially being challenged through a judicial review.

This review has gone as far as the evidence will allow and provided a solid base for a second phase (which was always intended by NCC). The review therefore grouped assets under four headings: status quo, enhanced status quo, re-purpose/re-imagine, and close/exit.

Status quo was defined as keeping on doing the same; surviving (temporarily) but not thriving. It may still end in facility closure at some point.

Enhanced status quo involved keeping the base facility and undertaking improvements that ranged from low level through to more significant facility and operational enhancements. These enhancements would likely require some level of CapEx and OpEx to implement.

Re-purpose/re-imagine can involve radical change and requires an open mind and a near blank sheet of paper approach. Alternative operating models and facility structures are normally considered. It is based heavily on achieving set objectives within fixed parameters (CapEx and OpEx limits, economic multiplier targets, revenue targets etc).

The final category, close/exit is the last resort, only considered when all other options have been thoroughly explored. Council needs to demonstrate rigour around any final closure/ exit decisions. Closure and exit often go hand in hand with re-purpose and re-imagine. Either as an outcome of a 'reimagined' facility/experience failing to meet the set objectives within agreed parameters or because a reimagined facility/experience does not need its old built shell.

The assets were also classified as being community; (primarily serving a community good purpose), economic growth; (primarily serving a role stimulating wider economic multipliers and not necessarily directly making a profit), commercial; (primarily a commercial role) or community/commercial; (a dual role).

Upon review (which involved site visits, management interviews, a secondary data review and analysis) the facilities were categorised as follows:

1. McLean Park - Reimagine or Close/Exit[1] (consider as a community asset),
2. Napier i-SITE - Reimagine or Close/Exit (consider as an economic growth asset),
3. National Aquarium of New Zealand - Reimagine or Close/Exit (consider as an economic growth asset),
4. Napier Aquatic Centre - Reimagine or Close/Exit (consider as a community asset),
5. Kennedy Park Resort – Reimagine (consider as a commercial asset),
6. Ocean Spa – Reimagine (consider as a commercial asset),
7. Napier Conferences & Events (in the War Memorial) - Enhanced Status Quo/ Reimagine (consider as a community/commercial asset),
8. Par2 MiniGolf - Enhanced Status Quo/Reimagine (consider as a commercial asset),
9. Napier Municipal Theatre - Enhanced Status Quo (consider as a community asset)
10. Bay Skate - Status Quo/Enhanced Status Quo (consider as a community asset)

The review then set out a roadmap forward. Phase Two, as noted at the outset, was to develop the business case to adopt the recommended model(s). The review recommended a series of additional steps be introduced into Phase Two (or ideally prior to Phase Two). These were:

- Parameter workshops, prior to Phase Two: A series of workshops that involve a cross section of Council staff and Councillors. These workshops would help to refine the parameters each facility should be working within and a series of objectives. This is important because currently opinions on such subjects are not aligned across Council. These parameters must be signed off by Council.
- Phase Two tasks, which may include a combination of:
    - Additional data collection (such as asset condition assessments and costings),
    - Facility/experience reimagining/conceptualisations,
    - Strategic plans,
    - Business cases,
    - Business plans/optimisation plans.

To set the parameters, it is recommended that discussions are held with facility managers, PCG representatives, ELT, and Elected Members. It would be advisable to run these workshop(s) in November. These workshop(s) would include facility-by-facility discussions (while also being aware of Council's overall financial position). These parameters set how much leeway there is for reimagining/optimising facilities. They can also be used to help scope what will be required during Phase Two.

Once drafted the parameters would ideally then go to Elected Members to workshop for their agreement. Once attained, it would be advisable that a resolution is sought to lock in the parameters. The workshop will also help Councillors to clearly understand the scale of the decisions ahead. It is important that the overall position of the network and Council is carefully considered.

Assets that fall in the 'Reimagine or Close/Exit' category are likely to require the most in-depth analysis, followed by those in the 'Reimagine' category. Only at the conclusion of Phase Two, if no workable option was found (within the parameters set), should recommendations be made to exit or close a facility. It should be noted, closure or exit

[1] Where close or exit is noted as an option this does not automatically follow that the asset would not be retained for Napier, but rather the existing built shell could be closed and then reimagined.

does not necessarily mean it cannot be replaced in a new, suitable form. It refers specifically to the existing facility.

Once the above work has been completed and Council has its preferred options for each facility, that is when community consultation should be undertaken. Confidence in the preferred options – with absolute clarity on the position taken and why - relies on rigorous information and data collection including reliable costings, asset condition and social impact assessments. That will enable clarity on exactly what public feedback is sought, along with the reassurance of comprehensive due diligence prior to public consultation. This is not the current position.

Phase One of the review makes the following recommendations:

1. NCC moves with urgency to address the identified data deficiencies in the following areas:
    a. Condition assessments are carried out or updated on all facilities, focusing first on those being potentially reimagined - McLean Park, National Aquarium of New Zealand, Napier i-SITE, Napier Aquatic Centre, Kennedy Park, and Ocean Spa.
    b. Whole of life cost estimates are updated/undertaken on all assets starting with those potentially being reimagined (based on the condition assessments).
    c. The draft LTP should be completed, and data used to inform setting the facility assessment 'parameters'.
    d. Economic and social impact assessment data is updated for all facilities (the timing of which will be dependent on how the facility reimagining process is undertaken).

2. Three facilities should change their Council categorisations and subsequently the funding policies for:
    a. The Napier Municipal Theatre - should become 'community',
    b. The Ocean Spa - should become 'commercial',
    c. Napier Conferences and Events (at the War Memorial) - should be termed 'community/commercial'.

3. Evaluation parameters are set for each facility prior to Phase Two commencing. These parameters should be set via a series of workshops that involve a cross section of Council staff and Councillors. Parameters must be signed off by Council.

4. That the outlined Phase Two 'road map' is implemented which sees facilities enhanced, reimagined, or potentially closed (depending on the set evaluation parameters). On a facility-by-facility basis this will require a mix of steps such as reimagining (reconceptualisation), business cases, and master planning along with public consultation once the preferred options are determined.

5. Governance changes should only be considered at the end of Phase Two once the new network and each facility's objectives are better understood.

6. Community consultation is undertaken when Council is clear on exactly what they seek input on, based on the previous work being undertaken and proposed course of action identified.

THE BRIEF

Napier City Council (NCC) entered into an agreement with Daylight Ltd, in association with Deloitte and Visitor Solutions Ltd, in July 2023 in response to RFP C5211 Business Review: Community Services.

NCC sought a review "to look for efficiencies and models of operations to improve financial performance and determine the best strategic direction for financial sustainability". NCC was looking for a model that would help to keep rates down and return surplus to the centre.

The review included all 10 revenue-generating business activities within the Community Services Directorate, namely:

1. Kennedy Park Resort
2. McLean Park
3. National Aquarium of New Zealand
4. Napier Conferences & Events (at the War Memorial)
5. Napier i-SITE
6. Par2 MiniGolf
7. Napier Municipal Theatre
8. Ocean Spa
9. Bay Skate
10. Napier Aquatic Centre.

The Business Review was to be broken into two phases; Phase One to assess the commercial viability of the facilities and develop a commercial operating model, and Phase Two to develop the business case to adopt the recommended model(s).

This report is in response to Phase One only, and was to be in two stages:

3. A high-level current state assessment of the 10 identified business activities within the Community Services Directorate, identifying performance of all business activities and their viability to be genuine commercial businesses.

4. An options analysis, working with NCC on an extensive list of commercial models of operations that consider governance, funding, and service delivery. Through Options workshops, the outcome is to present Elected Members with a model for identified commercially viable business activities as well as appropriate grouping/s for identified non-commercial business activities.

This business review provides NCC with independent advice. This, in turn, will inform the final recommendations made by officials to Council as to the best approach to take forward for each of the facilities.

3.0 LIMITATIONS

There were some key challenges with the information available to build the base case within this report:

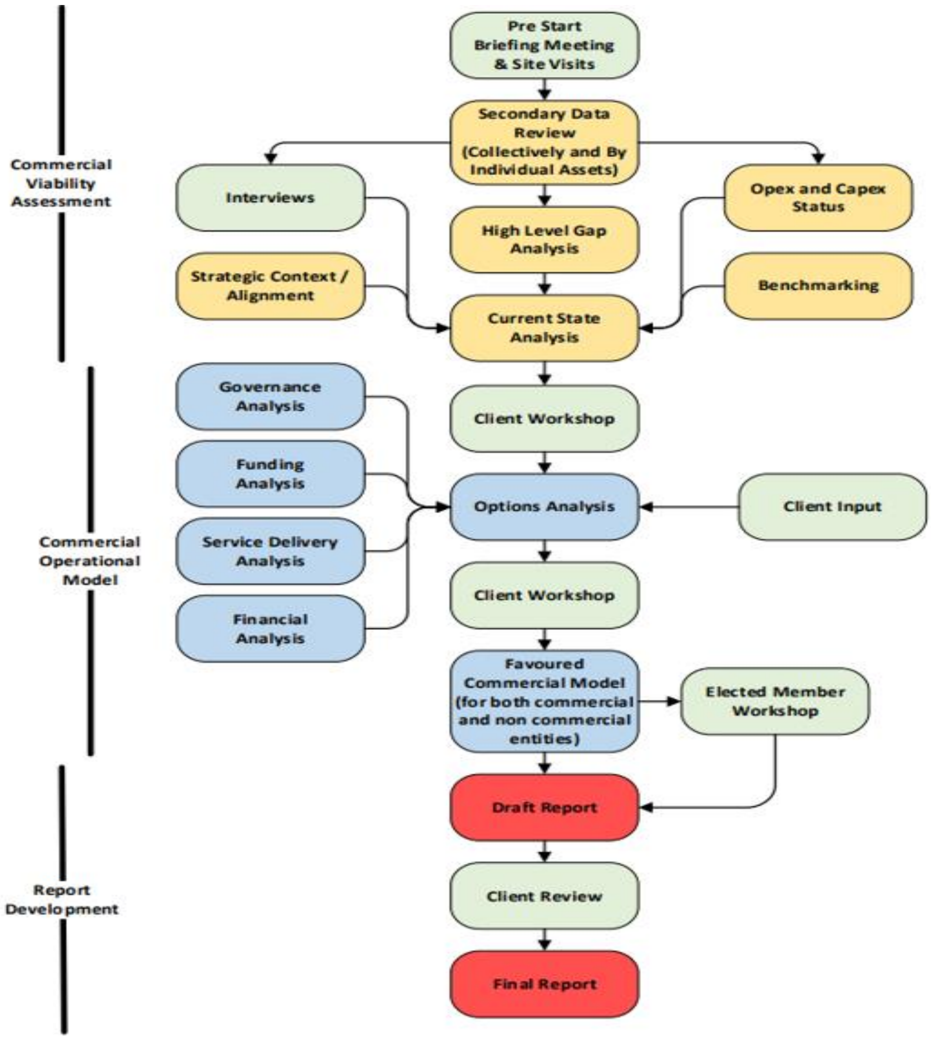
- Poor CapEx forecasts which are in many cases based on old or incomplete asset condition data and/or assessments. The consultant team did not have faith these data painted an accurate position now, let alone a reliable projection.
- OpEx was often based on historic data alone. Given the sharp increase in costs over the last three years, an accurate financial picture cannot be ascertained and is very likely to be understated.
- Existing facility assessments, notably the economic multiplier/economic impact assessments, are now outdated and based on old data. In the consultant team's view, they are often optimistic or too high-level to provide sufficient certainty for decision-making.
- The LTP information provided was the FY2022 LTP projections. This is being revised within the current LTP cycle and we are aware that LTP FY2023 has some significant changes (i.e. increases), notably in facility CapEx allocations. At the time of writing, the consultant team did not have access to these data.
- In many instances only limited work has been undertaken on what the facilities could look like in an optimised state. With some exceptions, most planning on an individual facility level has been undertaken on an adhoc basis and is not considered either holistic or strategic. It is also unlikely to have been supported by any form of structured business analysis.
- None of the facilities under review were developed for purely commercial reasons. They all have wider community/social benefits and contribute to Council's wider strategic objectives. In many cases these benefits have not been fully defined.

IMPLICATION OF LIMITATIONS

- The CapEx costs will almost certainly be considerably higher for NCC than what can be definitively stated in this report.
- Many of the facilities under review are being considered based on incomplete data and on a current state basis rather than an optimised state.
- The analysis has identified limitations that would prevent being able to make sufficiently informed recommendations regarding potential facility closures.

4.0 THE PROCESS

The methodology followed is as shown:



The pre-start briefing meetings between the consultants and NCC confirmed the approach, milestones, communications channels, key stakeholders, and background information to include in the review.

A Project Control Group (PCG) was established with key NCC officers to ensure the review remained on track and met requirements. Fortnightly formal meetings were held throughout the review timeframe as well as frequent communication with (in particular) the Executive Director Community Services and the Manager Business & Tourism.

Desktop research/the review of secondary data included overarching and facility-specific financial information, structure documents, business and facility plans, strategies, condition assessments and any other data that was available to support the review work.

NCC's vision and strategic objectives help it to ensure its own projects and work plans align with what Napier is aiming to achieve for the people who live and visit Napier. They were, therefore, also integral to this review:

NAPIER CITY COUNCIL VISION
Enabling places and spaces where everybody wants to be

STRATEGIC OBJECTIVES
Financially sustainable Council. *Council has an operating model and financial strategy which is affordable for ratepayers and enables us to achieve our objectives.*

A great visitor destination. *Napier is a destination aspiring to provide 'world class' facilities and attract visitors to our city. We make it easy for people to invest in our city and create experiences that attract widespread participation.*

Spaces and places for all. *Napier has spaces and places that everyone has access to and wants to use. We have a focus on accessibility, affordability, safety and city vibrancy.*

A resilient city – the ability to thrive and withstand impacts, knocks and shocks. *Council makes good future planning and investment decisions to prepare for a changing climate future and enables our community to build self-reliance. Our people, economy and infrastructure are resilient.*

Nurturing authentic relationships with our community and partners. *Council fosters meaningful relationships, demonstrating our commitment to listen to our community's needs, concerns, and aspirations. Developing strong partnerships with mana whenua and tangata whenua ensures we uphold our obligations under Te Tiriti o Waitangi.*

With the strategic alignment in mind and the first stage of desktop research completed, onsite visits and a comprehensive tour of each facility were undertaken. Interviews were held with all the facility managers and key staff, alongside the relevant portfolio manager. Discussions were also held separately with the two portfolio managers (Business and Tourism, and Sports and Recreation).

This was followed by a survey with the facility managers specific to the following areas:

- Purpose
- Revenue
- Operations
- Planned capital expenditure.

From this primary and secondary research, the following was completed:

- a current state assessment
- a SWOT analysis
- a first options analysis
- a weighting matrix based on criteria and NCC strategic objectives.

A workshop with Elected Members was held on 24 August to open a dialogue and test the weighting of the criteria which assisted certain stages of the review.

The first options analysis was drafted. A high-level weighted matrix was also completed, first by the consulting team and then tested with the PCG.

Another round of meetings was held with each of the facility managers (and the relevant portfolio manager) to discuss high level findings: a test of direction and accuracy of content, and not as a final recommendation.

The options analysis/first recommendations were presented to the Executive Leadership Team on 12 September and then to Elected Members on 14 September – again as a test of direction and accuracy of content, not as a final recommendation.

A draft report was then prepared and reviewed by the client. Following consideration of feedback, the report was finalised.

5.0 CURRENT STATE ANALYSIS

The following section sets out a summary of the existing facility network and looks at the wider network context, governance and service delivery, historical financial analysis of each asset and a high-level assessment of each facility's contribution towards meeting Council's vision and objectives.

Wider Network Context

Examining the current state of the facility network is important as it enables a more holistic understanding of the wider operating environment. This sub-section summarises a network SWOT analysis, GAP analysis, and risk summary.

Network SWOT Analysis

A high-level SWOT analysis of the facilities network is outlined below:

Strengths	**Weaknesses**
o Established brands o Central Napier locations, access to waterfront o Local market dominance o Engaged facility management o Napier is currently on the cruise stopover schedule o Good summer domestic visitation	o Lack of profitability o Aged assets o Comparatively small local market o Diminishing 'visitor experience' in some assets o Capital expenditure uncertainty o Commercial versus community mandate conflict o Facility naming conventions setting expectations e.g. the use of 'National' o Energy sources and related cost e.g. gas heated pools o Population size o Strong visitor seasonality patterns o Distance to large population centres o Lack of critical mass (dispersed facilities) o Lack of synergies
Opportunities	**Threats**
o Operational synergies o Local market dominance o Regional visitor market o Collective purpose based on NCC vision o Ability to optimise and reimagine some facilities o Land	o Competition in the market (Theatre, new indoor and outdoor sports facilities and spaces, competitive/structured aquatics) o Changing visitor preferences o Project management restrictions o Availability of funding (compounded by an inflationary environment) o Change in cruise (such as the stopover schedule, or internal delivery of onshore experiences) o Climate change/infrastructure resilience o Natural hazards/infrastructure resilience (especially given the seafront location of many assets)

The key finding from the SWOT analysis, is that the current network faces numerous weaknesses and threats. Some of these can be mitigated but others are likely to inhibit the network and the performance of individual facilities at some point in the future. These points are discussed in the context of individual facilities later in the report.

GAP Analysis

A GAP analysis was conducted that identified the following existing and wider gaps.

Existing Network Gaps:

- In general Napier has a very diverse range of assets, especially given its size. For example, aquariums the scale of the National Aquarium would normally be found in much larger metropolitan areas.
- Some assets still leave experiential gaps. For example, the experience delivered by McLean Park and the Napier Aquatic Centre do not meet modern expectations.
- Quality community level leisure water[2] is a network gap. Structured aquatics provision is more than adequately catered for with the new Hawke's Bay Regional Aquatics Centre.
- If the weather is poor some facilities can become unusable e.g. Bay Skate and Par2 MiniGolf. This leaves only three facilities available on a drop-in basis: Ocean Spa, National Aquarium, and the Napier Aquatic Centre.
- Lack of critical mass and operational synergy[3]. Many of the visitor-orientated facilities are spread out along the waterfront and do not generate a critical mass or afford operational synergies.

Wider Gaps:

- Considering the scale of Napier and its visitor market, there were no identified large scale facility gaps that would fall within a Council's remit.
- At a more micro level, there are potential gaps in provision. Some of these gaps present opportunities that could be synergised with individual assets within Council's portfolio. (These are considered in later sections).

Network Risks

Internal Council/Network Risks:

- There is a risk that continuing to defer capital expenditure decisions will put Council in the position where it cannot fund its public facilities' CapEx programme as costs increase beyond the debt headroom. Council is already in the position that deferred decisions have seen both OpEx and CapEx costs continue to increase without any improvement in the visitor experience or community amenity.
- There is a risk that Council will be unable to meet its own strategic priorities if its decision-making is based entirely on financial self-sustainability. There are some important public amenities that will always require a subsidy. (The Napier Aquatic Centre is an example of this.)

[2] Note in this statement we are differentiating commercial and community leisure water. We see Napier Aquatic centre and Ocean Spa as two very separate offerings.

[3] Operational synergy could include savings from shared back and front of house staff e.g. ticketing both mini golf and serving at the i-SITE counter in off peak and shoulder periods.

- There is a risk that making decisions to exit or close facilities without further due diligence (i.e. Phase Two of this work) will lead to sub-optimal outcomes for Council. These could appear in the form of diminished community and visitor amenities and poor staff moral.
- There is a risk that the current policy and legislative restrictions on some of the facilities will inhibit Council's ability to make best-for-Napier decisions, both financially and in terms of strategic alignment.

External Risks to the Network:
- Adverse weather, natural hazards and pandemic events could undermine visitation to Napier and Council facilities (reducing revenue).
- Visitation from the cruise market could decline for several reasons. For example, cruise itineraries can alter due to port preference changes; the cruise lines could seek to monopolise shore excursions and the resulting revenue (by taking greater control over the onshore supply chain); commission rate preferences could see certain onshore operators favoured. The assets at most risk are the i-SITE and aquarium.
- The increasing cost of travel could constrain potential visitors' travel patterns.
- Visitor seasonality in Hawke's Bay is pronounced with a large peak over summer. This makes adverse events over summer more damaging.

Governance and Service Delivery

Currently all the facilities under examination are managed by Council. One - Ocean Spa - has recently come back under Council management after being managed for a period by a private company.

This approach allows Council direct control over facility service delivery, quality control, and revenue collection but it can create some potential drawbacks or limitations. These include layers of approval before decisions can be made leading to inefficiencies, a lack of governance specialisation for more complex or specialist facilities, resource limitations (due to competing needs), a greater likelihood of political influence / interference, a lower risk tolerance which can reduce innovation, and conflicting mandates (notably the difficulty balancing community and commercial needs and objectives).

For these reasons, Councils often consider alternative governance and service delivery models or approaches. Examples can include:
- Keeping facilities within Council, but allowing them to be run more commercially i.e. less intervention from Councillors, less requirement to deliver on non-revenue generating community outcomes, funding policies which recognise and reflect the trade-off between community and commercial outcomes.
- Keeping facilities within Council but allowing them to be run in a way which is more reflective of community needs i.e. funding approaches which recognise the need for ongoing subsidy and therefore a lesser focus on delivering revenue and a greater focus on generating community benefits.
- Establishing a Council Controlled Organisation (CCO) for some/all facilities, which retains Council asset ownership but allows those facilities to operate at arm's length from the Council under a fit-for-purpose board.
- Establishing a Council-Controlled Trading Organisation (CCTO), similar to a CCO but specifically set up to generate profit.

- Public-Private Partnerships, with private companies operating and maintaining Council-owned facilities, bringing in private sector expertise and resource while still maintaining an agreed level of public control.
- Outsourcing management/delivery to service providers in an attempt to reduce operational costs and improve efficiency. In the case of assets such as community aquatics facilities, Councils still pay operating subsidies.
- Leasing or Licensing, which can generate revenue for Councils while passing responsibility for management and operation to a third party.

There is no silver bullet with any model or approach. What is appropriate for one Council, area or facility-type may not be appropriate in another. Some approaches have been proven to have sub optimal outcomes.[4] The consultant team's experience is that it takes time, quality, current data and comprehensive due-diligence to ascertain the most appropriate approach. Care needs to be taken to structure any potential approach/model to reflect the specific needs and priorities of the community and Council.

It is the consultant team's view that it is too early to make decisions about the appropriateness of different governance/management models and approaches. This position has been reached based on the following rationale:

- None of the assets reviewed would be considered market ready to be put out for lease or sale. Assets would likely need to be optimised and show a minimum of three years of solid financial performance to be of interest to the market.
- It is also very unlikely that there is a one-size-fits-all for the network model.
- Careful consideration needs to be given to potential synergy losses. For example, Ocean Spa as a potential revenue generator could be a tempting proposition for leasing. However, this may remove operational synergies with the Napier Aquatic Centre (for example, having shared maintenance staff).
- Many of the facilities have strings attached (that is, underlying legal requirements) that impact on what they deliver and how they are operated (i.e McLean Park and Napier Conference & Events (at the War Memorial)
- The existing assets do not make revenue or do not make a commercial rate of return. Therefore, any new entity would still likely seek Council CapEx and OpEx.
- Shifting assets into a charitable Trust structure is unlikely to resolve Council's CapEx or OpEx burden as third party charitable grants will likely fall below required levels (and charitable funders are unlikely to look favourably on such structuring).
- The optimal form of some assets is yet to be defined. For example, some can potentially be optimised and reimagined (as explained further in this report).

What structures are, or are not, advisable across the network should therefore not be determined at this stage; the optimal structure under which to run each of the facilities would be part of Phase Two when an asset's optimised form can be determined. (Some may need to be totally reimagined while others may need slight adjustments.)

Allowing time for the Phase Two work to be completed ensures more accurate information is available that will enable individual facility and network options to be more fully evaluated. At that point it will be possible to assess which governance and service delivery options are best for the facilities and for Council (Refer to recommendations later in this report).

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[4] For example, outsourcing the management of Ocean Spa in Napier, or the performance of CCOs such as Bay Venues Limited in Tauranga.

Historic Financial Analysis

This sub-section sets out a summary of the historical financial analysis undertaken.

Detailed financial analysis can be found in *Appendix One*.

The 10 business units are largely unprofitable. They are collectively losing ~$5m EBITDA per annum in aggregate and many have large CapEx requirements over the next eight years.

This CapEx is <u>at least</u> $48.5m, although this is very likely to be understated given it is based on LTP 2022 which is being reviewed and is expected to increase. Also of concern is that any LTP estimates (old or new) are based on limited and/or outdated asset condition assessments. The CapEx estimate above excludes the CapEx requirements for a new aquatic facility to replace the Napier Aquatic Centre.

The summary commentary below refers to the combined impact of profit and CapEx i.e. net cash flow, as the best way to consider the facilities' costs to Council and therefore ratepayers. The highlights are:

- Only two businesses are contributing back to Council. These are Par2 MiniGolf and Ocean Spa, noting that the profitability of Ocean Spa remains to be proven following a recent change in the operational model.
- Napier Conferences & Events (in the War Memorial) and Kennedy Park are losing cash and are operating sub-commercially.
- The Napier Aquatic Centre will require $29m in cash funding over the next eight years ~30% of the total required funding that has currently been identified.
- The National Aquarium will require $26m in cash funding over the next eight years ~27% of the total required funding that has currently been identified.

As an example, Kennedy Park is forecast to make a ~$350k EBITDA profit over the next ~8 years. However, it is assessed as financially unsustainable because the LTP for Kennedy Park also includes a CapEx forecast of $13.2m over the next 8 years. Based on the EBITDA/CapEx ratio it will take 38 years of the annual profit to repay that level of capital spend. This means the funding requirement will need to be heavily subsidised.

Weighted Matrix Facility Assessment

To assist in evaluating the facilities in their current form a weighted matrix was used. This tool serves as a useful way to structure thinking and identify how assets are currently performing (Table One). The strategic drivers the assets were assessed against, were influenced by Council vision and strategic objectives together with the project brief. It should be noted that this simple matrix is only one approach which was used in this report.

Only two of the facilities achieved a weighted score greater than 2.5, which would represent a 50% achievement of the weighted strategic drivers. This means, taken as a whole, the facilities are not fully supporting Council achieving its strategic objectives.

Table One: Summary Weighted Matrix Indicating Current Facility Performance

Strategic Driver/Priorities	Weighting	McLean Park	National Aquarium	Par-2 MiniGolf	Conferences & Events	Municipal Theatre	Napier i-SITE	Kennedy Park	Bay Skate	Napier Aquatic Centre	Ocean Spa
Demonstrated community need / accessibility for all	20%	2	3	3	2	3	2	3	4	5	4
Future resilience / fit for purpose	10%	1	2	3	3	3	1	3	4	1	3
Financial affordability	25%	0	0	5	0	0	0	0	0	0	3
Partnership and collaboration	10%	1	4	1	2	3	2	1	1	3	1
Economic Multiplier effect	20%	3	2	1	4	2	2	3	1	1	2
Visitor appeal and quality experience	15%	2	2	2	3	3	2	3	4	1	3
Total	100%										
Weighted Score (out of 5)		1.50	1.90	2.75	2.15	2.05	1.40	2.05	2.10	1.75	2.80
Rates Impact (Forecast)		0.15%	3.36%	-0.10%	2.03%	1.93%	0.81%	1.18%	1.72%	3.52%	0.20%
Rank (Investment Priority)		*9.00*	*7.00*	*2.00*	*3.00*	*6.00*	*10.00*	*5.00*	*4.00*	*8.00*	*1.00*
Primary Purpose		Community	Other	Commercial	Commercial	Community	Other	Commercial	Community	Community	Commercial

6.0 ANALYSIS SUMMARY

The following section summarises the analysis findings. It begins by looking at the options for each facility in the network before outlining recommended facility categorisations.

Greater detail is contained in the appendices.

Options for Facilities in Network

There are four main options for the facilities within the network, shown in Table Two.

Table Two: Facility Options Under Consideration

Option	Explanation
Status quo	• Keep on doing the same – surviving (temporarily) but not thriving. • Note: May end in closure at some point.
Enhanced status quo	• Represents a continuum from low level through to more significant facility and operational enhancements. (All however, keep the base facility). • Low level = 'low-hanging fruit', unlikely to be significantly value-enhancing. • Medium/significant enhancements = require more CapEx and OpEx to implement but can enhance value.
Re-purpose, re-imagine	• Can involve radical change and requires an open mind and a near blank sheet of paper approach. Based heavily on achieving set objectives within fixed parameters (CapEx and OpEx limits, economic multiplier targets, revenue targets etc). • Includes consideration of alternative operating models and facility structures.
Close/exit	• To exit or close is the last resort, only considered when all other options have been thoroughly explored. • Council needs to demonstrate rigour around any final closure/exit decisions - colloquially, avoiding "throwing the baby out with the bathwater". • Closure and exit often goes hand in hand with re-purpose and re-imagine. Either as an outcome of a 'reimagined' facility/experience failing to meet the set objectives within agreed parameters or because a reimagined facility/experience does not need its old built shell.

Status quo should, at best, be considered a baseline to understand change. It is not a long-term solution for the network as a whole. The facilities are currently being funded to a level that is effectively a slow decline.

Continuing to defer renewals will speed up this decline, and delivering renewals alone will only maintain (at best) the delivery of the current outcomes which, as identified in the weighted matrix, is not fully delivering on the strategic objectives of Council.

Experientially, many of the facilities are going backwards as most renewals are heavily weighted on back of house areas and not on improving the front of house visitor experience.

In addition, OpEx and CapEx costs are likely to continue to increase, and yet the costs which have already been identified are increasingly likely to be unable to be funded by Council. In simple terms the status quo is not viable in the medium term.

Post Analysis Categorisation

The summary of the most appropriate option for the 10 facilities is as shown in Table Three. Where a facility is noted within two options, it indicates that more work is required before a definitive recommendation can be made.

Where an option is noted as red, it indicates the Elected Members consider that option to be untenable.

Table Three: Facility Categorisation

Options	McLean Park	National Aquarium	Par2 Minigolf	NC&E	Municipal Theatre	Napier i-SITE	Kennedy Park	Bay Skate	Napier Aquatic Centre	Ocean Spa
Status Quo								🔵		
Enhanced Status Quo			🔵	🔵	🔵			🔵		
Reimagine	🔵	🔵	🔵	🔵		🔵	🔵		🔵	🔵
Close / exit	🔴	🔵				🔵			🔴	

Reimagine or Close/Exit

Where close or exit is noted as an option this does not mean that the asset would not be retained for Napier, but rather than the existing built shell could be closed and then reimagined, as for the case of the Aquatic Centre and McLean Park.

McLean Park: Reimagine or close/exit

Key considerations:

- The stadium is forecast to make a $60k loss (EBIT, see Appendix One). Under its current configuration this position is unlikely to improve.
- By national benchmarks it is a comparatively under-used stadium and offers a poor visitor experience when compared to other stadia.
- The stadium structures are both dated and deteriorating and do not offer an optimal layout – neither for the patron experience or the event deliver.
- Initial indications are that in the medium term the stadium will require significant CapEx investment just to retain the existing structures. One stand alone has been indicated to cost circa $40 million. Understanding the full costs are currently problematic as a holistic detailed condition assessment is not yet available.
- Servicing both cricket and rugby has increased the stadium's operational challenges and broader utilisation restrictions.
- McLean Park remains the only stadium in Hawke's Bay.
- When larger events are held data indicates they do generate a positive economic multiplier for Napier.
- The site is required to remain in recreational use.

Proposed Approach – Reimagine or close/exit

- Based on available data the best outcome for Council and the community would be to reimagine the stadium in a more boutique flexible form. The reimagined stadium would likely be better able to meet projected event demand and offer a superior visitor experience, along with event delivery efficiencies and standards.

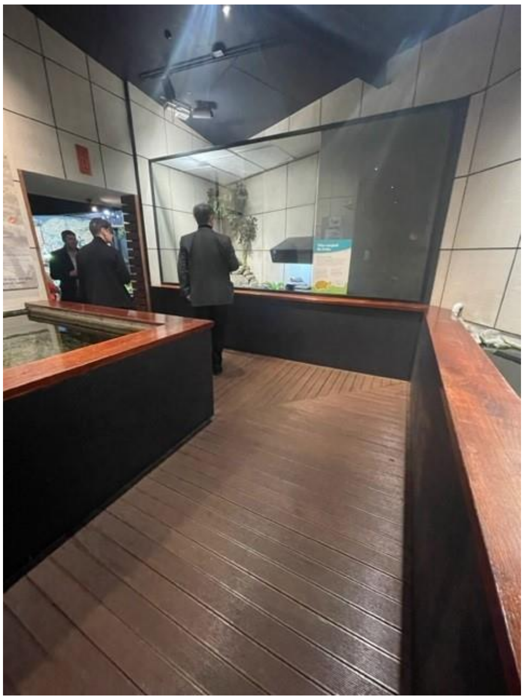
National Aquarium of New Zealand - Reimagine or close/exit

Key considerations:

- The aquarium is forecast to lose $2.2m (EBIT) see Appendix 1. Under its current configuration this position is unlikely to improve.
- The facility's built structure is in poor condition and will require future CapEx investment. This is currently estimated at $26m. However, based on our experience of aquariums, the nature of the current building assessments, and our site visit, we believe the current CapEx allocation are likely to under-represent the extent of expenditure required.
- Most of the identified CapEx is allocated to back of house areas that will not improve the aquarium's overall visitor experience. Experientially the aquarium has challenges. These include aging exhibits/habitats that would no longer be considered optimal, and challenges with the overall interpretive narrative.
- Although staff have done a good job with the resources available, the facility is simply too large and in need of too much work for available funding to sufficiently address lifting the visitor experience.
- The name "National" Aquarium of New Zealand sets an unrealistic expectation of the quality of the facility and visitor experience.
- The building design is poor and inhibits functionality and limits the ability to cost-effectively address deficiencies. For example, the facility is on the seafront but turns its back on one of its greatest assets: a visual connection with the sea. It is largely an introverted box.
- The facility offers readily accessible extended daytime indoor experience which is in short supply in Napier.
- The facility generates positive economic multipliers.
- Probably the most significant issue is that the facility is simply too large and costly to be supported on a commercial basis by the resident population and external visitor volumes. It has historically needed - and will continue to need - significant subsidies.

Proposed Approach – Reimagine or close/exit

- Based on available data, the best outcome for Council and the community would be to reimagine the aquarium. We believe that this reimagining needs to be radical in its approach and is likely to require a willingness to walk away from the existing building and explore a totally new form of visitor experience based on agreed objectives.
- Should the reimagined experience not prove viable when measured against the agreed objectives and parameters, there remains the very real possibility that closure is the only viable outcome.



<u>Napier i-SITE - Reimagine or close/exit</u>

Key considerations:

- The i-SITE makes a forecast loss of $700k per annum (EBIT).
- The building is reported to be in poor condition and replacement may be required within the next seven years.
- Visitor needs are changing, as is technology. In response to this, the way visitor information is provided also needs to change.
- The i-SITE generates economic multipliers, although these may be at levels below those estimated in 2017. Alternative delivery models are also likely to deliver economic multipliers.
- Internationally many jurisdictions are questioning how visitor information is best delivered. Many are seeking to reinvent information delivery and are seeking more experiential, and technology-based approaches.
- Many visitors will still desire the opportunity to interact with a person.
- The current i-SITE lacks critical mass and has no synergy with other larger waterfront attractions.
- The closest neighbouring asset is Par2 MiniGolf which is also not well synergised (although this is planned to change).
- The current i-SITE layout is very traditional. A cosmetic refresh is planned for 2023.
- Changes in the way the cruise industry handles shore-based excursions may reduce visitors to the i-SITE in the future.

Proposed Approach – Reimagine or close/exit

- Based on available data, the best outcome for Council and the community would be to reimagine the i-SITE. This could include offering an alternative visitor information experience potentially as part of a wider experience offer or hub. No options should be discounted including potentially moving away from the i-SITE/ VIN Inc brand.

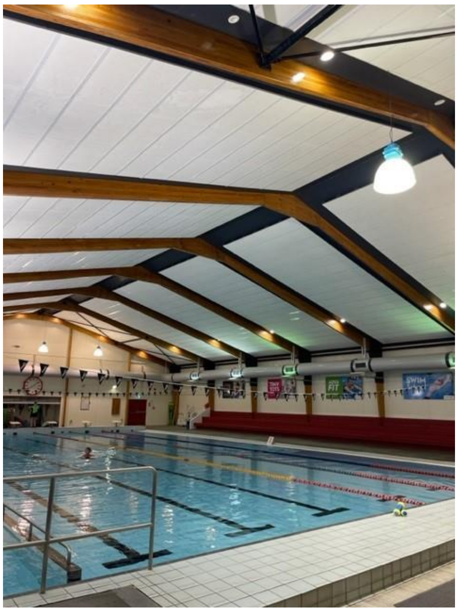
Napier Aquatic Centre - Reimagine or close/exit

Key considerations:

- The existing Napier Aquatic Centre is no longer fit for purpose (as per national utilisation benchmarks and condition assessments). The visitor experience is also not optimal. This is despite the facility having the highest impact on rates out of the community facilities.
- Initial findings emerging from the ongoing National Aquatic Strategy (undertaken by Sport NZ) indicate that Hawke's Bay is over supplied with aquatic space. However, this work is high level and does not differentiate between leisure and structured water. We believe the analysis is distorted by the large amount of structured water contained in the Hawke's Bay Aquatic Centre on Mitre 10 Sports Park.
- We conclude based on available data that that Napier is deficient in quality aquatic leisure space and that this should be the focus of a new pool development.
- Napier would have a deficit in leisure aquatic space if the existing Napier Aquatic Centre was decommissioned and not rebuilt.
- Community aquatic facilities are considered 'core provision' for Councils nationally and they play a role in residents' social, physical, and mental wellbeing.
- The Hawke's Bay Aquatic Centre at Mitre 10 Park is now the preeminent structured aquatics sports facility in the region and structured activity (such as waterpolo, swim training and swimming competitions) should be concentrated there to improve its financial viability.
- Building on an alternative development site will save tens of millions of dollars (compared to rebuilding on the existing Onekawa site). Council has already spent considerable money to determine this. These findings are also supported by this consultant team's own practical experience. We believe the significant cost

premium and risk associated with redeveloping on the existing site would be imprudent, especially given current tight fiscal conditions.
- A new Napier Aquatic Centre should include some outdoor elements to enable the Marine Parade Pools (Ocean Spa) to have a more fully commercial focus.
- It has the highest impact on rates out of the community facilities yet is not meeting public expectations due to its current (and declining) state.

Proposed Approach – Reimagine or close/exit
- Develop a leisure-focused community aquatic facility and close the existing Napier Aquatic Centre.
- There are clear financial and risk mitigation advantages in doing this on a new development site, not Onekawa.
- The new facility should include outdoor aquatic elements to enable Ocean Spa to adopt a more commercial focus.
- Ocean Spa and a new Napier Aquatic Centre should investigate further operational synergies similar to shared technical/maintenance staff.



Kennedy Park – Reimagine

Key considerations:
- The asset is forecast to make a loss of $100,000 this year although it has previously been profitable.
- Large CapEx planned is ~$5.1m in FY25 and then ~$3.0m in FY27.
- The challenge for Kennedy Park is it is forecast to make a ~$350k EBITDA profit over the next ~8 years. However, it is assessed as financially unsustainable because the LTP for Kennedy Park also includes a CapEx forecast of $13.2m over the same 8 years. Based on the EBITDA/CapEx ratio it will take 38 years of the annual profit to repay that level of capital spend. This means the funding requirement will need to be heavily subsidised.
- An assessment undertaken in 2017 indicated that the asset generated positive economic multipliers for the region.
- Kennedy Park covers a large site and has a wide mix of assets which are all in various conditions. The facilities include motel-like accommodation, individual

villas, campsites, RV sites, communal bathrooms, cooking facilities, moderate gym and TV/Theatre room, outdoor pools, playground, and cooking/dining facilities. The challenge with the site is that it has appeared to evolve rather than been master planned with functionality and revenue generation in mind.

- It is not common for Councils to be so actively involved in commercial operations as varied as Kennedy Park. Traditionally, Councils active in this space tend to have campground and RV-focused operations.
- Staffing is reported to be a constant issue (particularly in housekeeping).
- Smaller optimisations such as rebranding of the restaurant have made minimal financial impact.
- The Park is established in the visitor market and is well recognised as an accommodation and campground provider.
- The asset has remedial work and renewals which have been deferred, sometimes due to lack of project management resource available within Council. These delays are affecting the quality of facilities at the park which, in turn, negatively impact visitor ratings.
- A significant event at McLean Park has a direct correlation on bookings at Kennedy Park.
- Kennedy Park aligns well with Council's vision "to enable spaces and places where people want to be" along with the drive to be seen as a tourist destination.
- In its current state Kennedy Park could not be taken to market as a viable business lease. Note, any commercial approaches would also have to meet the land covenant requirements.

Proposed Approach – Reimagine

- Kennedy Park needs to be commercially unleashed. This should involve a very critical analysis of all the Park's current operations. This process will require a business case, strategic plan, revised operational model, and a masterplan. The business needs to be placed on a far stronger business footing, becoming a more efficient, targeted facility with an appropriate layout.

Ocean Spa - Reimagine

Key Considerations:

- Ocean Spa is a unique facility in Napier and is in a prime location. It has a café, gym, and year-round outdoor leisure hot pools.
- The pools would have appeal to a wide market that includes Hawke's Bay residents and domestic and international visitors.
- While previously unprofitable, recent changes to management and small redevelopment initiatives have created expectations it will be profitable from FY24 (forecast profit $50K p/a EBIT).
- Operational data on the pool's past performance is limited as it has recently been taken back in house under Council management after many years of being leased to an aquatics management company. During this transition, only very rudimentary data was provided to Council.
- The pools have suffered from gang related safety issues.
- Like many other assets reviewed, detailed condition assessment data is limited. One of the key factors to consider in the context of aquatic facilities is the plant/ services, which can carry significant CapEx and operational costs. Operational costs for outdoor pools can be very high because of the water heating costs (unless they are geothermal).
- A review of the facility did identify other revenue generation opportunities. For example, management are already considering adapting the private spa pool rooms into a day spa facility and enhancing gym facilities.
- Operational costs will be one of the core factors dictating the level of profit (EBIT) that will be possible. This will require further technical investigation.
- Currently the facility appears to have a conflicting mandate - community and commercial. We believe eliminating the conflicting mandate and adopting a commercial focus will allow the business to improve the visitor experience and increase revenue.
- It will be important that a commercial focus is balanced with adjustments at the Napier Aquatic Centre. We suggest that community outdoor pool space be considered as a component of any new aquatic facility.
- Managing the transition will require a communications plan - supported by the planned development of an aquatic facility that will not only meet the leisure and play aquatic needs of the community but will provide a more comprehensive aquatic offering for the catchment.
- Further operational synergies can be obtained between Ocean Spa and the Napier Aquatic Facility similar to the shared technical/maintenance staff practice.
- Ocean Spa aligns well with Council's vision "to enable spaces and places people want to be" along with the drive to be seen as a tourist destination.

Proposed Approach – Reimagine

- The Ocean Spa should be commercially unleashed. This will require adopting an explicitly commercial mandate.
- Although there is considerable commercial potential, this is likely to be offset by operational constraints such as the condition of the pool and its plant facilities. It is essential that these factors are investigated.
- This change of approach should be underpinned by a strategic plan, business case, and revised operational model (and linked to a high-level Masterplan) which should enable the facility to become more efficient and grow its commercial potential.

Enhanced Status Quo/Reimagine

Par2 MiniGolf – Enhanced Status Quo/Reimagine

Key Considerations:
- The Par2 MiniGolf has a forecast profit $115K p/a (EBIT).
- The facility has the potential to deliver more revenue but how much needs testing.
- Although on paper the current OpEx costs appear reasonable they could be further improved with some operating efficiencies, primarily by using other staff (initially from the i-SITE) to ticket the facility over the low and shoulder seasons. In the high season standalone staffing is likely to be viable.
- Minigolf nationally and internationally is a proven revenue stream (if experience quality is maintained). Some international and national facilities are achieving IRRs of between 10% and 16%.
- The current Par2 MiniGolf location is good. However, minigolf synergises well with many other visitor experiences (not just the i-SITE as is currently proposed).
- Minigolf is a comparatively easy asset to reposition and should not be considered fixed in place.

Proposed Approach – Enhanced Status Quo/Reimagine
- In the short term the minigolf can remain where it is and be enhanced by adopting a modified operational model (running ticketing from the i-SITE).
- In Phase Two of Council's evaluation process the minigolf can be reimagined as part of any number of potential facility combinations.


<u>Napier Conferences and Events (at the War Memorial)</u>

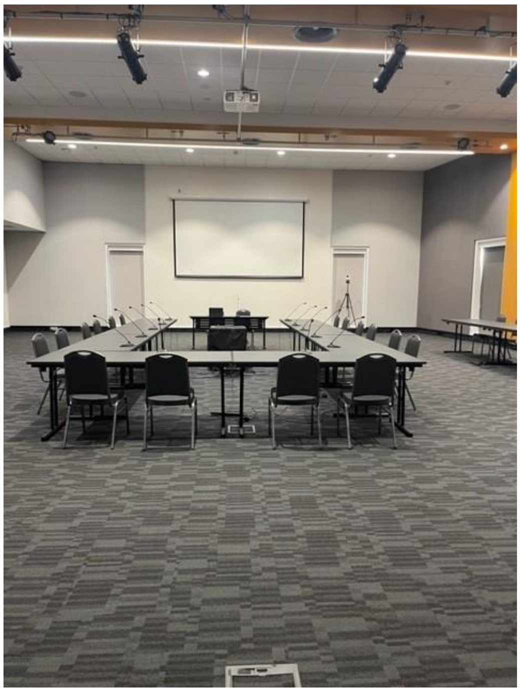
Key Considerations:

- As a recipient of the War Memorial Subsidy (created by the NZ Government in 1948), the War Memorial Committee, and later the Napier City Council, agreed to several conditions set by the Government at the time[5]. These included:
    - That the approved war memorial shall be vested in the local authority and that due provision is made for its maintenance and upkeep, management, and permanent functioning.
    - That facilities are not used purely for commercial profit-making purposes.
    - That the centre is made available for use by all sections of the community.
- Given the commercial constraints that were in place, the facility was arguably over specified during its upgrade. Napier Conferences and Events (in the War Memorial) is in essence a boutique conference and events facility that is constrained, at least in part, by its community obligations: perhaps liken it to purchasing a sports car that you are then only able to drive at 30km/hr. These obligations are, of course, entirely valid and were in place before refurbishment. Having two separate facilities would have alleviated potential operational mandate conflicts.
- The facility has a forecast Loss $625K p/a (EBIT).
- An assessment undertaken in 2017 indicated that the asset generated positive economic multipliers for the region.
- The facility used by Napier Conferences and Events is in an excellent location on the waterfront, close to the CBD and across the road from a hotel, with further accommodation nearby.
- The facility does have some functional constraints such as lack of indoor-outdoor flow. Decks and outdoor courtyards are particularly valued for social functions such as weddings, significant birthdays, and other such events. They are less important for commercial events.

[5] Source: Napier War Memorial Centre Policy -2021

Proposed Approach – Enhanced Status Quo/Reimagine

- It is important that Napier Conferences and Events (in the War Memorial) fulfils its founding conditions to the community. This could in part be achieved by making the venue more social function-friendly (weddings, birthdays, etc) by making small design changes that facilitate greater indoor-outdoor flow.
- Scope also exists to enhance the current operational models to aid a more standardised approach to accommodating and accounting for community use. For example, Council could adopt a standardised hire and service rate together with a separate community fund that is then used to subsidise all community use. The size of this fund and criteria used to administer it could be determined by Councillors. This would remove operational uncertainty and perceptions of bias.



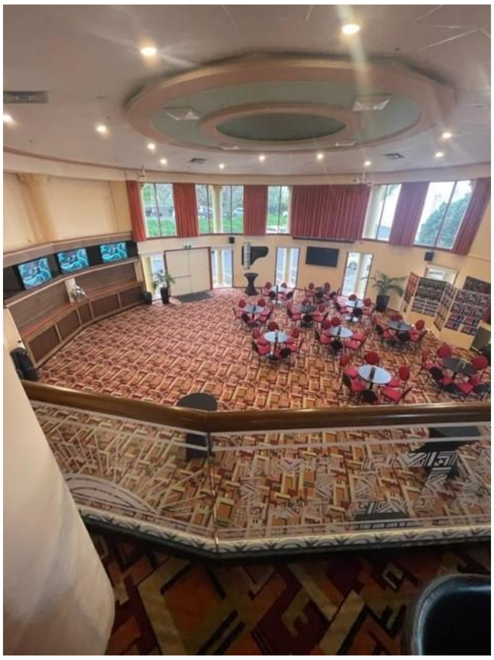
Enhanced Status Quo

<u>Municipal Theatre – Enhanced Status Quo</u>

Key Considerations:
- The Municipal Theatre is forecast to make a loss $1.4m (EBIT).
- It is one of two heritage theatres in Hawke's Bay. The other facility, ToiToi Arts and Events Centre is in Hastings (20 mins drive), has lower entry prices but takes a larger percentage of ticket sales.
- Regional theatres - especially heritage ones - are generally not profitable and are unlikely to be so.
- The Municipal Theatre performs satisfactorily compared with other provincial theatres of similar size.
- Allowing a focus on securing and delivering content in the performing arts space, acknowledging that it is an averages game i.e. win some/lose some.

- Management have stated they would like to be more proactive in seeking content and competitive against other theatres but acknowledge this requires additional funding from Council. Seeking affordable commercial content takes energy and resource. Emphasis is being placed on this to address the theatre's commercial objectives.
- If Council does not wish to provide investment to further secure commercial content, then the theatre would be better to focus on broadening its community offerings.
- The theatre aligns well with NCC's vision of "enabling places and spaces where everybody wants to be".
- It would likely be challenging to secure a buyer or a lessee for the Napier Municipal Theatre. In other areas where heritage theatres have been sold or leased, they tend to have gone to churches. Many of those that were sold deteriorate because the operational/maintenance costs were beyond the means of new owners to maintain.

Proposed Approach – Enhanced Status Quo
- Based on available data we believe the best approach is to remove the theatre's unachievable commercial targets and categorise it as more of a community asset.
- Scope still exists to attract commercial content, but expectations need to be aligned to the budgets available to seek such content.



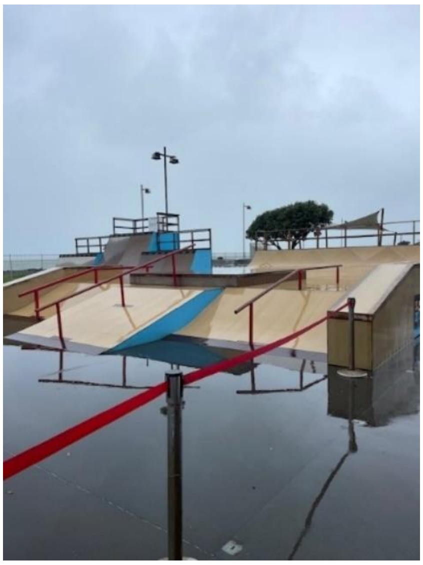
Status Quo/Enhanced Status Quo

<u>Bay Skate – Status Quo/Enhanced Status Quo</u>

Key Considerations:
- Bay Skate is forecast to make a loss of $680K (EBIT)
- Most of the facility's operational costs are associated with staffing, considered essential for Health and Safety reasons given the nature of the facilities.

- Bay Skate dominates the local skating scene and has an excellent reputation nationwide for its facilities and staff knowledge.
- Bay Skate has a largely community focus. It caters to a younger demographic and provides skate opportunities and a retail shop with branded Bay Skate gear as well as scooters, skates and supporting accessories.
- The quality of the facilities at Bay Skate are equal to, and in some cases, surpassing, what is available in many larger metropolitan areas with far higher youth cohorts and skater numbers. Many of these other skating facilities are either indoor (some are run commercially) or are free. However, most do not offer facilities such as those found at Bay Skate.
- While Bay Skate is sought after for competitions such as NZ Scootering Nationals, the revenue opportunities for the venue are constrained. This is primarily because the base youth population is comparatively small (with the number of active skaters in that cohort even smaller), and the venue is heavily weather-dependant.
- The facility makes use of the former Marineland landscape and most of the facilities' required large CapEx which has already been committed.
- Bay Skate provides a positive youth activity that fosters physical movement and social connection.
- Bay Skate should not be considered a commercial asset.

Proposed Approach – Status Quo/Enhanced Status Quo
- On one level Bay Skate could be left as it is, however, we believe it would still benefit from going through an optimisation exercise to see how future CapEx and OpEx funding can be aligned for greatest community benefit. It may also be possible to reduce some operational cost and increase revenue, although these gains may be modest.



Categorisation

Table Four sets out the categorisation of each of the assets following review.
We would recommend that three facilities should change their Council categorisations:
1. The Napier Municipal Theatre should become 'community',
2. The Ocean Spa should become 'commercial',
3. Napier Conferences and Events (at the War Memorial) should be termed 'Community/Commercial'.

Table Four: Recommended Facility Classifications

Asset	Categorisation	Approach
McLean Park	Community	Reimagine or Close/Exit
National Aquarium of New Zealand	Economic Growth	Reimagine or Close/Exit
Napier i-SITE	Economic Growth	Reimagine or Close/Exit
Napier Aquatic Centre	Community	Reimagine or Close/Exit
Kennedy Park	Commercial	Reimagine
Ocean Spa	Commercial	Reimagine
Par2 MiniGolf	Commercial	Status Quo/Reimagine
Napier Conferences and Events (at the War Memorial)	Community / Commercial	Status Quo/Reimagine
Napier Municipal Theatre	Community	Enhanced Status Quo
Bay Skate	Community	Status Quo/Enhanced Status Quo

WHAT COULD A NETWORK SCENARIO LOOK LIKE?

There is insufficient data available to develop a favoured network scenario currently. However, Deloitte has prepared in Appendix One an illustrative, high level financial analysis to indicate the potential impact to NCC of a hypothetical alternative strategic option. **This scenario is for illustrative purposes only. The analysis does not represent a recommended course of action**, or a preferred option, as Council and elected members will need to consider the financial and community impacts of the options and determine for themselves, on balance, a preferred course of action. This can only be done in Phase Two once additional data is available and facility parameters are set.

Further, we note the reimagine scenarios are not defined at this stage and will only be defined post conceptualising the alternative reimagine scenarios/detailed business cases.

For reference there are capital numbers in the public domain and/or provided to us related to previous studies including:

- National Aquarium: $77.5m in the business case (2021 numbers). This project was not advanced due to it being unfeasible.
- New Aquatic Facility: $71m at revised location (2022 numbers) or $108m at existing Onekawa site.
- i-SITE: $7m-$14m based on discussions provisionally had with Morrison Low (understood to be early-stage estimates).
- McLean Park: $40m which was tagged for a stand replacement in year ’24 in the 2024/25 LTP.

Accordingly, our analysis is designed to provide an indicative illustrative impact of the various levers to understand whether the goal of the business activities being financially sustainable is achievable.

A simplified model has been developed to test various strategic options and the impact of those decisions on the financials of NCC. These options include: Status Quo (Do Nothing), Enhanced Status Quo, Revised Operational Model (Reimagine) and Closure/Exit.

Key Assumptions

The model has an eight-year time horizon (FY24-FY31) and has been reconciled against NCC's LTP to ensure consistency and data integrity.

The model includes the ability to adjust the following key input variables:

- Revenue and operational expenses (via specific initiatives)
- NCC overhead allocation costs
- Capital expansion opportunities
- Debt projection (interest and principal payments).

The following pages outline a summary of the simplified assumptions we have applied to prepare an illustrative impact to cumulative cash flows and ratepayers of the recommended options.

We note that under alternative exit scenarios there would likely be a level of stranded overhead costs which are currently charged to the various business activities. We would consider it unlikely that NCC could bank savings in allocated overhead (assuming a facility closure) and therefore we have retained the overhead charge from NCC within our financial analysis of the illustrative option.

For modelling/illustrative purposes we have provided a combination of closure and reimagine options, noting that the reimagine options will only be defined post a conceptualising exercise.

<u>Illustrative Option</u>

We have prepared a scenario ('the Illustrative scenario'), where the cashflows for each business unit are adjusted to reflect the potential options:

- Reimagine: material change to the facility, either additional CapEx or closure
- Commercially unleash: restructure in order to be profitable
- Enhanced Status Quo: carry on as is, with minor improvements
- Do Nothing: no change to the current facility.

Our high-level assumptions for the Illustrative scenario are presented in Table Five.

We highlight the capital cost estimates for the reimagine scenarios are high level estimates and would be refined following Stage Two business case workstreams (at which point would be based on designs, QS estimates etc).

Table Five: Illustrative Scenario Assumptions

Business Activity	Assumptions (for illustrative scenario)
McLean Park	Reimagine – Redevelopment of the park. $20m CapEx in FY25, retain other CapEx from the current forecast. Retain current financial performance.
National Aquarium	Reimagine – Closure from FY25. $2m CapEx remain in FY25 for demolition costs. NCC costs remain as 'stranded overhead costs'.
Par2 Minigolf	Enhanced Status Quo – Included an additional $50k of profitability on assumption of leveraging labour costs between facilities.
Napier Conferences & Events (in the War Memorial)	Optimise within the bounds of NCC's policy – retain current cost structure, target EBIT margin of 0% (i.e. profit margin that contributes to depreciation, but no incremental profit margin).
Napier Municipal Theatre	Enhanced Status Quo – Unchanged. Implicit assumption that any additional community offerings are net neutral in terms of financial performance.
Napier i-SITE	Reimagine – Redevelop a new concept from FY25. $1m CapEx in FY25 for development of low-cost alternative. NCC overhead costs remain as 'stranded overhead costs'.
Kennedy Park	Commercially unleash – Retain current cost structure. Target an EBIT margin of 0% (i.e. a level of profitability that contributes to depreciation, but no incremental profit margin).
Bay Skate	Status quo – do nothing
Napier Aquatic Centre	Reimagine – Allow for $90m of CapEx over FY25/FY26 and remove other CapEx from the forecast. Retain current financial performance.
Ocean Spa	Commercially unleash – Retain the current cost structure. Target an EBIT margin of 10% (i.e. profit margin that contributes to depreciation, with a small incremental profit margin).

Impact to NCC Rates

Graph Six illustrates the impact to a rates movement between the base case (current state) and the illustrative scenario.

The impact to rates can be summarised:

1. Reimagine/Closure: Napier Aquatic Centre redevelopment, increase to rates of 6.06%. National Aquarium facility closure, decrease to rates of 2.24%;
2. Commercially Unleash: Ocean Spa, Kennedy Park and Napier Conferences & Events (in the War Memorial), decrease to rates of 0.75%;
3. Enhanced Status Quo: Par2 Mini golf, Napier Municipal Theatre, only minor impacts on the overall rates position, resulting in a net nil movement (0%).
4. Do Nothing: Bay Skate, no change.

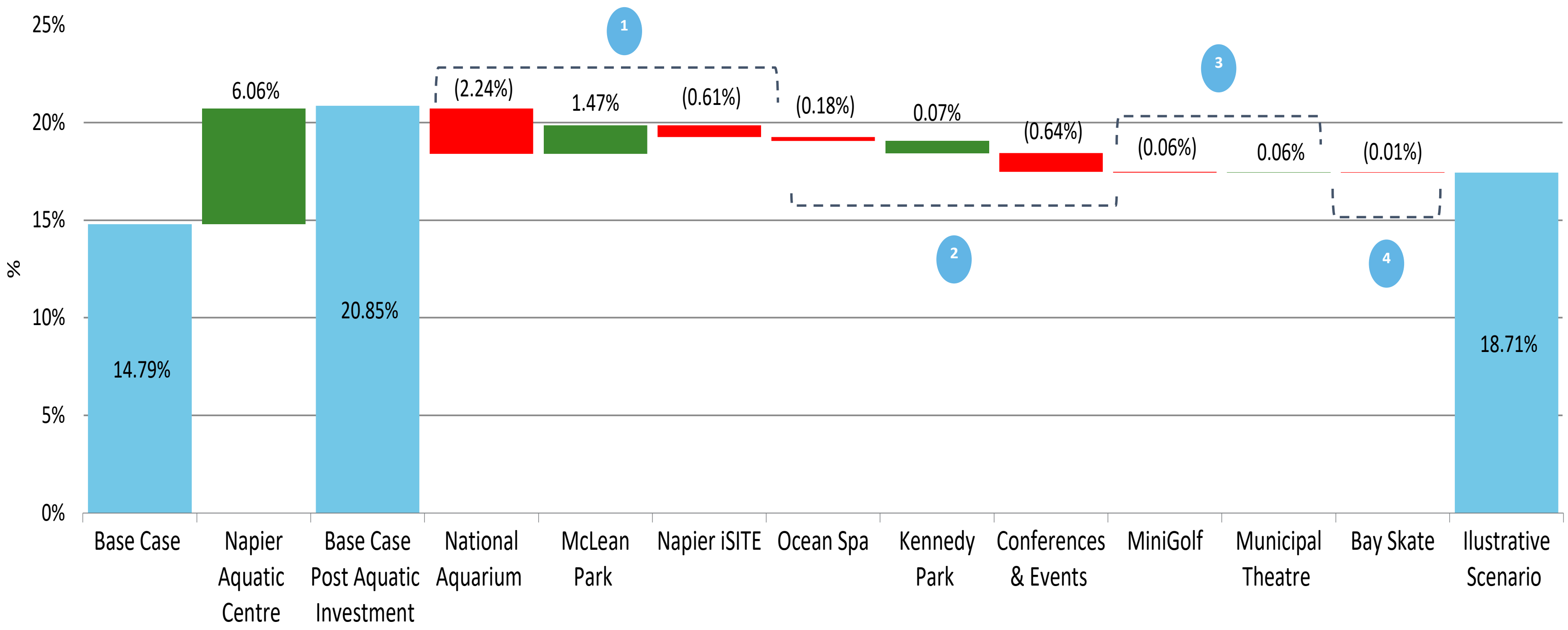
Under our illustrative scenario, rates would increase by ~4% relative to the base case. This is due to the aquatic redevelopment (~6%) offset by rates reductions from business activity closures and minor rates benefits from improved financial performance.

Cumulative Cash Flow

Cumulative cash flow deteriorates to $186m as a result of the $90m investment in the Aquatic Facility and $20m in McLean Park. This is a variance of $91m relative to the base case ($95m). However, excluding the impact of the CapEx provided for reimagining the Aquatic Facility and McLean Park the aggregated cumulative cash flows are ~$76m.

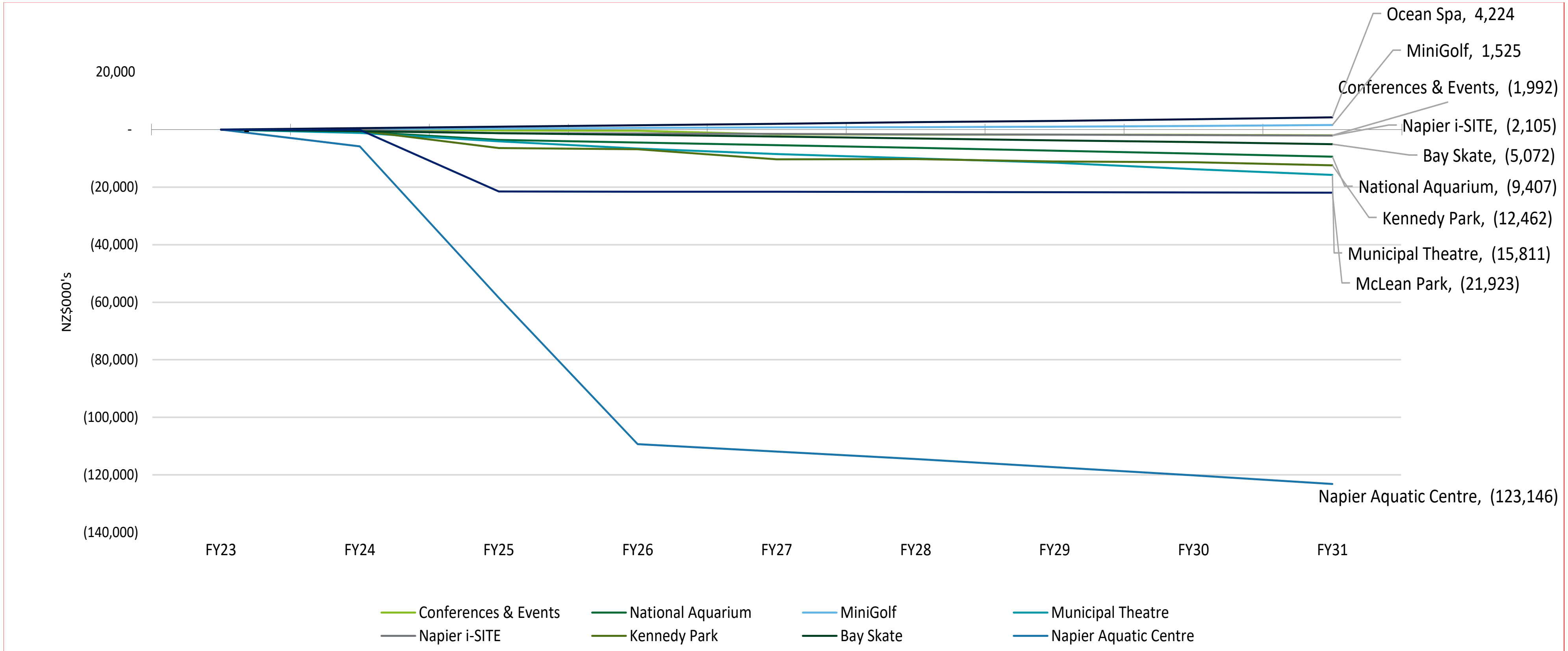
Therefore, there is an implied improvement across all other business activities of ~$19m (being the difference between the base case $95m and the $76m noted above). Most of this is associated with exiting the National Aquarium within our illustrative scenario. The impact of capital escalation (i.e. a 25% escalation) has been effectively offset within our analysis by the other actions taken across all other business activities.

Graph Six: NCC Impact to Rates



Source: Deloitte Analysis

Graph Seven: Cumulative Cash Flow (EBITDA less Capex)



Source: NCC LTP Financials, Deloitte Analysis

Summary

The recommended series of strategic levers across the 10 Council business units presents a complex scenario with both positive and negative implications for Council and its stakeholders. The initiatives will most likely require an injection of capital leading to higher rates. In addition, it is essential to acknowledge that they are not guaranteed to improve the financial sustainability of the Council as the profitability is not anticipated to materially improve.

However, it is important to recognise that the proposed strategies will bring about benefits in terms of asset condition and overall asset resilience. By prioritising the enhancement and maintenance of the Council's assets, NCC would have a more robust and fit-for-purpose asset base – which is in line with Council strategic objectives. This, in turn, can lead to long-term cost savings, as well as a reduced likelihood of deferred maintenance and replacement spend.

Furthermore, the improvements in the visitor experience are a valuable outcome of these strategic levers and again, aligns with Council's objectives. A more attractive and well-maintained environment can boost tourism and visitor spending, potentially generating additional revenue for the Council and its local businesses.

In weighing the costs against the benefits, the recommended strategies should not be solely judged on their immediate financial impact. Instead, a comprehensive evaluation should consider the long-term sustainability and overall value they bring to the community. While the initial investment and ratepayer impact may pose challenges, the improvements in asset resilience and visitor experience offer the potential for a stronger, more vibrant, and sustainable future for the Council. The decision-makers must carefully balance these factors to make a well-informed choice that aligns with the community's best interests and long-term goals, as well as Council's vision and strategic objectives.

Limitations

While we have modelled potential business activity exits the estimated costs are high level and indicative only. Any reimagine/closure scenario is not defined at this stage and will only be defined post conceptualising the alterative reimagine scenarios/detailed business cases.

- Capital cost estimates for the reimagine scenario are high level estimates and would be refined following Phase 2 business case workstreams (at which point it would be based on designs, QS estimates etc);
- Further we note that timings are indicative as we anticipate that any exit scenarios are subject to NCC public consultation processes.
- The model has been developed using the NCC's FY22 LTP projections as a base position. These are currently being revised within the current LTP cycle, therefore these figures are potentially subject to change.
- The level of forecast capital expenditure relies on limited asset condition data. This, coupled with a historic renewal's deficit, may mean that capital expenditure within the model is likely understated.
- For NCC to consider these options, consideration is required of the full NCC capital plan and debt availability as there may not be sufficient headroom depending on other capital priorities (Three waters, cyclone recovery etc). An analysis of the consolidated NCC financial position is outside the scope of this review.
- It should be noted that the model projections have been compiled from information and instructions furnished to us, and estimates made by Deloitte. As these projections are based on assumptions about circumstances and events that have not yet occurred, they are subject to variations that may arise. Accordingly, Deloitte cannot give assurance that the predicted results will actually be attained.

7.0 NEXT STEPS: THE ROADMAP FORWARD

Council sought a review "to look for efficiencies and models of operations to improve financial performance and determine the best strategic direction for financial sustainability". Council was looking for a model that would help to keep rates down and return surplus whilst also align with the Council's city vision and strategic objectives. The Business Review was to be broken into two phases; Phase One to assess the commercial viability of the facilities and develop a commercial operating model, and Phase Two to develop the business case to adopt the recommended model(s).

Phase One

For some, Phase One, was seen as a step to identify facilities that should be closed. Following review, the consultant team was able to identify the 'current' commercial viability of the assets. However, it became clear that some of these assets could potentially be 'reimagined' to become more financially viable and less of a burden on Council. Other assets could potentially be optimised to generate greater revenue.

In essence it was considered prudent not to make hard decisions immediately and risk 'throwing the baby out with the bathwater' based on a high level first step review. This is especially true given available data was often high level or incomplete (examples include detailed condition assessments, evidence-based renewals data, and current economic impact assessment).

Phase One has been able to group facilities and identify four that fit within a reimagine or exit grouping (which could also include repurposing). 'Exit' could mean a full exit or closing a facility in one location and moving into another. Some facilities cannot be closed either for community provision reasons.

Phase Two

Phase Two, as noted at the outset, was to develop the business case to adopt the recommended model(s). We are recommending that a series of additional steps are introduced into Phase Two (or ideally prior to Phase Two). These are:

- Parameter workshops, prior to Phase Two: A series of workshops that involve a cross section of Council staff and Councillors. These workshops would help to refine the parameters each facility should be working within and a series of objectives. This is important because currently opinions on such subjects are not aligned across Council. These parameters must be signed off by Council. Table Eight outlines example parameters and objectives.
- Phase Two tasks, which may include a combination of:
    - Additional data collection (such as condition assessments and costings)
    - Facility/experience reimagining/conceptualisations
    - Strategic plans
    - Business cases
    - Business plans/optimisation plans

To set the parameters, it is recommended that discussions are held with facility managers, PCG representatives, ELT, and elected members. It would be advisable to run these workshop(s) in October/November. These workshop(s) would include facility-by-facility discussions (while also being aware of Council's overall financial position). These parameters set how much leeway there is for reimagining/optimising facilities. They can also be used to help scope what will be required during Phase Two.

Table Eight: Example Parameters and Objectives

Example Parameters	- Operational subsidies must not exceed $XX pa - Renewals must not exceed $XX over a set period - Establishment capital must not exceed $XX - The experience must not occupy more than XXm^2 on XX site - The burden on ratepayers must not exceed XX - The facility must advance the strategic objectives of Council. *Important Note: When setting individual facility parameters, it is important the impact on the wider Council/network position is considered.*
Example Objectives	- Revenue must be above $XX by year $XX - Economic multipliers for the region must be above XX - The experience must have an IRR above XX% by year XX of operation.

Once drafted, the parameters would then go to elected members to workshop for their agreement. Once attained, it would be advisable that a resolution is sought to lock in the parameters. The workshop will also help Councillors to clearly understand the scale of the decisions ahead. It is important that the overall position of the network and Council is carefully considered.

To assist the Phase Two process, Table 10 sets out a series of notes on each facility. Much of Phase Two can be initiated immediately after the parameters are set. Assets that fall in the 'Reimagine or Close/Exit' category are likely to require the most in-depth analysis, followed by those in the 'Reimagine' category. Only at the conclusion of Phase Two, if no workable option was found (within the parameters set), should recommendations be made to exit or close a facility.

Tips for NCC

1. **Parameters and Objectives:** When setting both parameters and objectives, it helps to canvas a broad spectrum of Council staff as early in the process as possible. They will need to understand the context in which parameters and objectives are being developed. Their perspectives can be gathered via online surveys, email questionnaires, interviews, and small workshops. These approaches can be undertaken prior to main management and governance workshops.
2. **Quick Wins:** Many of the tasks noted in Table 10 can be started ahead of any reimagining or optimisation process in Phase Two. For example, the cost estimate for the Napier Aquatic Centre concept can be updated relatively quickly and cheaply (circa $2000) while Ocean Spa could undertake a high level plant options assessment for circa $30,000 (or more detailed assessment for $60,000. Note EECA grants can cover 40% of this cost). These types of assessments will provide valuable insights and can occur immediately.

Table Nine: Proposed 'Roadmap' Forward

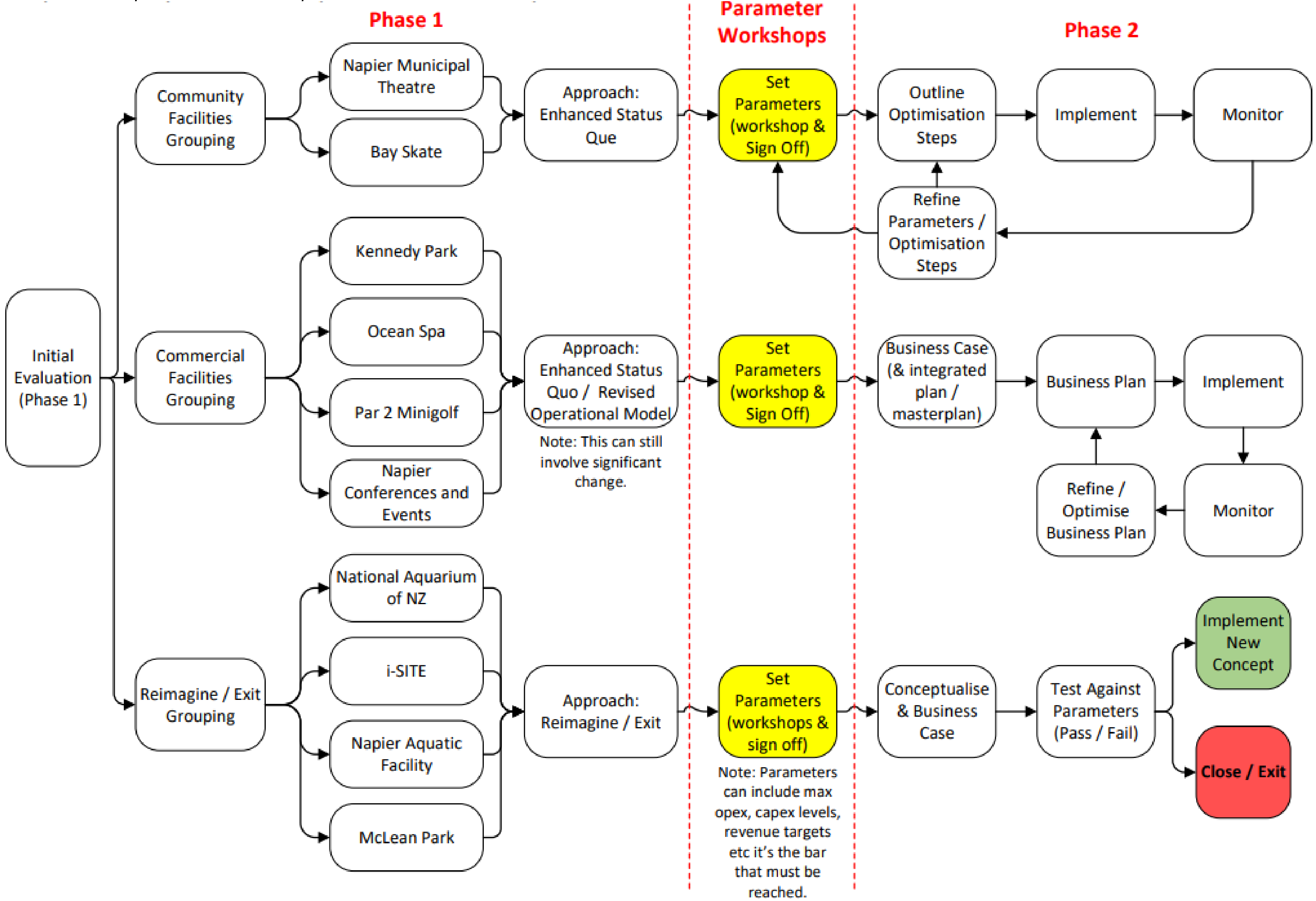


Table 10: Individual Facility Notes To Inform The Phase Two Process

Facility	Notes
National Aquarium of New Zealand	- An accurate understanding of the building's current condition is required (a holistic condition assessment). This needs to be translated into a remaining whole of life model and costed. This work should include all the aquarium's plant and services. - A high-level visitor experience assessment/audit should be undertaken. Provisional sums should be allocated to address all identified deficiencies. - Combined, the data from the above steps can be used to inform a more accurate CapEx cost. This will inform the viability of retaining or repurposing the facility. - Based on available data, we believe the best option is likely to be 'reimagining' a new experience. The sustainability of such an experience will need to be determined against a series of operating parameters and objectives set by Council. If a reimagined experience falls short of these targets in the business case, the experience should not be advanced and the aquarium will likely be closed.
Napier i-SITE	- A current business case is well underway to optimise the i-SITE and combine it with Par2 MiniGolf. This work could be completed, and its findings used as a comparison to a potentially more radical reimagined service/experience. - Based on available data, we believe the best option is likely to be a more radical 'reimagining' of a new visitor information experience. Potentially as part of a far wider experience offer. The sustainability of such a service/experience will need to be determined against a series of operating parameters and objectives set by Council. If a reimagined service/experience falls short of these targets in the business case, the experience should not be advanced. If it does pass these thresholds, it should be compared with the current business case. - Should neither business case prove sufficiently viable, consideration should be given to closing or scaling back.
Napier Aquatic Centre	- Significant work has already been undertaken on a new Napier Aquatic Centre. This work should be reviewed and updated where necessary (especially the cost estimate), to take account of network changes, technological advances and changing market conditions. - We would strongly recommend not building on a former landfill. - It may still be beneficial to take this project through a parameters and objectives process.
McLean Park	- The current stadium review can be used to inform Phase Two. - An accurate understanding of the condition of the stadium components is required (a holistic condition assessment). This needs to be translated into a remaining whole of life model and costed. - Combined, the data from the above step can be used to inform a more accurate CapEx cost. This will inform the viability of retaining or repurposing the stadium.

	- Based on available data we believe the best option is likely to be a more radical ‘reimagining’ of a new stadium experience. - The sustainability of any stadium approach (outlined in a business case) will need to be determined against a series of operating parameters and objectives set by Council.
Kennedy Park Resort	- Kenedy Park appears to have evolved rather than been master-planned based on strong commercial drivers. This needs to stop, and the site needs to be critically evaluated through a commercial lens. This will require a business case, strategic plan, revised operational model, and a masterplan. It is likely that these steps will also require a greater understanding of the condition of some of the site’s assets. - Taking a more commercial approach needs to include tackling both OpEx and CapEx challenges as well as maximising revenue and visitor experience objectives. - During the site inspection it appeared that there were many opportunities for optimisation which ranged from small to more capital-intensive initiatives.
Ocean Spa	- An accurate understanding of the building’s current condition is required (a holistic condition assessment). This needs to be translated into a remaining whole of life model and costed. This work should include all the pools plant and services. - Operational and CapEx costs (especially those associated with water heating and treatment) will likely play a significant role in just how commercial the pool can become. - Once these factors are known, greater commercialisation should be underpinned by a new strategic plan, business case, and revised operational model (which are all linked to a high-level masterplan).
Par2 MiniGolf	- This facility should not be considered “fixed” in a location sense; it could be better co-located/integrated with other facilities.
Napier Conferences & Events (in the War Memorial)	- This is a challenging facility from an operational and political perspective. However, we believe there are operational mechanisms and approaches that can be used to benefit both the community and commercial objectives of Council.
Napier Municipal Theatre	- Changing the theatre’s strategic objectives to being more community-focused is a more appropriate positioning. The theatre can still have some commercial drivers, but it is important that they are realistic and aligned to available budgets. - As for the other assets, reviewed renewals budgets should be based on accurate condition assessments. Heritage theatres are notorious for having ‘hidden’ CapEx costs that emerge when least expected. We believe it would be prudent to review the available technical material and fill any identified gaps.
Bay Skate	- Bay Skate is a costly facility to operate while having limited revenue generation opportunities. Given these factors we believe it would be prudent to review the operational model in detail with Management to determine what optimisations could be implemented (taking account of the parameters set by Council).

8.0 RECOMMENDATIONS

Phase One of the review makes the following recommendations:

1. NCC moves with urgency to address the identified data deficiencies in the following areas:
    a. Condition assessments are carried out or updated on all facilities (focusing first on those being potentially reimagined - McLean Park, National Aquarium of New Zealand, Napier i-SITE, Napier Aquatic Centre, Kennedy Park, and Ocean Spa).
    b. Whole of life cost estimates are updated/undertaken on all assets starting with those potentially being reimagined (based on the condition assessments).
    c. The draft LTP should be completed, and data used to inform the setting facility assessment 'parameters'.
    d. Economic and social impact assessment data is updated for all facilities (the timing of which will be dependent on how the facility reimagining process is undertaken).

2. Three facilities should change their Council categorisations:
    a. The Napier Municipal Theatre should become 'community',
    b. The Ocean Spa should become 'commercial' ,
    c. Napier Conferences and Events (at the War Memorial) should be termed 'Community/Commercial'.

3. Evaluation parameters are set for each facility prior to Phase Two commencing. These parameters should be set via a series of workshops that involve a cross section of Council staff and Councillors. Parameters must be signed off by Council.

4. That the outlined Phase Two 'road map' be implemented which sees facilities enhanced, reimagined, or potentially closed (depending on the set evaluation parameters). On a facility-by-facility basis, this will require a mix of steps such as reimagining (reconceptualisation), business cases, and master-planning.

5. Governance changes should only be considered at the end of Phase Two once the new network and each facility's objectives are better understood.

6. Community consultation is undertaken when Council is clear on exactly what they seek input on, based on the previous work being undertaken and proposed course of action identified.

APPENDIX ONE – Deloitte detailed financial analysis

Business Review: Community Services

Visitor Solutions Limited

Business Review: Community Services | September 2023

Contents

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Visitor Solutions Limited
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22 September 2023

Dear Craig

Visitor Solutions: Napier City Council Business Review

We enclose our Business Review (Report) prepared for Visitor Solutions (you, the Client, or Visitor Solutions), in relation to the work Visitor Solutions has undertaken for Napier City Council.

This analysis and report has been prepared for Visitor Solutions Limited in accordance with our engagement letter dated 11 July 2023. We consent with this analysis being incorporated into a DaylightNZ / Visitor Solutions wider report in connection with the project.

Our fieldwork was completed on 20 September 2023 and we have not updated our work since that date.

Yours faithfully

Richard Bailey
Partner
for Deloitte Limited (as trustee for the Deloitte Trading Trust)

Kyle Callow
Director

Introduction

Introduction | Overview

Napier City Council (NCC) has requested a business review of it's ten community service business activities.

Introduction

- Napier City Council (NCC) owns and operates a number of Community Service business activities in the Hawkes Bay region. These business activities have differing degrees of commercial and community focus.
- NCC has engaged DaylightNZ Limited in conjunction with Visitor Solutions to undertake a business review "to identify efficiencies and models of operations to improve financial performance and determine the best strategic direction for financial sustainability".
- There are ten revenue generating business activities within the Community Services Directorate, which include:
  - Kennedy Park Resort
  - McLean Park
  - National Aquarium of NZ
  - Napier Conferences & Events
  - Napier i-SITE
  - Par 2 Mini Golf
  - Napier Municipal Theatre
  - Ocean Spa
  - Bay Skate
  - Napier Aquatic Centre
- The Business Review has been broken into two phases. Phase 1 is to assess the commercial viability of the facilities and develop a commercial operating model, and Phase 2 to develop the business case to adopt the recommended model.
- This review does not provide a recommended course of action or preferred option as Elected Members will need to consider the financial and community impacts of the options and determine for themselves, on balance, a preferred course of action. These decisions will need to be made at the conclusion of Phase 2.

Background to this report

- Daylight has been commissioned to provide Phase 1 of the strategic review for NCC to provide options in relation to the future delivery of services that it provides.
- Daylight has produced a report which identifies a number of options for NCC to consider in relation to NCC's Community Services revenue generating activities.
- Our agreed scope of work is to support Daylight and Visitor Solutions by:
  - Preparing a high-level current state assessment of the ten identified business activities, identifying the financial performance of the business activities and their financial contribution to NCC.
  - Supporting the preparation of an options analysis, working with NCC on a list of potential commercial models of operations that consider governance, funding and service delivery.
  - Preparing and presenting to NCC a commercial model for identified commercially viable business activities, as well as appropriate grouping/s for identified non-commercial business activities.

Report Structure

- Our report is structured as follows:
  - Section 1: Historical financial assessment – Current state financial analysis of NCC's business activities including sensitivity analysis and breakeven analysis.
  - Section 2: Strategy alignment – An assessment of the business activities via a weighted strategy matrix to assess whether the facilities are satisfying NCC's strategic objectives.
  - Section 3: Strategic options analysis – Presentation of an illustrative financial scenario to highlight the potential impact to NCC ratepayers of business activity operational changes to specific business activities.

Introduction| Business Activity Primary Purpose

The business activities fall into three broad categories: community, commercial or facilitation of economic growth.

Business Activity Purpose

- The business activities each provide a range of community outcomes including meeting community needs, supporting a connected, safe, healthy and resilient community and retaining the culture and heritage of the NCC environment.
- Given the nature of the activities some will not achieve a commercial model of operation that enables efficient and sustainable financial performance.

Community Assets
While not strictly community assets by definition these business units are regarded as a community asset that provides value to a wide range of community users. Therefore the level of profitability is a cost of providing a community benefit.

Community

- McLean Park
- Aquatic Centre
- Municipal Theatre
- Bay Skate

Commercial/for profit ventures
While these business currently provide a mix of community and commercial operations they could be run on a 100% commercial basis to improve the contribution to NCC.

Commercial

- Mini Golf
- Conferences & Event[1]
- Kennedy Park1
- Marine Parade Pools

Economic Growth Facilitation
While these business are currently unprofitable their purpose is for a wider economic multiplier impact to the region.

Economic Growth Facilitation

- National Aquarium of NZ;
- i-SITE

- A summary of the business activities is provided in Appendix A1.

1: We understand there are policy restrictions which prevent the Conference and Events business activity operating on a purely commercial basis.

Current State Analysis

Current State Analysis| Introduction

The 10 business activities are not financially sustainable in their current state.

Introduction

- We have prepared historical financial analysis of the 10 business activities for the period FY15–FY23 alongside forecast information for the period from FY24–FY31.
- The analysis has been prepared based on historical financial extracts provided by NCC alongside long-term plan (LTP) forecasts for the FY24-FY31 period.
- We note that the forecast information is based on the FY22 LTP. We understand LTP information is currently being revised but is not available as at the time of drafting this report.
- The NCC financial information includes:
  - Direct operational revenues and costs;
  - Indirect costs incurred by NCC which directly relate to the facility (e.g. centralised insurance costs and a rate charge);
  - NCC overhead allocations – which are charged to each respective business activity, which primarily covers IT, HR & Finance etc;
  - Capital expenditure (by each individual business activity) – categorised by asset replacement, improvement to the level of service (of the business activity), additional demand and any asset sales; and
  - It is currently unclear how the financials consider the impact of IFRS-16 however we anticipate that leased assets would be relatively minor within the NCC Community Service business activities.
- The financial analysis for each individual business activity can be found in Appendix A2. This includes free cash flow analysis, debt projection and rates analysis for each of the ten business activities over the forecast period.

Financial Analysis

- The financial analysis presented following considers; the accounting cost (income statement), rates cost (debt projection and rate analysis) and cashflow cost (free cash flow analysis) to council.
- Our analysis focuses on the following key metrics:
  - EBITDA (earnings, before interest, tax, depreciation and amortisation);
  - EBIT (earnings, before interest and tax) – we note that EBIT is often used as a proxy for financial sustainability as a positive EBIT indicates that a business activity is covering operational expenditure and depreciation and therefore could fund renewal related capex expenditure over time (noting that depreciation is often used as a proxy for maintenance capex requirements);
  - Cumulative Cashflow – we have used EBITDA less capex as a proxy for cumulative free cash flows noting that working capital requirements would be relatively minor given the nature of the business activities. The cashflow cost to council is the real amount of cash that NCC pays per year for rates. This is derived by taking net operating cost/profit (EBIT) and adding back depreciation on the facility that it is rated for to generate EBITDA. Capital expenditure (e.g. asset replacement) is then deducted to determine free cash flows of each business activity; and
  - Rates effect to council/ratepayers: The rates analysis has been prepared on a simplified approach, with the intention of understanding both the historical and forecast impact for each of the 10 business activities relative to the total NCC general rates (~$80m). The accounting cost to council is the amount which appears in NCC’s annual accounts. This considers net revenue, operating costs, interest and depreciation for each individual business activity. We understand the interest on funds borrowed to fund the capital cost per business activity is 5.5%, repaid over 30 years on a table loan basis (equal payments each year). We also assume deprecation on the fit-out and plant is to be funded by council.

Current State Analysis | Financial Summary

The 10 business units are largely unprofitable (losing ~$5m EBITDA per annum in aggregate) and have large capex requirements over the next 8 years ($48.5m).

Current State: Financial Summary

- We have conducted analysis on the current state of each of NCC's ten business activities. The majority of the activities are unprofitable, many of which require significant capital expenditure over the next 8 years (FY24-FY31). They are not financially sustainable in their current state.
- There are only two businesses that are contributing back to council (Par2 Minigolf) and Ocean Spa (noting that the profitability of Ocean Spa remains to be proven following a recent change in the operating model).
- We have estimated the impact on rates of funding the business activities (in aggregate) at ~14.8% per annum (~$12m per annum). This includes the subsidising of operational losses, depreciation to fund asset replacements and the impact of debt finance costs (interest) and debt principal repayments on capital expenditure.

	Business Activity (Asset)	FY24 EBIT	FY24 EBITDA	Capex*	Rates %**	Key Observation
1	*McLean Park*	(59)	(55)	(476)	0.15%	Non-Profitable, however only minor losses EBITDA ~($60k). Profitable prior to NCC overhead allocations. Minor capex planned between FY23A – FY25F with FY25F spend of $423k forecast.
2	*National Aquarium of NZ*	(2,174)	(1,337)	(13,620)	3.35%	Non-Profitable. EBITDA ~($1.4m) per annum. Large capex planned in FY25 ~($6.8m), FY26 ~($1.0m) annual capex between FY26-FY31.
3	*Par 2 Minigolf*	113	141	(246)	-0.10%	Profitable. EBITDA ~$150k per annum.
4	*Napier Conferences & Events*	(625)	(215)	(4,666)	2.03%	Non-Profitable, however only minor losses EBITDA ~($200k) per year. Breaks even prior to NCC overhead allocations.
5	*Napier Municipal Theatre*	(1,415)	(945)	(5,566)	1.93%	Non-Profitable. EBITDA ~($1.0m) per annum. Reasonably significant capex planned over the next three years.
6	*Napier i-SITE Visitor Centre*	(712)	(633)	(640)	0.81%	Non-Profitable. EBITDA ~($650k) per annum. Minor capex planned between FY25-FY31F. Capex proposed within recent review not currently in LTP forecasts.
7	*Kennedy Park*	(95)	334	(13,184)	1.18%	Profitable. EBITDA ~$350k per annum. However, has operated unprofitably historically. Large capex planned in FY25 ~($5.1m), followed by ~($3.0m) in FY27.
8	*Bay Skate*	(677)	(469)	(543)	1.72%	Non-Profitable. EBITDA ~($500k) per annum. Initial establishment capex ~($8.0m) incurred in FY17, however little planned capex in forecast years.
9	*Napier Aquatic Centre*	(2,430)	(2,130)	(8,874)	3.52%	Non-Profitable. EBITDA ~($2.1m) per annum. Reasonably significant capex planned in FY24 and FY25 ~($3.0m) per annum. Only minor capex planned between FY26-FY31. Rebuild capital costs not in current LTP forecasts.
10	*Ocean Spa*	49	380	(739)	0.20%	Historically unprofitable (prior to FY23). Expected to be profitable from FY24 onwards (following a change in the operational structure), EBITDA ~$400k-$500k between FY24-FY31. Capex ~($2.2m) in FY23 related to a redevelopment project. Minimal capex planned between FY26-FY31. Has a low NCC overhead allocation relative to other facilities.
	Total	(8,025)	(4,930)	(48,553)	14.79%	

* Capex forecast FY24-FY31

** Based on EBITDA, depreciation, interest and debt repayments (5.5%, 30 years). NCC total rates ~$80m.

Note: the assessment of profitability is based on our analysis of historical trading performance alongside the most recent FY24 forecast profitability.

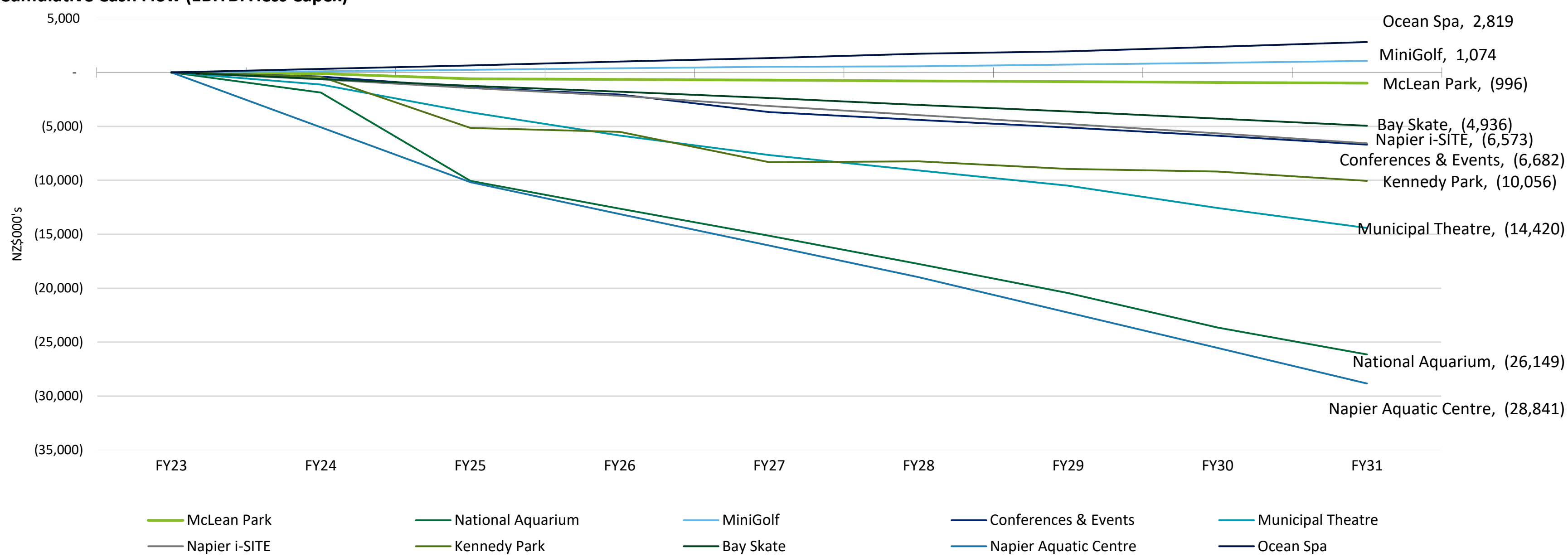
Current State Analysis | Forecast Funding

Across the 10 business units there is ~$95m of cash required to fund operational losses (EBITDA) and capital requirements over the next 8 years (based on current LTP projections).

Current State: Cumulative Cash Flow Funding Requirement

- Across the 10 business units there is ~$95m of cash required to fund operational losses (EBITDA) and capital requirements over the next 8 years (based on current LTP projections).
- We highlight the following:
  - Two profitable business activities, being Ocean Spa and Minigolf, are making a relatively modest return to NCC over the forecast period (FY24-FY31);
  - The i-SITE will require $6.6m in operational subsidies over the next 8 years;
  - The Conference & Events Centre and Kennedy Park businesses are forecast to require $16.8m in cash funding over the next 8 years;
  - The Napier Aquatic Centre will require ~$29m in cash funding over the next 8 years (~30% of the total required funding); and
  - The National Aquarium will require ~$26m in cash funding over the next 8 years (~27% of the total required funding).

Cumulative Cash Flow (EBITDA less Capex)



Source: NCC LTP Financials, Deloitte Analysis

Current State Analysis | Capex Sensitivity

In the absence of detailed asset condition assessments and due to deferred capital maintenance requirements there are concerns that NCC's capital forecasts are understated.

Capex Sensitivity

- Based on discussions with the respective business activity managers we understand there is an absence of detailed asset condition assessments and therefore some doubt as to the validity of the capital expenditure forecasts within the LTP projections.
- We have performed sensitivity analysis on the business activities forecast capital expenditure to assess the impact to NCC rates if capital expenditure is ~25% higher than forecast.
- We note that the 25% is based loosely on a recent BERL CPI and CGPI index which are anticipated to add an extra 19% to previously forecast capital expenditure estimates.
- The sensitivity analysis illustrates the impact of the capital cost increase on:
  - EBIT (as depreciation costs increase as a result of the additional capital expenditure); and
  - Rates (as we have modelled the capital as debt funded the cost of interest and annual debt repayments (alongside the added depreciation burden) will need to be funded by rate increases to ratepayers).
- A 25% increase to capex expenditure is estimated to have a $405k negative impact to EBIT (increased depreciation) and a ~1% ($800k) negative impact to rates.
- We note that the 15.79% increase in the proportion of rates required to fund the business activities represents the average over the 8-year forecast period, the impact on rates of the capital expenditure is distorted by the timing of the spend. For example, if the increase was to be incurred in FY24, the rates impact would be ~1.5%.

Scenario Analysis

		Base Case			Scenario A - 25% CAPEX		
	Business Activity (Asset)	Average EBIT	Capex*	Rates %**	Average EBIT	Capex*	Rates %**
1	*McLean Park*	(69)	(476)	*0.15%*	(74)	(595)	*0.17%*
2	*National Aquarium of NZ*	(2,547)	(13,620)	*3.35%*	(2,662)	(17,025)	*3.63%*
3	*Par 2 Minigolf*	132	(246)	*(0.10%)*	131	(308)	*(0.10%)*
4	*Napier Conferences & Events*	(732)	(4,666)	*2.03%*	(765)	(5,832)	*2.10%*
5	*Napier Municipal Theatre*	(1,658)	(5,566)	*1.93%*	(1,700)	(6,957)	*2.03%*
6	*Napier i-SITE Visitor Centre*	(834)	(640)	*0.81%*	(839)	(800)	*0.82%*
7	*Kennedy Park*	(111)	(13,184)	*1.18%*	(219)	(16,480)	*1.45%*
8	*Bay Skate*	(793)	(543)	*1.72%*	(797)	(679)	*1.74%*
9	*Napier Aquatic Centre*	(2,847)	(8,874)	*3.52%*	(2,932)	(11,093)	*3.74%*
10	*Ocean Spa*	57	(739)	*0.20%*	52	(923)	*0.21%*
	Total	(9,401)	(48,553)	14.79%	(9,806)	(60,692)	15.79%

* Capex forecast FY24-FY31

** Based on EBITDA, depreciation, interest and debt repayments (5.5%, 30 years). NCC total rates ~$80m.

Current State Analysis | Breakeven Analysis

Napier Aquatic Centre, Municipal Theatre, Bay Skate and Napier i-SITE Visitor Centre would require a significant increase to revenue in order to break even.

Breakeven analysis:

- The table to the right illustrates the breakeven analysis conducted on NCC's ten community service business activities for the forecast period between FY24 to FY31.
- We have conducted the breakeven analysis by identifying the required the level of revenue increase required to achieve an EBIT of $0. We would anticipate that to achieve a breakeven position would likely be a combination of revenue and operating cost initiatives. However, based on survey information provided by facility managers there is a view that the operational cost structures (excluding the overhead charges applied by NCC) can not be materially improved any further than what they are already..
- We have used EBIT as a proxy for financial sustainability as this would result in each facility covering its expenditure alongside its depreciation (noting that depreciation is typically used as a proxy for the level of sustaining capex a facility would typically require). Under this financial scenario, NCC would therefore only need to subsidise any growth or redevelopment capex expenditure.
- The analysis indicates that:
  - The level of revenue increase required for the National Aquarium (84%), Napier Municipal Theatre (297%), Napier i-SITE Visitor Centre (162%), Bay Skate (254%) and Napier Aquatic Centre (272%) to achieve a breakeven EBIT position is unrealistic to be achieved via operational changes. Therefore these operations are unlikely to achieve a financially sustainable position.
  - However, the increase in revenue for McLean Park, Napier Conference & Events and Kennedy park is more modest. We would anticipate that these operations could potentially break even if they were given the mandate to be operated on a purely commercial basis (although the assessment of that is outside the scope of this review).
- There is a restriction based on NCC's policy that the Napier Conference & Events facilities are not used purely for commercial profit-making purposes and that the centre is made available for use by all sections of the community.

  [Napier-War-Memorial-Centre-Policy-2021-WEB.pdf]

Breakeven Analysis (FY24-FY31)

		Base Case			
	Business Activity (Asset)	EBIT*	Revenue*	Amount to Break even*	Required % Increase to Revenue
1	*McLean Park*	(69)	905	74	*8%*
2	*National Aquarium of NZ*	(2,547)	3,162	2,662	*84%*
3	*Par 2 Minigolf*	132	567	-	-
4	*Napier Conferences & Events*	(732)	2,617	697	*27%*
5	*Napier Municipal Theatre*	(1,658)	572	1,700	*297%*
6	*Napier i-SITE Visitor Centre*	(834)	517	839	*162%*
7	*Kennedy Park*	(111)	4,958	220	*4%*
8	*Bay Skate*	(793)	314	797	*254%*
9	*Napier Aquatic Centre*	(2,847)	1,078	2,933	*272%*
10	*Ocean Spa*	57	2,363	-	-

*Average between FY24-FY31

Source: NCC Management Information, Deloitte Analysis

Strategic Priority Alignment

Strategic Priority Alignment| Overview

We have conducted a weighted strategic assessment of NCC's facilities to assess whether they are satisfying NCC's overall strategic objectives.

Weighted Strategy Matrix Overview

- We have conducted a weighted strategy assessment on NCC's business activities to assess whether they are satisfying it's overall strategic objectives.
- The purpose of applying a weighted strategy assessment to NCC's business activities is to provide a structured and systematic approach for NCC's decision makers to objectively assess and rank them based on NCC's key strategic drivers.
- There are five primary steps in completing a weighted strategy assessment:

1. *Criteria Identification*: The first step involves identifying the key criteria that are relevant to evaluating the investment options. These criteria can be financial metrics, market potential, risk factors and alignment with organisational goals.
2. *Weight Assessment:* Each criterion is assigned a weight that reflects its importance or priority compared to other criteria. The sum of all weights is usually 1 or 100%, indicating the total importance across all criteria.
3. *Scoring:* For each investment opportunity, the decision-makers assess and assign scores to each criterion based on how well the opportunity aligns with that criterion. Scores can be numerical or qualitative, depending on the nature of the criterion.
4. *Calculation:* The scores are then multiplied by their corresponding weights, and the results are summed up to obtain a weighted score for each investment option.
5. *Ranking and Prioritisation*: The investment options are ranked based on the total weighted scores. Higher scores indicate better alignment with the predefined criteria, and, therefore, a higher priority for investment.

- The benefits of using a weighted strategy matrix include:
  - *Objectivity*: By assigning weights and scores systematically, the decision-making process becomes more objective and less influenced by any personal biases.
  - *Clarity*: The matrix provides a visual representation of how investment options compare against each other, making it easier to understand and communicate priorities.
  - *Consistency*: The matrix allows for consistent evaluation across various projects, ensuring that the same criteria and weights are applied uniformly.
  - *Informed Decisions*: Decision-makers can make more informed choices by considering both quantitative and qualitative factors, leading to better investment outcomes.
- Overall, a weighted strategy matrix helps organisations allocate resources and investments more effectively by considering multiple dimensions of each opportunity and prioritising those that align closely with the organisation's strategic goals and priorities.

Strategic Priority Alignment| Criteria and Weighting

Assessment criteria has been aligned with NCC stated strategic objectives with weighting informed by workshops held with elected officials and facility managers.

1. Criteria Identification

- We have assessed each business activity against the following criteria:
  - *Demonstrated Community Need* – Nurturing authentic relationships with the community and partners. It is important that community facilities are accessible. That is they are equitably located within the region; they are physically accessible for people of all abilities, people are aware of their availability for the public to use, and they reflect the social, demographic and cultural needs of the community in their facility catchment.
  - *Future Resilience/Fit for Purpose* – A resilient city – the ability to thrive and withstand impacts, knocks and shocks.
  - *Financial Affordability* – Financially sustainable council: The degree to which the community can afford the facility is crucial.
  - *Partnership and Collaboration* – Works together with partners to develop and operate community facilities.
  - *Economic Multiplier Impact*. A great visitor destination. The degree to which the proposed investment has the potential to stimulate broader goals for social, cultural and economic development.
  - *Visitor Appeal and Quality Experience*. Napier is a destination aspiring to provide 'world class' facilities and attract domestic and international visitation.
- The criteria are strongly linked to NCC's current strategic priorities and broadly consistent with criteria used by the other regional councils within the North Island.
- These criteria are anticipated to guide NCC in decision making as they develop their LTP over the coming months. They are a tool to help NCC decide on what should be prioritised.

2. Weight Assessment:

- Weightings were assigned based on a workshop held with NCC elected members and the facility manager of each business unit. The adopted weightings were agreed following a PSG moderation session. The weightings were:

Strategic Driver / Priority	NCC Elected Members	Facility Managers	Adopted
Demonstrated Community Need	32 (14%)	23 (13%)	20%
Future Resilience/Fit for Purpose	43 (19%)	17 (9%)	10%
Financial Affordability – Financial Sustainable Council	31 (14%)	35 (19%)	25%
Accessibility for all – Spaces and Places for All	32 (14%)	32 (18%)	Considered within Demonstrated community need.
Partnership & Collaboration	26 (11%)	13 (7%)	10%
Economic Multiplier Impact – A great visitor destination	64 (28%)	60 (33%)	20%
Visitor Appeal and Quality Experience			15%

Note: the numbers represent the number of 'votes' that were assigned to each strategic driver within the workshops.

Strategic Priority Alignment| NCC Assessment

The internal workshop held with NCC elected members and facility mangers determined that Demonstrated Community Need and Economic Multiplier Impact had the highest weighting.

2. Weight Assessment (Continued):

- The adopted weightings have been based on the respective exercises but adjusted to reflect the primary purpose of the Phase 1 workstreams (i.e. to improve financial performance and determine the best strategic direction for financial sustainability).
- The weighted priorities are more heavily aligned to the following strategic priorities:
  - demonstrate community need;
  - financial sustainability; and
  - the economic multiplier effect.
- In addition we have included a separate visitor appeal and quality experience driver as the overarching strategic priority for NCC is to "enable places and spaces where everybody wants to be".

3. Scoring:

- Daylight, Visitor Solutions and Deloitte have made an indicative assessment of each of the business activities against the strategic priorities.
- We have made a relative assessment (scoring each facility between 0-5, 0 representing that it doesn't satisfy the strategic criteria and a 5 indicating that it completely satisfies the criteria) using the following logic and approach:
  - Demonstrated community Need: The extent to which there is a community requirement for the business activity.
  - Financial Affordability - Financially sustainable council: If the business activity has a negative contribution to rates (i.e. either the operations or funding of capital expenditure requirements need to be subsidised by rates) then it is assigned a 0. If a business activity has a positive contribution to rates (i.e. the facility is self-funding and can subsidise rates) then it is assigned a 5).
  - Economic Multiplier Impact - A great visitor destination: The degree to which the proposed investment has the potential to stimulate broader goals for social, cultural and economic development.
- In the absence of asset condition assessments, recent economic impact assessments the scoring has been subjective and largely informed by tours of the various facilities, interviews with facility managers and survey results (see Appendix A4 for details of the survey questions).
- The analysis indicates that:
  - Most facilities scored relatively poorly. 8 facilities achieved a weighted score under 2 (with an average across the facilities of 1.67 out of 5);
  - Only the Par-2 and Ocean Spa business units received a score of over 2.5 (noting that a score of 2.5 represents achievement of 50% of the strategic drivers);
- In general the business activities are not achieving the strategic drivers within their current state. Specifically the financial affordability, visitor appeal and quality experience strategic drivers and generally have a low economic multiplier effect.
- Therefore there is risk in achieving NCC's stated objective of "Enabling places and spaces where everybody wants to be".
- In order to validate our scoring we ran a workshop with the project steering group (PSG) who have scored each business activity independently.
- The assessment that PSG prepared validated and supported our analysis:
  - The four facilities ranked lowest (Aquarium, I-Site, McLean Park and Aquatic) were consistent across both assessments. The highest ranked facilities remained the same (Ocean Spa & Par-2) in part as they are financially self-supporting;
  - There was some minor variation in the ranking of Kennedy Park and Conference & Events centre – in part due to alternative views on the future resilience and economic multiplier effect (albeit these were minor adjustments to our original assessment).

Strategic Priority Alignment| NCC Assessment

The business units are not satisfying the strategic drivers of NCC: “*Enabling places and spaces where everybody wants to be*”.

4 & 5. Calculation and Prioritisation

- The weighted assessment prepared by Daylight, Visitor Solutions and Deloitte is presented below. The scoring is based out of 5.

Strategic Driver/Priorities	Weighting	McLean Park	National Aquarium	Par-2 MiniGolf	Conferences & Events	Municipal Thearte	Napier i-SITE	Kennedy Park	Bay Skate	Napier Aquatic Centre	Ocean Spa
Demonstrated Community Need/Accessibility for all - Nurturing authentic relationships with our community and partners. Napier has spaces and places that everyone has access to and wants to use. We have a focus on accessibility, affordability, safety, and city vibrancy.	20%	2	3	3	2	3	2	3	4	5	4
Future Resilience/Fit for Purpose - A resilient city – the ability to thrive and withstand impacts, knocks and shocks.	10%	1	2	3	3	3	1	3	4	1	3
Financial Affordability - Financially sustainable Council.	25%	0	0	5	0	0	0	0	0	0	3
Partnership & collaboration - Nurturing authentic relationships with our community and partners.	10%	1	4	1	2	3	2	1	1	3	1
Economic Multiplier Impact - A great visitor destination.	20%	3	2	1	4	2	2	3	1	1	2
Visitor Appeal & Quality Experience - Napier is a destination aspiring to provide 'world class' facilities and attract visitors to our city. We make it easy for people to invest in our city and create experiences that attract widespread participation.	15%	2	2	2	3	3	2	3	4	1	3
Total	**100%**										
Weighted Score (out of 5)		**1.50**	**1.90**	**2.75**	**2.15**	**2.05**	**1.40**	**2.05**	**2.10**	**1.75**	**2.80**
Rates Impact (Forecast)		**0.15%**	**3.36%**	**-0.10%**	**2.03%**	**1.93%**	**0.81%**	**1.18%**	**1.72%**	**3.52%**	**0.20%**
Rank (Investment Priority)		***9.00***	***7.00***	***2.00***	***3.00***	***6.00***	***10.00***	***5.00***	***4.00***	***8.00***	***1.00***

Options Analysis

Options Analysis | Introduction

We have prepared an illustrative, high level financial analysis to indicate the potential impact to NCC of alternative strategic options.

Introduction

- We have prepared an illustrative, high level financial analysis to indicate the potential impact to NCC of alternative strategic option.
- We highlight the analysis does not represent a recommended course of action or a preferred option as Elected Members will need to consider the financial and community impacts of the options and determine for themselves, on balance, a preferred course of action.
- Further we note the reimagine scenarios are not defined at this stage and will only be defined post conceptualising the alterative reimagine scenarios / detailed business cases – for reference there are capital numbers in the public domain/provided to us related to previous studies including:
  - National Aquarium ($77.5m in the business case (2021 numbers); This project was not approved due to it being unfeasible.
  - New Aquatic Facility ($70m at revised location (2022 numbers));
  - I-Site $7m-$14m based on discussions provisionally had with Morrison Low (understood to be early-stage estimates);
  - McLean Park ($40m which was tagged for a stand replacement in year 24 of the 2024/54 LTP).
- Accordingly, our analysis is designed to provide an indicative illustrative impact of the various levers so as to understand whether the goal of the business activities being financially sustainable is achievable.
- A simplified model has been developed to test various strategic options and the impact of those decisions on the financials of NCC. These options include: Status Quo (Do Nothing), Enhanced Status Quo, Revised Operational Model (Reimagine) and Closure/Exit.
- It should be noted that the assessment of the options are part of a separate report provided by Daylight in conjunction with Visitor Solutions that is not duplicated here.

Key Assumptions

- The model has an 8-year time horizon (FY24F-FY31F), and has been reconciled against NCC's LTP to ensure consistency and data integrity.
- The model includes the ability to adjust the following key input variables:
  - Revenue and operational expenses (via specific initiatives);
  - NCC overhead allocation costs;
  - Capital expansion opportunities;
  - Debt projection (interest and principal payments).
- The following pages provide:
  - A summary of the recommended options for the 10 business activities which are detailed within the Daylight report;
  - A summary of the simplified assumptions we have applied to prepare an illustrative impact to cumulative cash flows and ratepayers of the recommended options.
- We note that under alternative exit scenarios that there would likely be a level of stranded overhead costs which are currently charged to the various business activities. We would consider it unlikely that NCC could bank savings in allocated overhead (assuming a facility closure) and therefore we have retained the overhead charge from NCC within our financial analysis of the illustrative option.

Options Analysis | Options

Recommended options are a combination of re-imagine (including closure), commercially unleashing some business units and maintaining the status quo.

Recommendation Options

- The consulting panel have recommended the following options for NCC's ten business activities. These have been categorised by the following; "Do Nothing", "Enhanced Status Quo", "Revised Operational Model" and "Closure/Exit".
- For modelling / illustrative purposes we have provided a combination of closure and reimagine options noting that the reimagine options will only be defined post a conceptualising exercise.

Options	McLean Park	National Aquarium	Par 2 Minigolf	Conference & Events	Municipal Theatre	Napier I-Site	Kennedy Park	Bay Skate	Napier Aquatic	Ocean Spa
Status Quo (Do Nothing)								✓		
Enhanced Status-Quo			✓	✓	✓			✓		
Revised Operational Model/Reimagine	✓	✓	✓	✓		✓	✓		✓	✓
Closure/Exit	✓	✓				✓			✓	

Source: Daylight, Visitor Solutions: Business Review Report

Options Analysis | Assumptions

Under the illustrative scenario, each business activities cashflows have been adjusted to reflect the potential options: Reimagine, Commercially unleash, Enhanced Status Quo, and Do nothing.

Illustrative Option:

- We have prepared a scenario ('the Illustrative scenario'), where the cashflows for each business unit are adjusted to reflect the potential options:
  - Reimagine – Material change to facility; either additional CAPEX or closure.
  - Commercially unleash – Restructure in order to be profitable.
  - Enhanced Status Quo – Carry on as is, with minor improvements.
  - Do Nothing – No change to the current facility.
- Our high level assumptions for the Illustrative scenario are presented in the table to the right.
- We highlight the Capital cost estimates for the reimagine scenarios are high level estimates and would be refined following stage 2 business case workstreams (at which point would be based on designs, QS estimates etc).

Business Activity		Assumptions (for illustrative scenario)
McLean Park		• Reimagine – Redevelopment of the park. $20m CAPEX in FY25, retain other capex from the current forecast. Retain current financial performance.
National Aquarium		• Reimagine – Closure from FY25. $2m CAPEX remain in FY25 for demolition costs. NCC costs remain as 'stranded overhead costs'.
Minigolf		• Enhanced Status Quo – Included an additional $50k of profitability on assumption of leveraging labour costs between facilities.
Conference & Events		• Commercially unleash within the bounds of NCC's policy – retain current cost structure, target EBIT margin of 0% (i.e. profit margin that contributes to depreciation, but no incremental profit margin).
Municipal Theatre		• Enhanced Status Quo – Unchanged. Implicit assumption that any additional community offerings are net neutral in terms of financial performance.
Napier i-Site		• Reimagine – Redevelop a new concept from FY25. $1m CAPEX in FY25 for development of low cost alternative. NCC overhead costs remain as 'stranded overhead costs'.
Kennedy Park		• Commercially unleash – Retain current cost structure. Target an EBIT margin of 0% (i.e. a level of profitability that contributes to depreciation, but no incremental profit margin).
Bay Skate		• Do nothing.
Napier Aquatic		• Reimagine – Allow for $90m of CAPEX over FY25/FY26 and remove other capex from the forecast. Retain current financial performance.
Ocean Spa		• Commercially unleash – Retain the current cost structure. Target an EBIT margin of 10% (i.e. profit margin that contributes to depreciation, with a small incremental profit margin).

Options Analysis | Impact to Rates

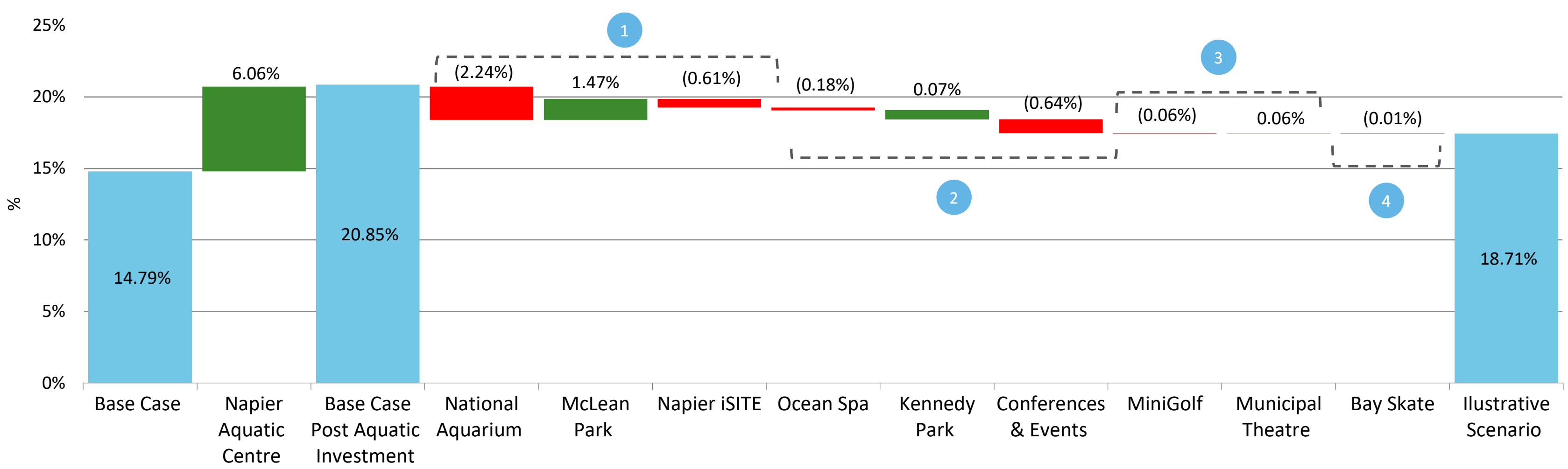
Under our illustrative scenario, rates would increase by ~4% relative to the base case. This is due to the aquatic redevelopment (~6%) offset by rates reductions from business activity closures and minor rates benefits from improved financial performance.

Impact to NCC Rates

- The graph below illustrates the impact to a rates movement between the base case (current state) and the illustrative scenario.
- The impact to rates can be summarised:

1. Reimagine/Closure – Napier Aquatic Centre redevelopment, increase to rates of 6.06%. National Aquarium facility closure, decrease to rates of 2.24%;
2. Commercially Unleash – Ocean Spa, Kennedy Park and Conferences & Events, decrease to rates of 0.75%;
3. Enhanced Status Quo – Mini golf, Municipal Theatre, only minor impacts on the overall rates position - resulting in a net nil movement (0%).
4. Do Nothing - Bay Skate – no change;

NCC Impact to Rates



Source: Deloitte Analysis

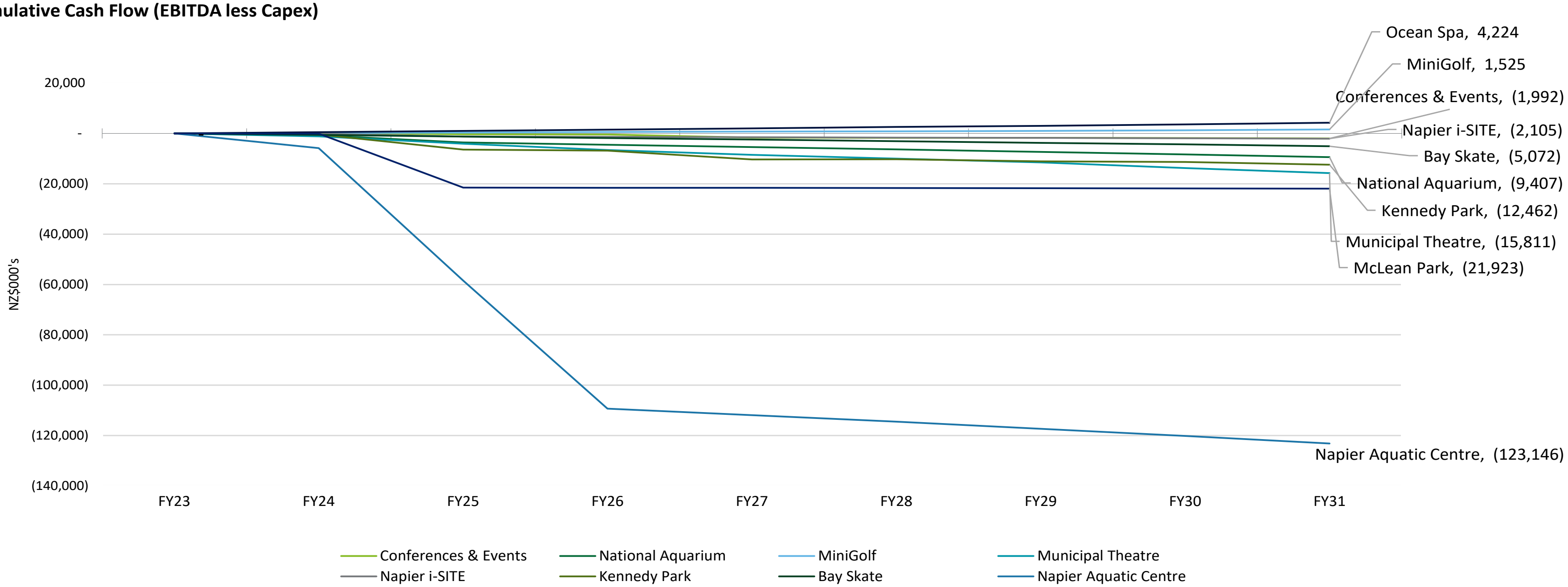
Options Analysis | Cumulative Cash Flow

The investment in the aquatic facility and McLean Park will negatively impact the total funding requirement. However, there is a net improvement across the forecast period of ~$19m driven by the changes to the other business activities.

Cumulative Cash Flow

- Cumulative cash flow deteriorates to $186m as a result of the $90m investment in the Aquatic Facility and $20m in McLean Park. This is a variance of $91m relative to the base case ($95m).
- However, excluding the impact of the capex provided for reimagining the Aquatic Facility and McLean Park the aggregated cumulative cash flows are ~$76m;
- Therefore there is an implied improvement across all other business activities of ~$19m (being the difference between the base case $95m and the $76m noted above). Most of this is associated with exiting the National Aquarium within our illustrative scenario. The impact of capital escalation (i.e. a 25% escalation) has been effectively offset within our analysis by the other actions taken across all other business activities.

Cumulative Cash Flow (EBITDA less Capex)



Source: NCC LTP Financials, Deloitte Analysis

Options Analysis | Summary

The illustrative analysis indicates that the strategic options available to NCC will not necessarily improve the financial sustainability but would assist in meeting NCC strategic priorities.

Summary

- The recommended series of strategic levers across the ten council business units presents a complex scenario with both positive and negative implications for council and its stakeholders. The initiatives will most likely require an injection of capital leading to a higher rates. In addition it is essential to acknowledge that they are not guaranteed to improve the financial sustainability of the council as the profitability is not anticipated to materially improve.
- However, it is important to recognise that the proposed strategies will bring about benefits in terms of asset condition and overall asset resilience. By prioritising the enhancement and maintenance of the council's assets, NCC would have a more robust and fit-for-purpose asset base. This, in turn, can lead to long-term cost savings, as well as a reduced likelihood of deferred maintenance and replacement spend.
- Furthermore, the improvements in the visitor experience are a valuable outcome of these strategic levers. A more attractive and well-maintained environment can boost tourism and visitor spending, potentially generating additional revenue for the council and its local businesses.
- In weighing the costs against the benefits, the recommended strategies should not be solely judged on their immediate financial impact. Instead, a comprehensive evaluation should consider the long-term sustainability and overall value they bring to the community. While the initial investment and ratepayer impact may pose challenges, the improvements in asset resilience and visitor experience offer the potential for a stronger, more vibrant, and sustainable future for the council. The decision-makers must carefully balance these factors to make a well-informed choice that aligns with the community's best interests and long-term goals.

Limitations

- While we have modelled potential business activity exits the estimated costs are high level and indicative only. Any reimagine/closure scenario is not defined at this stage and will only be defined post conceptualising the alterative reimagine scenarios / detailed business cases.
- Capital cost estimates for the reimagine scenario are high level estimates and would be refined following stage 2 business case workstreams (at which point it would be based on designs, QS estimates etc);
- Further we note that timings are indicative as we anticipate that any exit scenarios are subject to NCC public consultation processes.
- The model has been developed using the NCC’s FY22 LTP projections as a base position. These are currently being revised within the current LTP cycle, therefore these figures are potentially subject to change.
- The level of forecast capital expenditure relies on limited asset condition data. This, coupled with a historic renewal’s deficit, may mean that capital expenditure within the model is likely understated.
- For NCC to consider these options, consideration is required of the full NCC capital plan and debt availability as there may not be sufficient headroom depending on other capital priorities (three waters, cyclone recovery etc). An analysis of the consolidated NCC financial position is outside the scope of this review.
- It should be noted that the model projections have been compiled from information and instructions furnished to us, and estimates made by Deloitte. As these projections are based on assumptions about circumstances and events that have not yet occurred, they are subject to variations that may arise. Accordingly, Deloitte cannot give assurance that the predicted results will actually be attained.

Appendices

Appendices| A1: Business unit description

The business units fall into three broad categories / purpose: Community, Commercial or Facilitation of Economic Growth.

Business Activity		Description
McLean Park		• Hosting international and national sports events, this facility provides outdoor sportsgrounds and stands, indoor court facility as well as administration and hospitality areas. The park also plays host to trade shows, expos, community events and private functions.
National Aquarium		• The National Aquarium of New Zealand is a marine zoo/aquarium/kiwi breeding facility which attracts locals and visitors. This visitor experience is an integral part of the Marine Parade tourist attractions contributing favourably to the economic well-being of the city. The National Aquarium is also a quality provider of educational experiences and provides an affordable after-hours functions venue for Napier citizens and visitors to the region.
Minigolf		• Par2 Minigolf on Napier's Marine Parade next to Napier i-SITE has two eighteen hole courses, one slightly more challenging than the other. It attracts locals and visitors and is a fun family friendly activity for all ages.
Conference & Events		• Napier Conferences & Events is located on the northern end of Napier's Marine Parade with views from Mahia Peninsula to Cape Kidnappers, is Hawke's Bay's premiere, high quality full service conference and event venue. Napier Conferences & Events is suitable for a wide range of events and attracts local, national and international conferences.
Municipal Theatre		• The Napier Municipal Theatre is a leading theatre in Hawke's Bay for performances, shows, concerts, functions and events. Centrally located, the Theatre combines an elegant Art Deco style with modern theatre facilities. The large auditorium facilities and circular Pan Pac Foyer make it a flexible performance and event and facility.
Napier i-Site		• Napier i-SITE Visitor Centre provides visitor information for the people of Napier, Hawke's Bay and for visitors to the area, both domestic and international. It plays a vital role in the promotion of Napier and surrounding areas. The i-SITE is located within the key Marine Parade tourism precinct of Napier and plays a key role in the support of tourism and the local economy.

Appendices| A1: Business unit description

The business units fall into three broad categories / purpose: Community, Commercial or Facilitation of Economic Growth.

Business Activity		Description
Kennedy Park		• Kennedy Park Resort is located on Storkey Street in Marewa and offers a wide range of affordable accommodation types, including units, tents and nonpowered sites. The accommodation and associated facilities also cater for conferences and attract both national and international visitors. Kennedy Park is one of the busiest and most well revisited holiday parks in New Zealand and contributes favourably to the local economy.
Bay Skate		• Bay Skate on Marine Parade is a community facility providing for a range of roller-sport activities and community events. Local roller-sport clubs and groups are actively encouraged to use the facility for training, games and demonstrations.
Napier Aquatic		• Situated in the centre of Napier, in the middle of Onekawa Park, the Napier Aquatic Centre is a safe and affordable aquatic facility for everyone. The facility currently provides two 25m pools, a learners' pool, waterslides, spas, spray park and an outdoor area suitable for picnics. A number of services are provided ranging from learn to swim and aqua fitness to birthday parties. A new pool has been included in the plan and will require a change in location due to limitations on site development and contamination.
Ocean Spa		• Ocean Spa provides an outdoor complex with four heated outdoor pools and five spa pools. An external contractor manages the day-to-day running of the facility.

Appendices | A2: Historical Financials

The FY24 EBITDA forecast for the business activities is a $4.93m loss.

Summary Overview

- The table below summaries the FY24 Financial Performance for NCC's ten community service business activities. These are spilt into two portfolios: Business & Tourism and Sports & Recreation.
- Alongside the financial performance, our summary analysis includes a number of key financial metrics being; financial profitability, return on assets, rates analysis and NPV analysis over both the life to date (LTD) and forecast period (i.e. between FY24-FY31F).

FY24	Business & Tourism Portfolio							Sports & Recreation Portfolio			
NZ000's	**McLean Park**	**National Aquarium**	**MiniGolf**	**Conferences & Events**	**Municipal Theatre**	**Napier i-SITE**	**Kennedy Park**	**Bay Skate**	**Napier Aquatic**	**Ocean Spa**	**Total**
Statement of Financial Performance											
Revenue	772	2,698	484	2,234	488	441	4,232	268	902	2,017	14,536
Subsidies/Grants	-	2	-	-	-	-	-	-	19	-	20
Total Revenue	**772**	**2,699**	**484**	**2,234**	**488**	**441**	**4,232**	**268**	**920**	**2,017**	**14,556**
Employee Costs	(260)	(2,027)	(58)	(644)	(574)	(700)	(1,782)	(324)	(1,599)	(1,238)	(9,207)
NCC Direct	-	(141)	(11)	(107)	(136)	(18)	(166)	-	-	-	(578)
Other Operating	(437)	(1,078)	(156)	(1,416)	(503)	(238)	(926)	(175)	(574)	(316)	(5,819)
Capital Charge	-	-	-	-	64	-	-	-	-	-	64
NCC Overhead allocations	(130)	(790)	(119)	(282)	(285)	(118)	(1,024)	(237)	(878)	(83)	(3,946)
Total Operating Costs	**(828)**	**(4,036)**	**(343)**	**(2,449)**	**(1,433)**	**(1,074)**	**(3,898)**	**(736)**	**(3,051)**	**(1,638)**	**(19,486)**
EBITDA	**(55)**	**(1,337)**	**141**	**(215)**	**(945)**	**(633)**	**334**	**(469)**	**(2,130)**	**380**	**(4,930)**
Depreciation	(3)	(837)	(28)	(410)	(470)	(79)	(429)	(208)	(300)	(331)	(3,095)
EBIT	**(59)**	**(2,174)**	**113**	**(625)**	**(1,415)**	**(712)**	**(95)**	**(677)**	**(2,430)**	**49**	**(8,025)**
EBITDA %	*(7%)*	*(50%)*	*29%*	*(10%)*	*(194%)*	*(144%)*	*8%*	*(175%)*	*(232%)*	*19%*	*(754%)*
EBIT %	*(8%)*	*(81%)*	*23%*	*(28%)*	*(290%)*	*(161%)*	*(2%)*	*(253%)*	*(264%)*	*2%*	*(1,061%)*
Statement of Financial Position											
Fixed Assets (NBV)	49,492	18,199	551	16,388	13,916	1,114	16,896	4,869	5,624	9,922	136,971
ROA % (pre-tax)	*(0%)*	*(12%)*	*20%*	*(4%)*	*(10%)*	*(64%)*	*(1%)*	*(14%)*	*(43%)*	*0%*	*(127%)*
Value Analysis											
Net Present Value of Cash Flows											
LTD	(772)	(8,757)	688	(12,326)	(5,326)	(3,863)	693	(9,523)	(18,345)	(1,968)	(59,499)
Forecast	(837)	(21,129)	840	(5,262)	(11,415)	(5,151)	(8,404)	(3,892)	(23,293)	2,213	(76,329)
Rate Analysis											
Individual Contribution to Rates	(118)	(2,475)	102	(1,785)	(1,553)	(720)	(564)	(1,631)	(2,926)	(175)	(11,845)
Total NCC Rates	80,022	80,022	80,022	80,022	80,022	80,022	80,022	80,022	80,022	80,022	80,022
% of total rates	*0.15%*	*3.09%*	*(0.13%)*	*2.23%*	*1.94%*	*0.90%*	*0.70%*	*2.04%*	*3.66%*	*0.22%*	*14.80%*

Source: NCC Financial Information, Deloitte Analysis

Appendices | A2: Historical Financials

1. McLean Park

Overview

- Established in 1911, the McLean Park complex comprises an indoor stadium (the Centennial Event Centre) and an international standard outdoor sportsground and stands.

Financial Analysis

- Revenue is $1.3m in FY23, however is expected to decrease to $772k and $819k in FY24 and FY25 respectively.
- Total operating expenses were $1.3m in FY23, therefore offsetting revenue received this year almost entirely.
- EBITDA is negative for FY23 ($221k), and is expected to improve marginally by FY25 ($59k), albeit still negative. McLean Park is breaking even prior to NCC overhead allocations.
- Capital Expenditure is $605k for FY23A. Additional capex is also expected for FY24-FY25F ($53k and $423k respectively). No further capex is planned for forecast years.
- In our experience stadiums generally breakeven, or operate at a loss. Therefore are typically not able contribute to ongoing maintenance capex or make a contribution to rates.

McLean Park

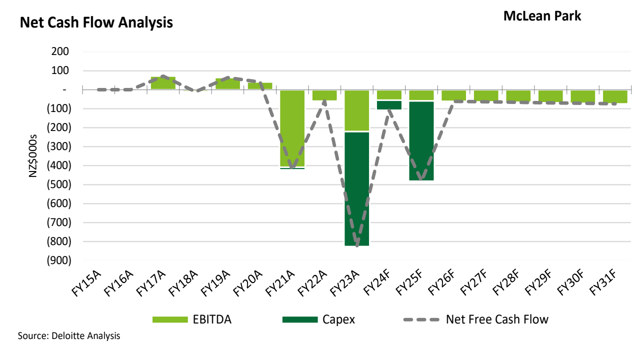
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	1,331	772	819
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	1,331	772	819
Employee Costs	(161)	(260)	(276)
NCC Direct	-	-	-
Other Operating Expenses	(1,277)	(437)	(463)
Capital charge	-	-	-
NCC Overhead allocations	(114)	(130)	(138)
Total Operating Costs	(1,552)	(828)	(877)
EBITDA	(221)	(55)	(59)
Depreciation	(3)	(3)	(3)
EBIT	(224)	(59)	(62)
EBITDA %	*(17%)*	*(7%)*	*(7%)*
EBIT %	*(17%)*	*(8%)*	*(8%)*

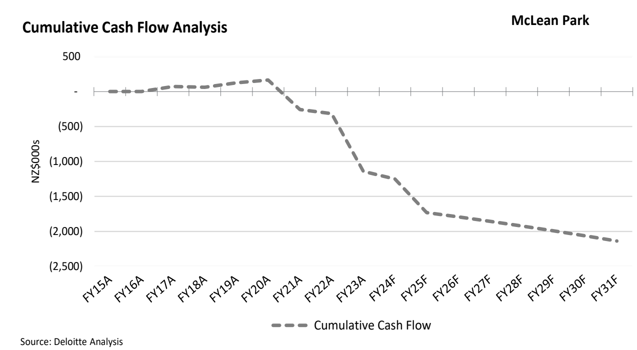
Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(221)	(55)	(59)
Capital Expenditure	(605)	(53)	(423)
Free Cash Flow (pre-tax)	(826)	(108)	(482)
Cumulative Free Cash Flow (pre-tax)	(1,142)	(1,250)	(1,732)

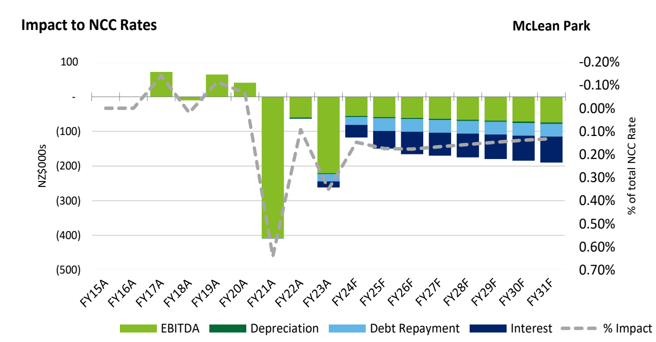
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	15	641	716
Capital Expenditure	605	53	423
Interest	17	37	51
Interest Paid	(17)	(37)	(51)
Principal Repayment	21	22	36
Closing Balance	641	716	1,175

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(221)	(55)	(59)
Depreciation	(3)	(3)	(3)
Debt Repayment	(21)	(22)	(36)
Interest	(17)	(37)	(51)
Rate Cost	(262)	(118)	(150)
Total Rates ($000)	74,670	80,022	85,861
% Impact to Rates	0.35%	0.15%	0.17%

Source: NCC Financial Information, Deloitte Analysis







Appendices | A2: Historical Financials

2. National Aquarium of NZ

Overview

- The National Aquarium on New Zealand is located at the southern end of Marine Parade. In 2002, the aquarium completed an $8.0 million redevelopment that included its new 1.5 million litre Oceanarium exhibit.

Financial Analysis

- Revenue is $2.5m in FY23, and is expected to increase by inflation to $2.7m and $2.9m in FY24F and FY25F respectively.
- Total operating expenses were $3.8m in FY23 and are expected to increase to $4.3m by FY25F.
- EBITDA is negative for FY23 ($1.4m). Historically, the aquarium not been profitable. This trend is expected to continue in forecast years (EBITDA ~($1.5m) per annum).
- There is a significant $6.8m capital expenditure requirement forecast for FY25. An additional ~$1m capex per annum is forecast between FY26-FY31.
- Capital expenditure appears to be maintenance in nature noting that there is no improvement in the forecast level of profitability post the expenditure.

National Aquarium

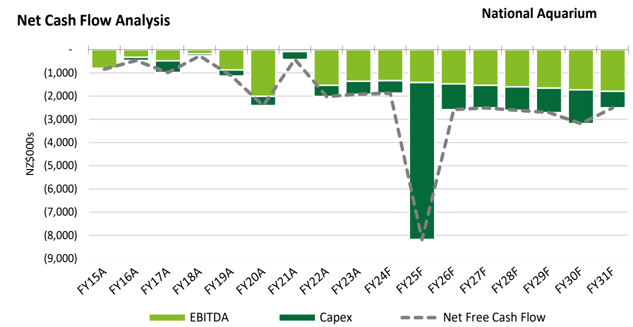
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	2,520	2,698	2,859
Subsidies/Grants	1	2	2
Other Revenue	-	-	-
Total Revenue	**2,520**	**2,699**	**2,861**
Employee Costs	(2,129)	(2,027)	(2,148)
NCC Direct	(116)	(141)	(149)
Other Operating Expenses	(1,021)	(1,078)	(1,142)
Capital charge	-	-	-
NCC Overhead allocations	(609)	(790)	(838)
Total Operating Costs	**(3,875)**	**(4,036)**	**(4,278)**
EBITDA	**(1,355)**	**(1,337)**	**(1,417)**
Depreciation	(707)	(837)	(887)
EBIT	**(2,062)**	**(2,174)**	**(2,304)**
EBITDA %	*(54%)*	*(50%)*	*(50%)*
EBIT %	*(82%)*	*(81%)*	*(81%)*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(1,355)	(1,337)	(1,417)
Capital Expenditure	(563)	(534)	(6,765)
Free Cash Flow (pre-tax)	**(1,918)**	**(1,871)**	**(8,182)**
Cumulative Free Cash Flow (pre-tax)	**(10,444)**	**(12,315)**	**(20,496)**

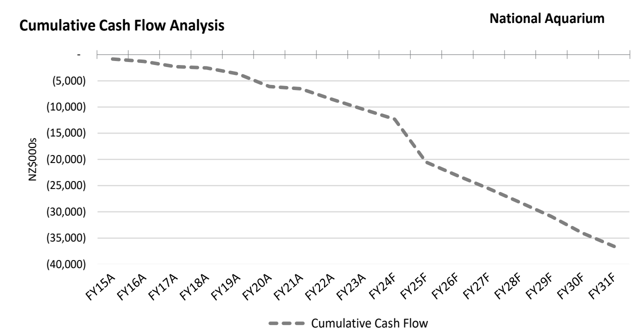
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	2,543	3,199	3,843
Capital Expenditure	563	534	6,765
Interest	155	191	397
Interest Paid	(155)	(191)	(397)
Principal Repayment	93	111	336
Closing Balance	**3,199**	**3,843**	**10,944**

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(1,355)	(1,337)	(1,417)
Depreciation	(707)	(837)	(887)
Debt Repayment	(93)	(111)	(336)
Interest	(155)	(191)	(397)
Rate Cost	**(2,311)**	**(2,475)**	**(3,038)**
Total Rates ($000)	**74,670**	**80,022**	**85,861**
% Impact to Rates	3.09%	3.09%	3.54%

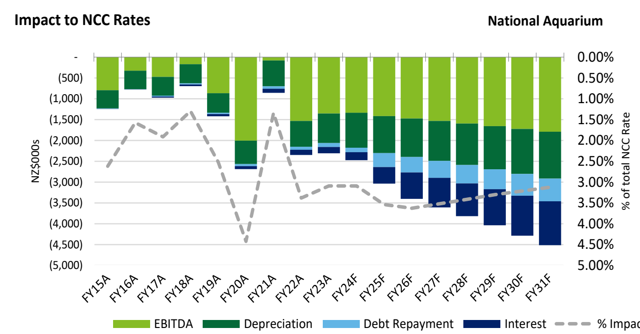
Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis

Appendices | A2: Historical Financials

3. Par 2 Minigolf

Overview

- Par 2 - Minigolf is located on Marine Parade. The complex consists of two 18 hole Minigolf courses.

Financial Analysis

- Revenue is $439k in FY23. It is forecast to increase to $484k in FY24F and $513k in FY25F.
- Total operating expenses are $408k in FY23, and are expected to decrease to $364k in FY25F. This decrease is mainly due to cutbacks in other operating expenses (e.g. admin).
- EBITDA is $32k in FY23A, and is forecast to increase to $149k in FY25F. In previous years, the complex has consistently generated positive EBITDA and this trend is expected to continue in forecast years.
- Therefore, the operation is profitable (EBITDA ~$150-$200k per annum), with a relatively minor capital expenditure required going forward.
- It is making a contribution to rates after NCC overhead cost allocations.

MiniGolf

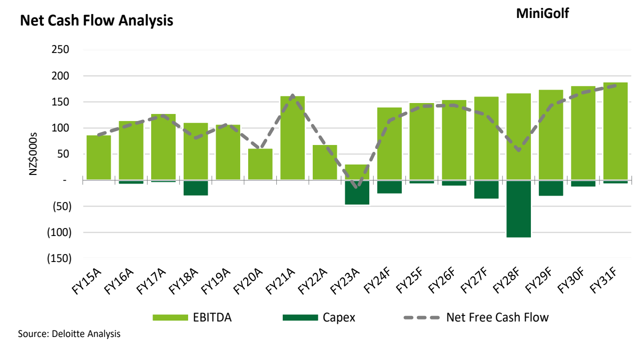
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	439	484	513
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	**439**	**484**	**513**
Employee Costs	-	(58)	(61)
NCC Direct	(9)	(11)	(11)
Other Operating Expenses	(292)	(156)	(165)
Capital charge	-	-	-
NCC Overhead allocations	(107)	(119)	(126)
Total Operating Costs	**(408)**	**(343)**	**(364)**
EBITDA	**32**	**141**	**149**
Depreciation	(18)	(28)	(30)
EBIT	**14**	**113**	**120**
EBITDA %	*7%*	*29%*	*29%*
EBIT %	*3%*	*23%*	*23%*

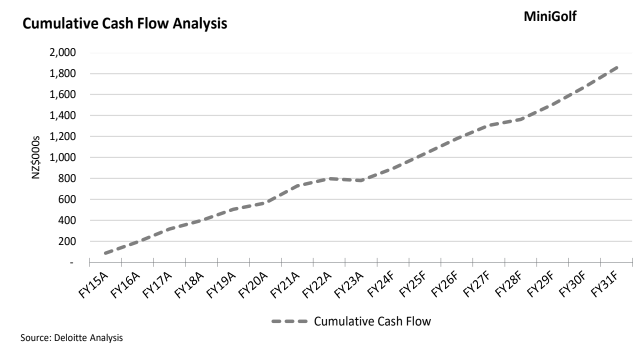
Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	32	141	149
Capital Expenditure	(48)	(27)	(8)
Free Cash Flow (pre-tax)	**(16)**	**114**	**142**
Cumulative Free Cash Flow (pre-tax)	**780**	**895**	**1,036**

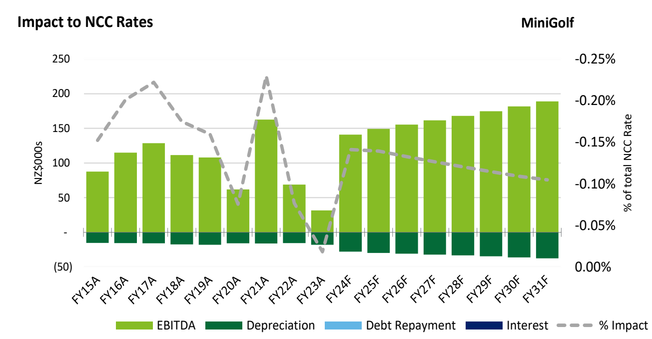
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	55	107	137
Capital Expenditure	48	27	8
Interest	4	7	8
Interest Paid	(4)	(7)	(8)
Principal Repayment	3	4	4
Closing Balance	**107**	**137**	**149**

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	32	141	149
Depreciation	(18)	(28)	(30)
Debt Repayment	-	-	-
Interest	-	-	-
Rate Cost	**14**	**113**	**120**
Total Rates ($000)	**74,670**	**80,022**	**85,861**
% Impact to Rates	-0.02%	-0.14%	-0.14%

Source: NCC Financial Information, Deloitte Analysis







Appendices | A2: Historical Financials

4. Napier Conferences & Events

Overview

- Operates from the Napier War Memorial Centre on Marine Parade. Hawke's Bay's only purpose-built conference facility.

Financial Analysis

- Revenue is $1.7m in FY23, and is expected to increase to $2.2m and $2.4m in FY24F and FY25F respectively.
- Total operating expenses were $2.1m in FY23 and are expected to increase to $2.6m by FY25F.
- EBITDA is negative for FY23 ($414k). Historically, it has operated with EBIT losses. This trend is expected to continue in forecast years.
- NCC Overhead allocations are ~$250-$300k between FY23A-FY25F. When excluded from EBITDA, the operation would break even.
- Significant capital expenditure of ~$7.0m occurred in FY17, and $2.3m in FY23 for improvement of service. Minor capex is planned in forecast years.
- In our experience, we would anticipate that the conference facilities would operate profitability.
- However, there are restrictions on the facility in terms of being able to operate on purely commercial basis with a mandated on-going community requirement.

Conferences & Events

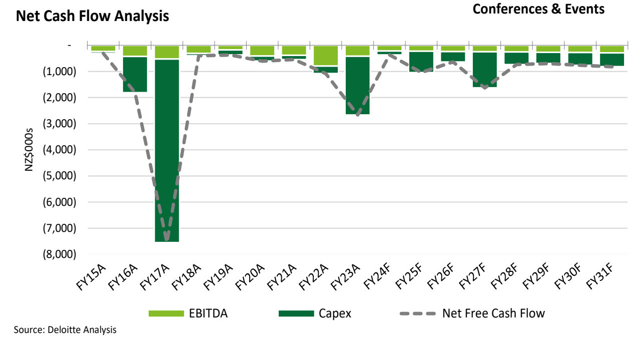
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	1,704	2,234	2,368
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	1,704	2,234	2,368
Employee Costs	(600)	(644)	(683)
NCC Direct	(85)	(107)	(113)
Other Operating Expenses	(1,218)	(1,416)	(1,501)
Capital charge	-	-	-
NCC Overhead allocations	(216)	(282)	(299)
Total Operating Costs	(2,119)	(2,449)	(2,596)
EBITDA	(414)	(215)	(228)
Depreciation	(315)	(410)	(435)
EBIT	(729)	(625)	(663)
EBITDA %	*(24%)*	*(10%)*	*(10%)*
EBIT %	*(43%)*	*(28%)*	*(28%)*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(414)	(215)	(228)
Capital Expenditure	(2,252)	(150)	(814)
Free Cash Flow (pre-tax)	(2,666)	(365)	(1,042)
Cumulative Free Cash Flow (pre-tax)	(15,326)	(15,691)	(16,733)

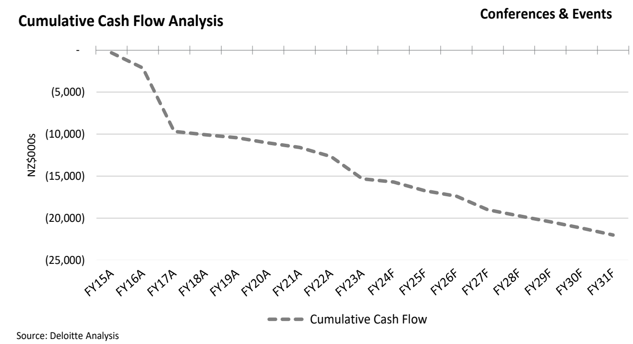
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	11,260	13,898	14,439
Capital Expenditure	2,252	150	814
Interest	681	769	817
Interest Paid	(681)	(769)	(817)
Principal Repayment	386	391	418
Closing Balance	13,898	14,439	15,671

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(414)	(215)	(228)
Depreciation	(315)	(410)	(435)
Debt Repayment	(386)	(391)	(418)
Interest	(681)	(769)	(817)
Rate Cost	(1,796)	(1,785)	(1,897)
Total Rates ($000)	74,670	80,022	85,861
% Impact to Rates	2.41%	2.23%	2.21%

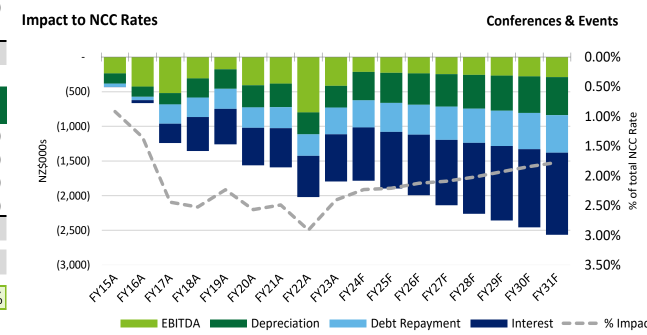
Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis

Appendices | A2: Historical Financials

5. Napier Municipal Theatre

Overview

- Built in 1912, the Napier Municipal Theatre is located in the city centre. One of the leading performing art centres in the country.

Financial Analysis

- Revenue is $433k in FY23, and is expected to increase to $488k and $517k in FY24F and FY25F respectively.
- Total operating expenses are $1.2m in FY23. $1.4m and $1.5m are expected to be spent in FY24-FY24F
- EBITDA is negative for FY23 ($721k). Historically, the theatre has operated with EBITDA losses. This trend is expected to continue in forecast years.
- Capital expenditure of ~$1.6m is planned to be spent in FY25F. Additionally capex (averaging ~$600k per annum) is planned between FY26-FY31.
- The Theatre's revenue is insufficient to offset operational costs or contribute to forecast capital expenditure.

Municipal Thearte

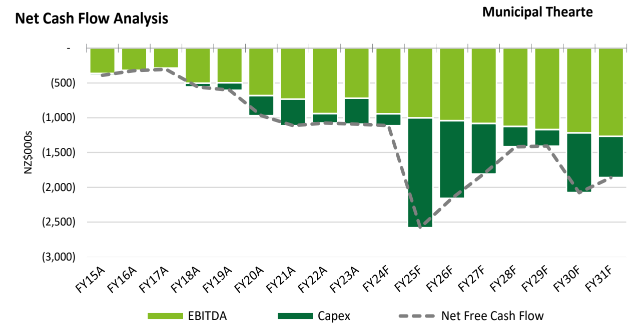
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	433	488	517
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	**433**	**488**	**517**
Employee Costs	(496)	(574)	(608)
NCC Direct	(111)	(136)	(144)
Other Operating Expenses	(362)	(503)	(533)
Capital charge	22	64	68
NCC Overhead allocations	(207)	(285)	(302)
Total Operating Costs	**(1,154)**	**(1,433)**	**(1,519)**
EBITDA	**(721)**	**(945)**	**(1,001)**
Depreciation	(408)	(470)	(498)
EBIT	**(1,128)**	**(1,415)**	**(1,500)**
EBITDA %	*(166%)*	*(194%)*	*(194%)*
EBIT %	*(260%)*	*(290%)*	*(290%)*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(721)	(945)	(1,001)
Capital Expenditure	(371)	(169)	(1,578)
Free Cash Flow (pre-tax)	**(1,092)**	**(1,114)**	**(2,579)**
Cumulative Free Cash Flow (pre-tax)	**(6,427)**	**(7,541)**	**(10,121)**

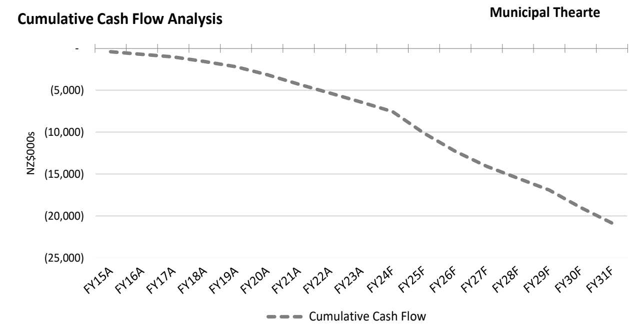
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	1,092	1,509	1,728
Capital Expenditure	371	169	1,578
Interest	70	88	138
Interest Paid	(70)	(88)	(138)
Principal Repayment	45	51	103
Closing Balance	**1,509**	**1,728**	**3,410**

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(721)	(945)	(1,001)
Depreciation	(408)	(470)	(498)
Debt Repayment	(45)	(51)	(103)
Interest	(70)	(88)	(138)
Rate Cost	**(1,244)**	**(1,553)**	**(1,741)**
Total Rates ($000)	**74,670**	**80,022**	**85,861**
% Impact to Rates	1.67%	1.94%	2.03%

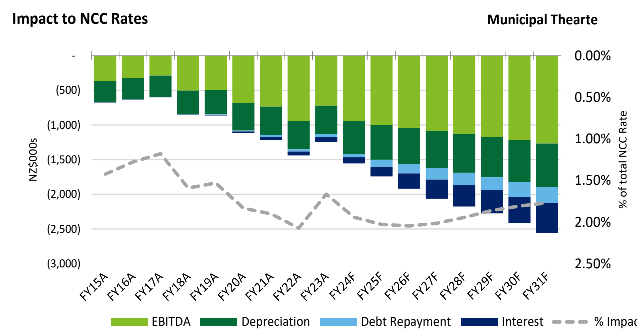
Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis

Appendices | A2: Historical Financials

6. Napier i-SITE Visitor Centre

Overview

- The Napier i-SITE Visitor Centre is part of New Zealand's official nationwide Visitor Information Network.

Financial Analysis

- Revenue is $416k in FY23. It is forecast to increase to $441k in FY24F and $468k in FY25F.
- Total operating expenses are $1.0m in FY23 and are expected to remain similar for FY24F and FY25F.
- It should be noted that i-SITE does not generate enough revenue to cover it's direct employee costs.
- EBITDA is negative for FY23 ($647k). This trend is expected to continue in forecast years.
- Minor capital expenditure (averaging ~$90k per annum) is planned to be spent in forecast years FY25-FY31F.
- Therefore, the i-SITE Visitor Centre is non-profitable, and forecast to generate EBITDA losses of ~($700k) per annum between FY25-FY31.
- In addition we understand there are issues with the current building condition which will require short-term additional capital expenditure to rectify.

Napier i-SITE

Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	416	441	468
Subsidies/Grants	-	-	-
Other Revenue	(1)	-	-
Total Revenue	**415**	**441**	**468**
Employee Costs	(676)	(700)	(742)
NCC Direct	(14)	(18)	(19)
Other Operating Expenses	(286)	(238)	(252)
Capital charge	-	-	-
NCC Overhead allocations	(86)	(118)	(125)
Total Operating Costs	**(1,062)**	**(1,074)**	**(1,139)**
EBITDA	**(647)**	**(633)**	**(671)**
Depreciation	(36)	(79)	(84)
EBIT	**(683)**	**(712)**	**(755)**
EBITDA %	*(156%)*	*(144%)*	*(144%)*
EBIT %	*(165%)*	*(161%)*	*(161%)*

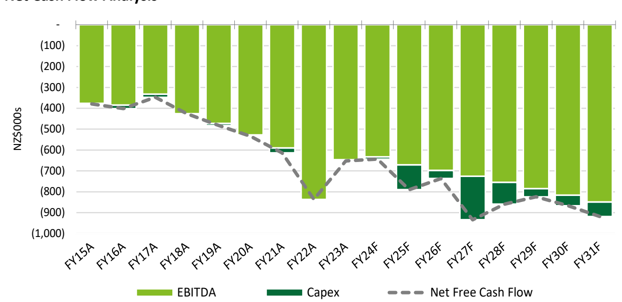
Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(647)	(633)	(671)
Capital Expenditure	(6)	(11)	(119)
Free Cash Flow (pre-tax)	**(652)**	**(644)**	**(790)**
Cumulative Free Cash Flow (pre-tax)	**(4,673)**	**(5,317)**	**(6,107)**

Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	85	93	107
Capital Expenditure	6	11	119
Interest	5	5	9
Interest Paid	(5)	(5)	(9)
Principal Repayment	3	3	7
Closing Balance	**93**	**107**	**232**

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(647)	(633)	(671)
Depreciation	(36)	(79)	(84)
Debt Repayment	(3)	(3)	(7)
Interest	(5)	(5)	(9)
Rate Cost	**(691)**	**(720)**	**(771)**
Total Rates ($000)	**74,670**	**80,022**	**85,861**
% Impact to Rates	0.92%	0.90%	0.90%

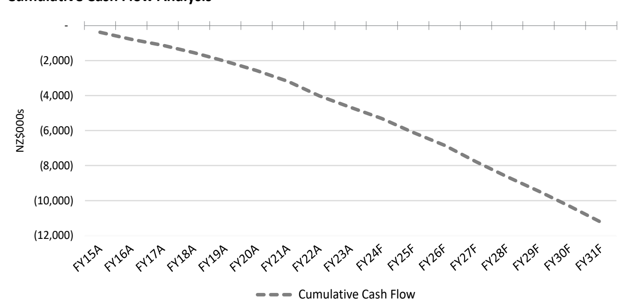
Source: NCC Financial Information, Deloitte Analysis

Net Cash Flow Analysis



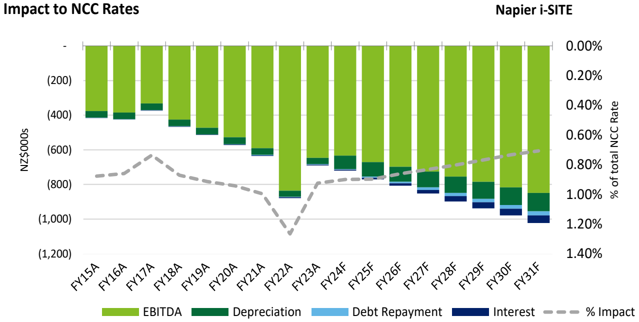
Source: Deloitte Analysis

Cumulative Cash Flow Analysis



Source: Deloitte Analysis

Impact to NCC Rates



Source: Deloitte Analysis

Appendices | A2: Historical Financials

7. Kennedy Park

Overview

- Kennedy Park Resort Napier is Hawke's Bay's premier holiday accommodation park providing an array of facilities.

Financial Analysis

- Revenue is \$2.7m in FY23, and is expected to increase to \$4.2m and \$4.5m in FY24F and FY25F respectively.
- No subsides/grants were received in FY23, or expected to be received in FY24-FY25.
- Total operating expenses are \$3.3m in FY23 and are expected to increase to \$4.1m by FY25F.
- EBITDA is negative for FY23A, being (\$655k). EBITDA is forecast to increase to \$354k by FY25 and ~\$350k per annum between FY26-FY31.
- Whilst Kennedy Park is forecast to operate profitability, there is also a significant level of capex planned in forecast years (\$5.1m in FY25 and \$3.2m in FY27).
- Further, we note that the forecast assumes a return to profitability (at an EBITDA level) following inconsistent historical performance related to COVID-19, floods and cyclones which has resulted in an inconsistent level of occupancy.

Kennedy Park

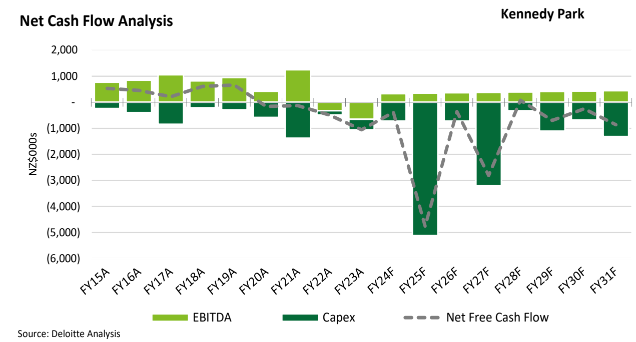
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	2,689	4,232	4,486
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	2,689	4,232	4,486
Employee Costs	(1,581)	(1,782)	(1,889)
NCC Direct	(140)	(166)	(176)
Other Operating Expenses	(936)	(926)	(982)
Capital charge	-	-	-
NCC Overhead allocations	(688)	(1,024)	(1,085)
Total Operating Costs	(3,345)	(3,898)	(4,132)
EBITDA	(655)	334	354
Depreciation	(319)	(429)	(454)
EBIT	(975)	(95)	(101)
EBITDA %	*(24%)*	*8%*	*8%*
EBIT %	*(36%)*	*(2%)*	*(2%)*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(655)	334	354
Capital Expenditure	(400)	(721)	(5,113)
Free Cash Flow (pre-tax)	(1,055)	(387)	(4,759)
Cumulative Free Cash Flow (pre-tax)	640	252	(4,507)

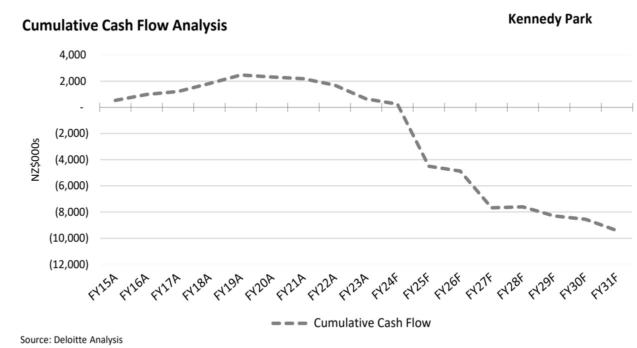
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	4,605	5,147	6,034
Capital Expenditure	400	721	5,113
Interest	264	303	472
Interest Paid	(264)	(303)	(472)
Principal Repayment	142	166	336
Closing Balance	5,147	6,034	11,483

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(655)	334	354
Depreciation	(319)	(429)	(454)
Debt Repayment	(142)	(166)	(336)
Interest	(264)	(303)	(472)
Rate Cost	(1,381)	(564)	(909)
Total Rates ($000)	74,670	80,022	85,861
% Impact to Rates	1.85%	0.70%	1.06%

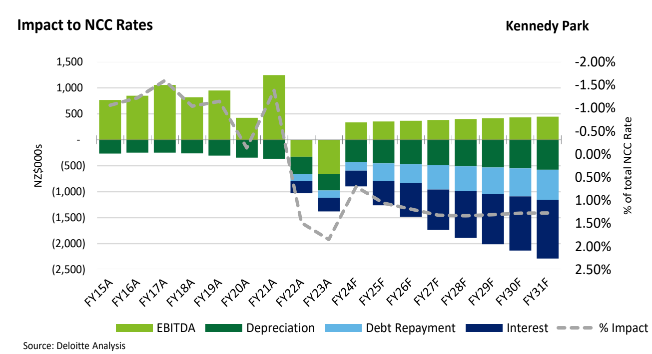
Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis

Appendices | A2: Historical Financials

8. Bay Skate

Overview

- Bay Skate is a multi-use, world-class roller sports park on Napier's Marine Parade. It caters for roller sport activities.

Financial Analysis

- Revenue was $315k in FY23, however is expected to decrease slightly to $268k and $284k in FY24F and FY25F respectively.
- It should be noted that Bay Skate does not generate enough revenue to cover it's direct employee costs.
- Total operating expenses are $721k in FY23 and are expected to increase to $781k by FY25F.
- EBITDA is negative in FY23A ($406k). Historically, Bay Skate has produced negative EBITDA (with the exception of FY16). This trend is expected to continue in forecast years.
- We understand that the capital expenditure incurred in FY17 (~$8m) relates to the initial establishment of the facility. No significant capex is planned in forecast years.

Bay Skate

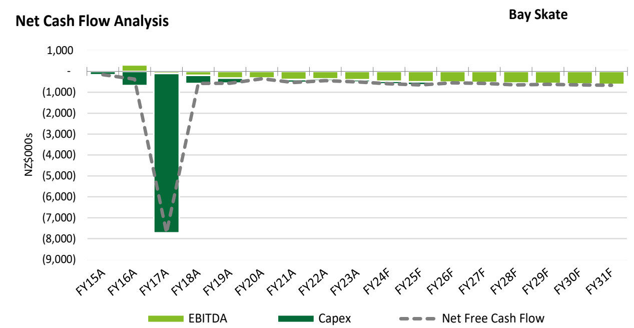
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	315	268	284
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	**315**	**268**	**284**
Employee Costs	(365)	(324)	(344)
NCC Direct	-	-	-
Other Operating Expenses	(164)	(175)	(186)
Capital charge	-	-	-
NCC Overhead allocations	(192)	(237)	(251)
Total Operating Costs	**(721)**	**(736)**	**(781)**
EBITDA	**(406)**	**(469)**	**(497)**
Depreciation	(179)	(208)	(220)
EBIT	**(585)**	**(677)**	**(717)**
EBITDA %	*(129%)*	*(175%)*	*(175%)*
EBIT %	*(186%)*	*(253%)*	*(253%)*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(406)	(469)	(497)
Capital Expenditure	(101)	(127)	(148)
Free Cash Flow (pre-tax)	**(507)**	**(596)**	**(645)**
Cumulative Free Cash Flow (pre-tax)	**(11,219)**	**(11,815)**	**(12,459)**

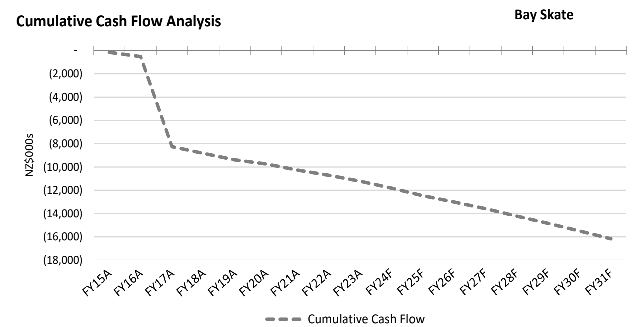
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	11,172	11,583	12,024
Capital Expenditure	101	127	148
Interest	617	641	665
Interest Paid	(617)	(641)	(665)
Principal Repayment	310	314	319
Closing Balance	**11,583**	**12,024**	**12,491**

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(406)	(469)	(497)
Depreciation	(179)	(208)	(220)
Debt Repayment	(310)	(314)	(319)
Interest	(617)	(641)	(665)
Rate Cost	**(1,512)**	**(1,631)**	**(1,701)**
Total Rates ($000)	**74,670**	**80,022**	**85,861**
% Impact to Rates	2.02%	2.04%	1.98%

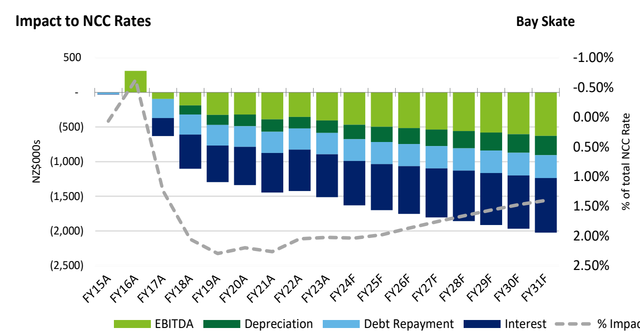
Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis



Source: Deloitte Analysis

Appendices | A2: Historical Financials

9. Napier Aquatic Centre

Overview

- The community facility has three pools for all types of different activities from lane swimming to shallow depth kids pool.

Financial Analysis

- Revenue was $798k in FY23. It is forecast to increase to $902k in FY24F and $956k in FY25F.
- An annual subsidy/grant of $16k was received in FY23. An expected subsidy/grant of ~$20k is expected to be received for forecast years.
- Total operating expenses are $3.2m in FY23 and are expected to remain similar by FY25F at $3.2m.
- EBITDA is negative for FY23 ($2.38m). Historically, the aquatic centre has produced negative EBITDA. This trend is expected to continue in forecast years.
- Capital expenditure requirements are planned to be ~$3m for FY24F and FY25F. The level of capex planned returns to historical capex levels in forecast years FY26-FY31F.
- In our experience, it is not uncommon for Aquatic facilities to operate at losses. For example, we are aware of other regional facilities that operate at EBITDA losses of ($1.2m) prior to council changes.
- Further, we note that a 2017 Sports New Zealand guide provides a benchmark for operational losses of ~($400-$600k) depending on facility size.

Napier Aquatic Centre

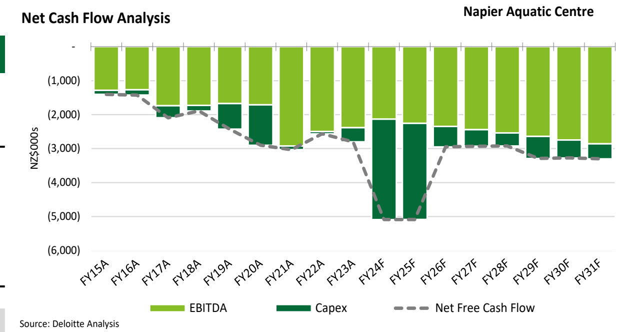
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	798	902	956
Subsidies/Grants	16	19	20
Other Revenue	-	-	-
Total Revenue	814	920	975
Employee Costs	(1,682)	(1,599)	(1,695)
NCC Direct	-	-	-
Other Operating Expenses	(835)	(574)	(608)
Capital charge	-	-	-
NCC Overhead allocations	(680)	(878)	(931)
Total Operating Costs	(3,198)	(3,051)	(3,234)
EBITDA	(2,384)	(2,130)	(2,258)
Depreciation	(231)	(300)	(318)
EBIT	(2,614)	(2,430)	(2,576)
EBITDA %	*(293%)*	*(232%)*	*(232%)*
EBIT %	*(321%)*	*(264%)*	*(264%)*

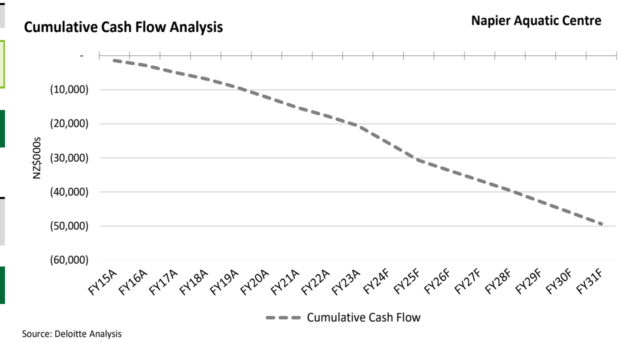
Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(2,384)	(2,130)	(2,258)
Capital Expenditure	(418)	(2,959)	(2,829)
Free Cash Flow (pre-tax)	(2,801)	(5,089)	(5,087)
Cumulative Free Cash Flow (pre-tax)	(20,538)	(25,628)	(30,715)

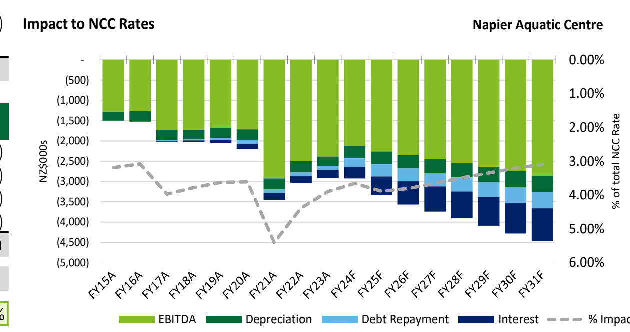
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	3,275	3,800	6,964
Capital Expenditure	418	2,959	2,829
Interest	192	290	461
Interest Paid	(192)	(290)	(461)
Principal Repayment	107	205	300
Closing Balance	3,800	6,964	10,093

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(2,384)	(2,130)	(2,258)
Depreciation	(231)	(300)	(318)
Debt Repayment	(107)	(205)	(300)
Interest	(192)	(290)	(461)
Rate Cost	(2,913)	(2,926)	(3,337)
Total Rates ($000)	74,670	80,022	85,861
% Impact to Rates	3.90%	3.66%	3.89%

Source: NCC Financial Information, Deloitte Analysis







Appendices | A2: Historical Financials

10. Ocean Spa

Overview

- Located on Napier's Marine Parade the facility include open-air, heated pools and spas, as well as a fully equipped gym.

Financial Performance

- Revenue was $317k in FY23, however is expected to increase significantly to $2.0m and $2.1m in FY24F and FY25F respectively.
- Total operating expenses are $1.0m in FY23 and are expected to increase to $1.7m by FY25F.
- We note that NCC overhead allocations for the Ocean Spa appears lighter relative to other business activities with lower revenue (e.g. FY24 Aquatic facility revenue is $902k, with NCC overheads $878k, yet FY24 Ocean Spa revenue is $2.0m, with NCC overheads only $83k).
- EBITDA is negative in FY23 ($688k). It is expected to increase to $402k in FY25F due to the increase seen in revenue from FY24 onwards.
- A large one-off, capital expenditure of ~$2.2m occurred in FY23 to improve the facility's level of service. We are aware that the pools were leased by another operator, prior to NCC taking over operations from FY24. We understand that the one-off capex and change in operations lead are factors which have resulted in the anticipated profit uplift from FY24 onwards.

Ocean Spa

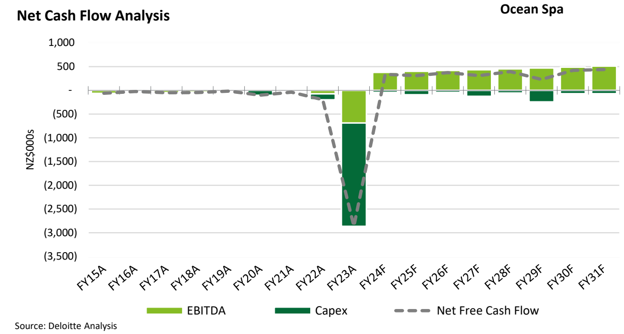
Income Statement ($000)	FY23A	FY24F	FY25F
Revenue	317	2,017	2,138
Subsidies/Grants	-	-	-
Other Revenue	-	-	-
Total Revenue	317	2,017	2,138
Employee Costs	(720)	(1,238)	(1,313)
NCC Direct	-	-	-
Other Operating Expenses	(235)	(316)	(335)
Capital charge	-	-	-
NCC Overhead allocations	(50)	(83)	(88)
Total Operating Costs	(1,005)	(1,638)	(1,736)
EBITDA	(688)	380	402
Depreciation	(207)	(331)	(351)
EBIT	(896)	49	52
EBITDA %	*(217%)*	*19%*	*19%*
EBIT %	*(283%)*	*2%*	*2%*

Free Cash Flow Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(688)	380	402
Capital Expenditure	(2,173)	(42)	(92)
Free Cash Flow (pre-tax)	(2,861)	337	310
Cumulative Free Cash Flow (pre-tax)	(3,393)	(3,056)	(2,746)

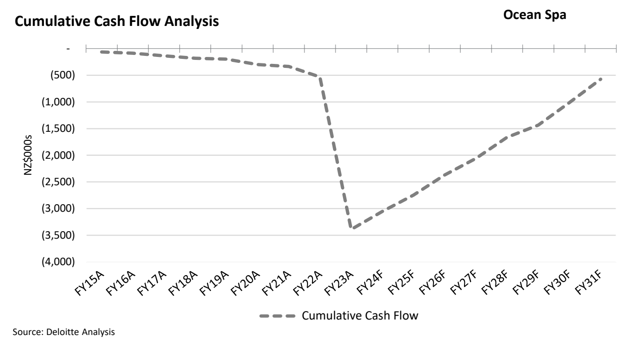
Debt Projection Analysis ($000)	FY23A	FY24F	FY25F
Opening Balance	287	2,541	2,666
Capital Expenditure	2,173	42	92
Interest	76	141	149
Interest Paid	(76)	(141)	(149)
Principal Repayment	81	83	86
Closing Balance	2,541	2,666	2,844

Rate Analysis ($000)	FY23A	FY24F	FY25F
EBITDA	(688)	380	402
Depreciation	(207)	(331)	(351)
Debt Repayment	(81)	(83)	(86)
Interest	(76)	(141)	(149)
Rate Cost	(1,053)	(175)	(183)
Total Rates ($000)	74,670	80,022	85,861
% Impact to Rates	1.41%	0.22%	0.21%

Source: NCC Financial Information, Deloitte Analysis



Source: Deloitte Analysis



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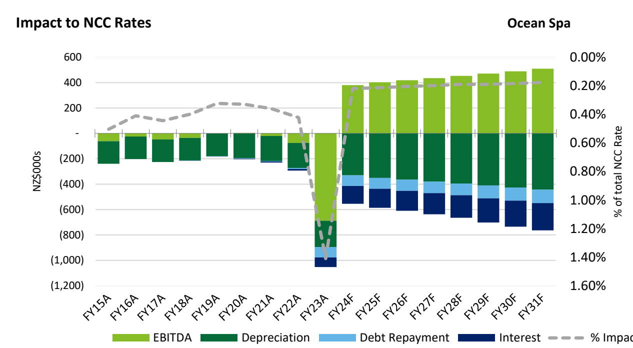

Source: Deloitte Analysis

Appendices | A3: Basis of work

Restrictions, Reliance, Disclaimer

This appendix should be read in conjunction with the transmittal letter at the front of this report.

Restrictions

- This report has been prepared for Visitor Solutions to support components of the Business Review of the 10 revenue generating activities that make up the NCC Community Services Directorate. It is not to be reproduced or used for any other purpose without prior written permission. Deloitte do not assume any liability or responsibility for losses occasioned by Visitor Solutions, or other parties as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.
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- In preparing this assessment, Deloitte have relied upon and assumed, without independent verification, the accuracy and completeness of all information that is available from public sources and all information that has been provided to us. The information has been evaluated through analysis, enquiry and examination for the purposes of forming this assessment. Deloitte do not warrant that these enquiries have identified or revealed any matters which a more extensive examination might disclose.
- The report is dated 9 November 2023, and is based on information made available to us as at that date.

Disclaimer

- This report has been prepared with care and diligence and the statements and conclusions in the report are given in good faith and in the belief, on reasonable grounds, that such statements and conclusions are not false or misleading. However, in no way do we guarantee or otherwise warrant the achievability of any forecasts of future income, expense, cash flow or capital cost.
- Forecasts are inherently uncertain. They are predictions of future events, which cannot be assured. They are based upon inputs, many of which are beyond the control of Napier City Council, its management and advisers. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.
- Deloitte assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this assessment to the extent that such errors or omissions result from our reasonable reliance on information provided by others or inputs disclosed in the report or inputs reasonably taken as implicit.

Forecast Financial Information

- To the extent that the Report relates to any forecasts or projections (Forecasts) prepared by Napier City Council we do not provide any assurance on the reliability of the Forecasts or the underlying assumptions.
- Forecasts relate to the future, as a result they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the Forecasts. Accordingly, actual results are likely to be different from those forecast because events and circumstances frequently do not occur as expected, and those differences may be material.

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Appendices | A4: Survey Questions

We undertook a survey with facility managers to understand the current financial and operational constraints to achieving financial sustainability.

Survey questions to facility managers:

Purpose:

- Is there an active masterplan for your facility? If yes, does this plan link directly to financial drivers such as improving the current and future state of opex and/or capex, generating greater revenue, generating greater community use/benefit?
- Do you have a specified purpose or mission statement for the facility? If so, what is it?

Revenue:

- It is sometimes possible for facilities to increase pricing without decreasing the number of users. For your facility, relative to the current pricing, what increase do you think could be possible (if any) and what incremental revenue gain would this likely result in on an annualised basis?
- If you decreased the price of visiting/using your facility, do you think this would impact user numbers? If so, what level of increase/decrease would it make, and what impact would this likely have to revenue on an annualised basis, if any?
- If you have any information or market research to support the above, please provide it with your response.
- Are there any identified unbudgeted capital projects that could result in increased revenues? If so, please confirm the figures associated with the potential capital project and estimated annual revenue growth that could be achieved if it was implemented.

Operating Costs:

- Is there an opportunity to reduce the facilities direct operating costs? Please confirm the nature of any potential cost savings (e.g. staffing, energy costs) and the estimated value of those savings on an annualised basis, and the impact that could have on your ability to deliver your service and the visitor experience (e.g. reduced operating hours/ seasonal pool closure)
- Are there any identified unbudgeted capital projects that could result in a reduced annual operating cost? If so, please confirm the figures associated with the capital project and estimated annual savings.
- On a standalone basis do you think the facility could replicate the overhead services provided by NCC (HR, IT etc) at an annual cost consistent with the current internal charges? If not, please quantify the estimate of any additional cost or savings on an annualised basis.

Capital Expenditure:

- When was the last time a full asset condition assessment was completed on your facility? If you have one, please provide the most recent version with your response.
- Do you believe that the current LTP capital expenditure projections for your facility will be sufficient to cover maintenance requirements (i.e. with no improvement in the current asset and/or user experience)?
- Do you have budgeted capex costs that have been deferred and what is the estimated cost, visitor and service impact caused by the deferral?

APPENDIX TWO: INDIVIDUAL FACILITY ASSESSMENT SUMMARY

The table content in each of the facility sections below is based as follows:

- Generally, red = low, orange = neutral, green = high
- Specifically for the alignment to strategic objectives, a weighted matrix score of less than 2.0 is noted as red (low), from 2.0 to 3.9 is noted as orange (neutral) and 4.0 or above would be noted as green.
- Specifically for visitor appeal, a score of 0.0 to 1.0 is noted as red (low), 2.0 to 4.0 is orange (neutral), and 5.0 as high (green).
- The EBITDA and forecast capital requirements correlate to the Deloitte summary view available in Appendix One.

As a reminder, <u>the scoring is based on the facilities as they currently are, not what they could be</u>. A good example of this is the Napier Aquatic Facility, which is a critically important community amenity but in its current condition scores poorly across all criteria.

NATIONAL AQUARIUM OF NEW ZEALAND

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability	Red	FY24 EBITDA loss $1.3m
Forecast Capital Requirement	Red	FY24-FY31: $13.6m
Satisfying Strategic Objectives?		
Visitor Appeal	Orange	Individual score 2.0
Alignment to strategic objectives	Red	Weighted score 1.90 out of 5.0
Exit Options		
Council stated intent	Negotiable	
Probability of exiting via sale?	Red	Low (not commercial)
Probability of exiting via Lease?	Red	Low (not commercial)

NAPIER i-SITE

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability	Red	FY24 EBITDA loss $0.6m
Forecast Capital Requirement	Red	FY24-FY31: $0.6m
Satisfying Strategic Objectives?		
Visitor Appeal	Orange	Individual score 2.0
Alignment to strategic objectives	Red	Weighted score 1.40 out of 5.0
Exit Options		
Council stated intent	Negotiable	
Probability of exiting via sale?	Red	Low (Not commercial)
Probability of exiting via Lease?	Red	Low (Not commercial)

NAPIER AQUATIC CENTRE

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA loss $2.1m
Forecast Capital Requirement		FY24-FY31: $8.9m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 1.0
Alignment to strategic objectives		Weighted score 1.75 out of 5.0
Exit Options		
Council stated intent	No exit	Core community need
Probability of exiting via sale?		Low (Not commercial)
Probability of exiting via Lease?		Low (Not commercial) Note: To be attractive would require a significant Council operational subsidy .

McLEAN PARK

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA loss $0.1m
Forecast Capital Requirement		FY24-FY31: $0.5m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 2.0
Alignment to strategic objectives		Weighted score 1.5 out of 5.0
Exit Options		
Council stated intent	No exit	Core community need
Probability of exiting via sale?		Low (Not commercial)
Probability of exiting via Lease?		Low (Not commercial)

KENNEDY PARK RESORT

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA $0.3m
Forecast Capital Requirement		FY24-FY31: $13.2m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 3.0
Alignment to strategic objectives		Weighted score 2.05 out of 5.0
Exit Options		
Council stated intent	Negotiable	Noted land covenant restrictions
Probability of exiting via sale?		Low
Probability of exiting via Lease?		Low (Not sufficiently commercial)

OCEAN SPA

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA $0.4m
Forecast Capital Requirement		FY24-FY31: $0.7m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 3.0
Alignment to strategic objectives		Weighted score 2.80 out of 5.0
Exit Options		
Council stated intent	Negotiable	
Probability of exiting via sale?		
Probability of exiting via Lease?		

PAR2 MINI GOLF

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA $0.1m
Forecast Capital Requirement		FY24-FY31: $0.2m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 2.0
Alignment to strategic objectives		Weighted score 2.75 out of 5.0
Exit Options		
Council stated intent	Negotiable	
Probability of exiting via sale?		
Probability of exiting via Lease?		

NAPIER CONFERENCES & EVENTS

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA loss $0.2m
Forecast Capital Requirement		FY24-FY31: $4.6m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 3.0
Alignment to strategic objectives		Weighted score 2.15 out of 5.0
Exit Options		
Council stated intent	Negotiable	For the NC&E role only
Probability of exiting via sale?		Not possible as a War Memorial
Probability of exiting via Lease?		

BAY SKATE

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA loss $0.5m
Forecast Capital Requirement		FY24-FY31: $0.5m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 4.0
Alignment to strategic objectives		Weighted score 2.10 out of 5.0
Exit Options		
Council stated intent	Negotiable	
Probability of exiting via sale?		
Probability of exiting via Lease?		Low (Not commercial) Note: To be attractive would require a significant Council operational subsidy

NAPIER MUNICIPAL THEATRE

Current State Assessment	Assessment	Comment
Financially sustainable?		
Profitability		FY24 EBITDA loss $0.9m
Forecast Capital Requirement		FY24-FY31: $5.6m
Satisfying Strategic Objectives?		
Visitor Appeal		Individual score 3.0
Alignment to strategic objectives		Weighted score 2.05 out of 5.0
Exit Options		
Council stated intent	Negotiable	Core community facility
Probability of exiting via sale?		
Probability of exiting via Lease?		

APPENDIX THREE: REIMAGINING CASE EXAMPLES

<u>Explore NZ Paihia Visitor Hub</u>

<u>Context:</u> Explore NZ took over the lease of a Paihia wharf visitor ticketing hub. Explore NZ recognised that the traditional ticketing approach was sub-optimal both financially and experientially. After setting a series of desired operational parameters and objectives with Explore NZ, Visitor Solutions and Locales established a new concept.

<u>Approach:</u> A new concept was developed that introduced the visitor to the sub regions commercial and free experiences via a series of interactive and more immersive displays. Empasis was placed on a mix of large 3D tactile relief maps that can be explored and interactive touch and video screens which provide additional information and showcase the experiences on offer (which allows self-discovery based on interest areas, time available).

Traditional ticketing and human interaction opportunities are retained at an information desk (which can be expanded at peak times). The approach provides an improved visitor experience, higher peak hour servicing capacity, lower annual operational costs, greater revenue generation and an ability to introduce in new partners such as DoC, environmental charities, and other local tourism business.

Images courtesy of Locales Ltd © and Explore NZ Ltd.

Footprints Waipoua

Context: The client partners (central and local government and local interests) commissioned a feasibility study exploring a potential multi-million dollar visitor centre in the Hokianga, Northland. A series of objects and operating parameters were set at project commencement. The study included a questionnaire survey to 3500 people, 30 focus group sessions and one-on-one interviews with visitors.

Approach: The analysis identified developing a visitor centre was not the best outcome for investors or the wider community. Instead, a range of lower capital-intensive opportunities were outlined (which exceeded the project objectives). The first visitor product to be conceptualised by Visitor Solutions from the research, was Footprints Waipoua, featuring forest walks, guided by local Māori who interpreted the native forest and landscape by night.

Footprints was selected as one of the world's top 100 international eco-tourism experiences in Lonely Planet's 'Code Green – Experiences of a Lifetime'. It was also used in international marketing undertaken by Tourism NZ and Air New Zealand. It created stronger economic multipliers for the community by requiring overnight stays and additional spend on food (dinner and breakfast). Its set up cost was low at under $100,000. It also delivered a far higher quality of visitor experience as it used very high visitation areas at times when they had no use (night).

Tane Mahuta – the Lord of the Forest – has been holding Earth and Sky apart for over 2000 years. New Zealand's tallest kauri tree has managed to put 51.5m between Rangi (Sky) and Papatuanuku (Earth), which, in the beginning, according to Maori legend, were joined in a coital embrace.

Maori guide Koro Carman tells the story of how Mother Earth and Father Sky were parted, allowing light and life to populate the earth, as he plays a solitary spotlight along the length of Tane Mahuta's grey ghost trunk.

As you stand before his lordship, lapped by the darkness of the forest and the noises of the night, his limbs do indeed seem to scrabble at the stars.

Koro Carman and fellow Maori local Joe Wynyard started Footprints Waipoua to 'add value' to the usual tourist experience of visiting the world's oldest and tallest kauri trees in the Waipoua Forest in New Zealand's Northland. They take guided walks interwoven with ecological interpretations and Maori songs and legends. And they take them at night, when the forest's shyest inhabitants get about their nightly business and the trees' majesty is at its most mesmerising.

Tane Mahuta's mighty 13m girth is testament to the strength required to rend the Sky-Earth lovers asunder. It takes eight people to give the Lord of the Forest a circumferential hug. But on the four-hour Footprints walk, you'll also meet the Father of the Forest, Te Matua Ngahere. While shorter at around 35m, Te Matua Ngahere is even stouter, measuring up at 20m around his middle.

Koro and Joe aim to introduce you to other denizens of the darkness, including kiwis, owls and a multitude of crawling critters. There's no guarantee you'll meet the national emblem, but you will see Gondwanan grandfathers who were already ancient when Kupe, the Polynesian forefather of the Maori, landed in the Land of the Long White Cloud.

RESPONSIBLE TRAVEL CREDENTIALS

- Waipoua is the world's largest kauri forest, protecting three quarters of New Zealand's remaining kauri trees, which are remnants of ancient subtropical rainforests. Footprints Waipoua is the only company to have a Department of Conservation (DOC) permit to operate both day- and night-time guided walks in the forest.
- Footprints is owned and operated by Maoris and aims to educate local and international visitors – including kids from five years old – about forest ecology, as well as the lore and legends of the Maori and the physical, cultural and spiritual importance of the forest.

Waipoua is one hour from the Bay of Islands and around four hours from Auckland, on the west coast of New Zealand's North Island.

Forest paths make the walking easy – suitable for just about anyone. Minimum recommended age is five years.

Footprints Waipoua operates in cooperation with the Copthorne Hotel and Resort in Hokianga. Bookings can be made direct with Footprints or via the hotel.

The Twilight Encounter runs for four hours (and 6km) and costs NZ$65 for adults and NZ$48 for kids (five to 12) and departs at twilight. The 1½-hour shortened version, Tane at Night, costs NZ$45 for adults and NZ$33 for children.

Further information: www.omapere.co.nz