

**TO: COUNCIL**

**FROM: RHIANNON SUTER, MANAGER – STRATEGY AND POLICY**

**MEETING DATE: 23 JUNE 2020**

**DELIBERATION – EXTRA MONEY FOR CITY BLOCK? CONSULTATION**

**SUMMARY**

This report summarises the issue for consideration as Council deliberates on whether to invest extra money in City Block

**RECOMMENDATIONS**

**That Council**

- 1. Receive the report “Deliberation – Extra Money for City Block? Consultation”**
- 2. Determine to hear from Gaire Thompson, who wishes to speak to his submission which has been previously received by Council.**
- 3. Consider and determine whether the community wellbeing outcomes outweigh the identified risks in investing in the proposal**
- 4. Consider and if Council’s total investment in Invercargill Central Limited should or should not be increased to \$46 million**

**IMPLICATIONS**

1.	<i>Has this been provided for in the Long Term Plan/Annual Plan?</i> No
2.	<i>Is a budget amendment required?</i> No
3.	<i>Is this matter significant in terms of Council’s Policy on Significance?</i> Yes
4.	<i>Implications in terms of other Council Strategic Documents or Council Policy?</i> Yes – the investment would be incorporated into the Long-term Plan
5.	<i>Have the views of affected or interested persons been obtained and is any further public consultation required?</i> Yes – analysis is provided here for consideration. No further consultation is required
6.	<i>Has the Child, Youth and Family Friendly Policy been considered?</i> Yes

## **FINANCIAL IMPLICATIONS**

This consultation has sought the public's input on whether to invest extra into City Block resulting in a total \$46 million investment. This incorporates \$20m initial investment and \$5m contingency, as well as an additional \$5m originally allowed for design changes and an additional \$16m investment.

This investment would be loan funded and financial analysis shows the investment will be manageable in line with the financial strategy and within the Council's debt ceiling. The additional impact on rates will be limited due to favourable costs of borrowing. There may be an impact on the commencement or timing of other projects in order to continue to manage debt prudently.

This report should be read alongside the report *City Block Development Due Diligence, 9 August 2019*.

## **LEGISLATIVE CONSIDERATIONS**

The Local Government Act 2002 (the Act) provides that the purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities and to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

When making decisions, Council must have regard to the principles relating to local authorities established in section 14 of the Act. Council should be particularly aware of subsections (f) and (fa) which provide:

- A local authority should undertake any commercial transactions in accordance with sound business practices; and
- A local authority should periodically –
  - o Assess the expected returns to the authority from investing in, or undertaking, a commercial activity; and
  - o Satisfy itself that the expected returns are likely to outweigh the risks inherent in the investment or activity.

Council held hearings on the submissions at its meeting of 17 June 2020. The views of the community are important to help Council to determine whether the expected returns to the social, economic and cultural wellbeing of the community from the proposed investment, outweigh the risks of being involved in a commercial venture of this nature.

## **BACKGROUND**

In August 2019 Council determined to invest \$25 million (including \$5 million contingency) into City Block through Invercargill City Holdings Limited. A further \$ 5 million was set aside for design changes. Negotiations with other development partners did not result in design changes.

Following withdrawal by an investor, there was a funding shortfall and Council was requested by the developer Invercargill Central Limited to make a further investment to meet this shortfall. The developer indicated to Council that without further investment from Council the project was unlikely to proceed.

On 18 May 2020 Council determined to consult on whether to make a further investment of \$16 million, in addition to repurposing of the \$5 million set aside for design changes resulting in a total investment in Invercargill Central Limited of \$46 million.

Consultation was undertaken between 19 May and 12 June 2020. 462 submissions were received during this consultation, in comparison with 673 submissions received during the previous consultation in 2019.

Council held hearings on the submissions at the meeting of 17 June 2020. Due to a technological error Council was not aware that Mr Gaire Thompson wished to speak at the time of the hearings on 17 June 2020. It is therefore recommended that Council hear his submission at the time of deliberations.

The views of the community are important to help Council to determine whether the expected returns to the social, economic and cultural wellbeing of the community from the proposed investment, outweigh the risks of being involved in a commercial venture of this nature.

This report has been completed as a result of the submissions heard to assist with deliberations. The recommended motions (if passed) will be put forward as motions to the Council meeting on 29 June 2020 for decision.

## **THE OPTIONS**

### **OPTION ONE**

Invest an additional \$21m in the City Block redevelopment project, bringing the total Council investment to \$46m. This comprises the original \$20m investment, the \$5m for contingency and a repurposing of the \$5m for design consulted on in August 2019 and a further \$16m to cover the funding shortfall. This would allow the project to continue with the current scope and scale. No further rates increase is anticipated due to changes in the cost of borrowing.

### **OPTION TWO**

Do not invest additional funding. Keep the investment at \$25m. This comprises the \$25m consulted on in August 2019, including the \$5m allowed for contingency, but does not include the \$5m consulted on for design changes. Developers would have to manage the impact of this on the development and/or other funders. The developer has indicated that at this level of investment the project is unlikely to be able to proceed. No rates increase.

### **OPTION THREE**

Repurpose the additional \$5m identified for design changes as a contribution of additional investment. The total investment would be \$30m. There would be a shortfall of \$16m for the project. Developers would have to manage the impact of this on the development and/or other funders. The developer has indicated that at this level of investment the project is unlikely to be able to proceed. No further rates increase is anticipated due to changes in the cost of borrowing.

The Council's preferred option is Option one.

## **CONSIDERATION OF SUBMISSIONS**

Officers have considered the submissions received and provide the following analysis to assist the Council's debate.

Four groups have emerged from the submission process:

- Those who support Council's additional proposed investment;
- Those who support the development and want to see it happen, but oppose further investment (either any further investment at all, or any investment beyond \$30 million)
- Those who do not support further investment and also wish to state their opposition to Council being involved in the City Block development at all.
- Those who have neither supported nor opposed the proposal, but have raised points that they wish to have considered by Council when making its decision.

### *Options preferred by submitters*

- 60% of submitters preferred Option one that Council invest up to \$46 million in the City Block Development
- 18% of submitters preferred Option two that Council invest no further funds above the \$25 million already committed
- 8% of submitters preferred Option three, that Council should repurpose the \$5 million allocated for design changes but invest no further after that.
- 13% did not select an option. Of these approximately a third were opposed to the project in totality and/or stated that they believed the Council should not invest at all.

It is worth noting that a considerable number of those who wanted the Council investment kept to either \$25 million or \$30 million still wanted the project to happen.

Common amongst all submitters, whether they were opposed or supportive of the proposed investment, was the importance of a focus on community and what that could deliver to the City.

### *Submissions in support*

60% of submitters supported the additional further investment. In addition a significant proportion of those who preferred no increase in investment still strongly wanted the project to succeed. A number of submissions received in support were from parties representing multiple individuals including Commerce South, the Neighbouring Retail Group and the Ratepayers Association.

There were a number of themes within those submissions in support of the proposed investment. The top three recurring themes were:

- The project has come this far, demolition has commenced and that the project must be completed
- The City needs to move forward - This is an investment for future generations
- The City needs heart - The current state of the city centre is neglected, run down and in some cases derelict and that is effecting not only the economy but people's pride in their city.

By far the most often raised theme in submissions in support of the additional proposed investment, was that the project must be completed and that Council needed to do what was required to make this happen.

There was a sense of urgency in many submissions, with submitters impatient to see the project succeed and concerned that the city might be left with a hole in its centre.

Some submitters felt that previous indecision and poor decision making by Council have played a part in the challenges being experienced in the city centre and that the Council must act decisively now.

Many of the reasons given in support of additional investment were very similar to those raised in 2019:

*“These themes reflect wide held concerns with the state of the inner-City as it currently is. Submitters considered that importantly, a revitalised city centre is essential not only for Invercargill, but also for the greater Southland region and the image that we portray to visiting tourists... Common amongst submitters who were in favour of the investment was the belief that if previous decisions had led to a decline in the attractiveness of the city centre, good future decisions could reverse this trend. Themes from other submitters were in a similar vein to the three most common identified above. Submitters in support considered that the development will modernise the City, but also that the development had gotten to a stage where it is no longer a viable option for Council not to be involved.”*

Submitters raised the importance for the city to have a heart which is a vibrant, attractive, economically viable CBD. Many raised that people currently leave the city to shop and that for struggling retailers to survive this needs to be turned around. A covered mall would be a place where people could meet, as well as shop and eat.

Some submitters in support of the additional investment, felt that the impact of Covid-19 meant that this was even more important. Local government investment would help create jobs and support retail and hospitality.

### *Submissions in opposition*

Approximately 30% of submissions were in opposition to increased investment. It is less easy to give a firm figure for those in opposition to the increased investment, for two reasons:

- Many of those who preferred Option 2 and Option 3 still strongly wanted the project to go ahead. Some felt that private sector and/ or Central Government should be further explored.
- 13% of people did not select an option. For approximately a third, this was because they did not support the Council being involved in the project at all. Others provided written submissions which were supportive although they had not chosen an option.

Many of the factors raised in submissions in opposition were the same or very similar to those raised in 2019. Below is an excerpt from the 2019 deliberation report which is still very relevant.

*“By far the most common theme in opposition to Council’s proposed investment was the objection to the use of rates and the associated rates increase. A number of submitters raised concern as to the impact of this proposal on them personally when they were on a fixed or low income. Some submitters expressed that they could not afford any further increase in rates for a project that was not a core responsibility of Council. This viewpoint was shared by a number of submitters who opposed the use of public money to partially pay for a private investment.*

*The concern inherent in these submissions over the proper use of public money flows through into the second theme; other projects are more important...These two themes; the inappropriate use of rates money resulting in a rates increase and the potential deferral or loss of more important Council infrastructure or community assets, were supported by the third most common theme in the submissions, the development is not a good investment.*

*Council has been questioned many times, both in the written and in verbal submissions, over the expected return on investment of this proposal. Submitters considered that there was little information to show that this investment was going to be financially viable and that, while understanding the commercial sensitivity of the development, the information provided did not answer the questions the community would like to know in order to support the proposal.*

*Many submitters who considered the development was not a good investment made reference to Council's prior investments. This indicates a level of mistrust in Council being involved in investments and will need to be carefully managed should Council determine to invest in the development."*

In this second consultation, some specific issues were raised repeatedly by those concerned as to the viability of the investment:

- The viability of a retail led model at a time when online shopping is becoming ever more popular and retail is already struggling in the city
- That local retailers will not be able to afford the higher rents, that other retailers who may have moved in have already invested in other projects and that those local retailers who do move into the mall will leave more empty buildings in other areas
- That the mall concept is outdated, with a high risk of a "zombie mall" with closed or never filled retail spaces
- Concern that if private sector investment cannot be found this indicates the model is not sound
- Concern that the slow sign up of leases is indicative of weak demand for retail space in the mall.

In addition to this there was significant concern about the impact of Covid-19. Some submitters felt that the forecast recession, combined with anticipated acceleration of online shopping habits meant that the project risk would be unacceptably increased. Others felt that the decision should at least be delayed until more was known about the economic impact of Covid-19.

Other increased risk factors raised included the impact of the potential closure of Tiwai and of changes to SIT's business model, on the population and disposable income of residents.

### *Other concerns*

A number of concerns were raised in some submissions, irrespective of whether the submission was in support or opposed to the proposal for further investment.

The ability of the project to deliver community wellbeing, including accessibility and public health outcomes, through good design of the space was raised by many submitters. The importance of a gathering space, including the option of green space was the most often raised design consideration. In addition a playground, arts projects, experiences for young people and accessibility were other design issues raised. Some hoped that pedestrianisation or other traffic management measures would be considered. Others felt that inclusion of accommodation would be important for community wellbeing.

Some supporters whether they were in support or opposed to additional investment, were concerned that this was not the last time Council would be required to make further investment.

## **OVERVIEW OF PROJECT FINANCIAL STRUCTURE AND RISK MANAGEMENT**

On 6 November 2018 Council resolved that its specific strategic intent for any Invercargill City Centre development were that it:

- was an attractor for people;
- was of sufficient size to accommodate the requirements of an anchor tenant;
- promoted rejuvenation of the City Centre more generally; and
- recognised the value heritage retention.

Council has noted that it was not been active in the development of the initial proposal for the inner city and this has resulted in constraints to fully align community wellbeing outcomes with the commercial objectives of the public private partnership; and that as part of its deliberations, acknowledged its desire for achievement of community wellbeing outcomes by allocating sufficient funds to the surrounding streetscape and has allocated a budget and commenced work to ensure that this occurs.

### *Risks*

Council has identified a number of risks relating to the project, including potential increased risks as a result of Covid-19. Key risks include:

- Continued design changes require additional consents, amendments to be obtained
- Vibration damage risk to neighbouring buildings during demolition/ work in general
- Debris from the demolition fall to street/ neighbouring property
- Actual tender prices from contractor is higher than estimates risking viability
- Uncertainty on tenant demand/ no locked in tenants (major tenant especially)
- Banking covenants effect optimum staging for the site
- Disturbance
- Negative public perception due to financial burden on Council and the ratepayer
- Facility does not open when expected

In their decision regarding the resource consent the Commissioners noted at 10.1.11:

*The other major area of concern is the impact that this mall-type proposal will inevitably have on the remainder of the Business 1 Zone. We consider that the gravitational pull of this development will be great, with the consequence that there will be a reduction in functional amenity in other parts of the Business 1 Zone. That may impact on the economic viability of retention in other heritage elements in other blocks. In the end we do not consider that this concern is a concern that warrants influence in our assessment.*

This is the strategic issue that has occupied the mind of Council and is reflected in the risks above.

The final words of the Commissioners echo the fundamental reason for investment in the project: *As this decision shows, the Panel considers that appropriate placemaking in Block II is essential to respect the role that that block plays in the city. The implementation of the proposal in conjunction with public infrastructure will provide many opportunities to further enliven and enhance the locality in ways that cannot be secured through the consent process. We have also identified other elements of the proposal that a worthy of reflection and re-consideration.*

### *Project Funding*

ICL is only completing stages 1-3. ICC/ICHL has previously invested in HWCP. HWCP has been progressing the development until ICL was in a position to take over. HWCP has sold the land for stages 1-3 to ICL and the costs incurred to date. HWCP retains stages 4 and 5. Stage 6 was sold to SIT. If there is a piazza, it will be completed by HWCP from land sales as part of stage 5..

### *Invercargill Central Limited Equity*

- Current equity commitments are:
  - o ICHL \$25M
  - o O'Donnell CBD \$25M
  - o Geoff Thomson approx. \$4M
  - o PGF \$9.5M
- Shortfall \$21M (Consultation on \$5M repurposed design budget and \$16M additional investment)

### *Invercargill Central Limited Loans*

- CTS \$20M
- PGF \$10M

A bank loan will be accessed to the value of the remainder.

Total equity and loans (noting \$21M shortfall in equity) sufficient to complete the development.

### *Invercargill Central Limited Budget management*

The current budget is consistent with available funding.

Council has satisfied itself that at this stage the risk of their being cost overruns or a financial burden on Council beyond that identified in the consultation process is low.

Council notes that ICC/ICHL (subject to any necessary consultation) and O'Donnell CBD are required to provide funds to complete the project, including cost overruns or funding shortfall. Council is satisfied that at this stage it is unlikely that ICHL will be required to fund any cost overruns.

### *Project risks update*

COVID-19 has delayed the scheduled tenancy programme. Council is satisfied that the two major impacts of COVID-19, reduced interest rates, and increased risk around tenancies at this stage do not make a material difference to the project budget. Council will continue to monitor the tenancy programme as part of its ongoing management of the risks associated with this investment.

*Options for further investment made by Council on behalf of ratepayers*

Any investment funded by ICC will rank equally in terms of dividend and value of shares in the event that a purchaser is found for ICL.

*Options for further investment which may be made through the Shovel Ready Fund*

The outcome of the application to the Crown Infrastructure Partners Shovel Ready Fund is not known at this stage. In the event that Council is not required to invest further funds, as the shovel ready fund provides the further investment to ICL, there will not be an increase in equity for Council.

Other permutations related to the provision of funds from the shovel ready fund will have to be worked through once the obligations and terms of that grant are known.

**FURTHER STEPS**

A meeting to make the decision on whether to invest extra money into City Block will be held on 29 June 2020.

**CONCLUSION**

For those submitters in support there was a fear for the future if there was no development, there was anxiety over how that would impact both their children and the region. The development is seen as a positive step forward and one that is long overdue. There is a strong feeling that Council must provide leadership. Concerns for the future if the development does not go ahead is heightened as a result of the demolition having commenced.

Those opposed to the investment are concerned about whether the public good provided by the mall justifies the investment and are concerned about its impact on rates. There is concern over the use of public money in a commercial investment when community assets are closed and other key projects have not commenced. Submitters raise concerns with the financial uncertainty of the investment, particularly in the light of Covid-19, as well as the record of past Council investments.

Many submissions both in support and opposed, want to see positive community outcomes beyond the retail and hospitality opportunities provided. They want to see inclusive design, places for people to meet and a streetscape which supports a vibrant city centre.

Following consultation in 2019, Council determined that the wellbeing benefits of the investment outweighed the risks and chose to invest. Before making a decision on the proposed additional investment, Council should consider these factors again and determine whether the level of risk has increased and whether it now outweighs the public benefit of making the further investment. In doing so, Council should also weigh the risk of not being involved in this investment, and what impact that is likely to have on the social and economic wellbeing of the community. Council should consider its vision for the City, its goals in supporting the project to this point, and the role it believes this project will play in achieving the outcomes Council wants to see for the community.

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