

Rotorua Museum Te Whare Taonga o Te Arawa

Decision-making

2 August 2023



This presentation

1. Consultation process and outcomes.
2. Process to date (workshops).
3. Options and possibilities.
4. The decision for today.



Consultation: Process and Outcomes



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Consultation: raising awareness

- Info' stands: Te Aka Mauri, Civic Centre (150 consultation docs).
- Email to 172 community members (Let's Talk).
- Advertising: 10 radio stations, Chamber of Commerce e-newsletter, NZME digital, NZME 3 full-page adverts, social media (1.4k views, 1,497 clicks).



Consultation: awareness

- 31 May - Te Aka Mauri community info (video of the event posted on YouTube, 127 views).
- 7 June - Sir Howard Morrison Centre (live-streamed 1,800 views).
- 14 June - Pukenga Kōeke o Te Arawa – Te Papaïouru Marae.
- Toi Ohomai, JPC, Rotorua Intermediate, RBHS.

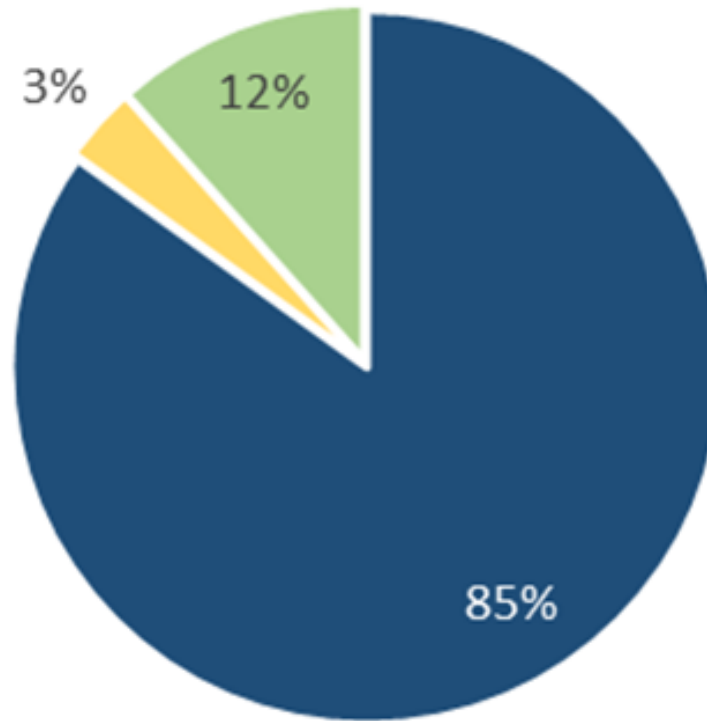


Consultation: results

- 776 submissions.
- Compares favourably with the community response to other consultation processes (eg PC9, Annual Plan, reserve revocation).



Museum Option analysis



■ Option A ■ Option B ■ Option C



Options

- Option A: restore and strengthen, with a \$9m contribution.
- Option B: stage the project (opening after stage 2 is complete).
- Option C: postpone the project, open a new museum.

During consultation, external funders provided submissions.

Most would not agree to extend the contracted timeframes.

Therefore \$21m external funding lost, so Option B is **not viable**.



Consultation: themes (Option A)

- 85% of submitters.
- *The museum is an iconic building and heritage site, significant historical and cultural significance.*
- *The museum is a symbol of wellbeing, and a symbol of Rotorua, its culture, history and identity.*

“The building and its continued use as a place of history, of stories and reconciliation is a symbol of well-being for our people, culture and place.” (submission #459)

“This building is a really important treasure to our community, the country and indeed the world. It’s a building that weaves together genealogy of the arrival of the settlers to Rotorua, in the years when people were happy, absolutely, a building that cares for treasures and narratives of ancient times.” (Submitter #115)



Consultation: themes (Option A continued)

- *Belief that Option A is the lowest cost option and risks are best understood.*
- *Additional cost was acceptable to many of these submitters.*
- *Just get on with it.*
- *Keep looking for alternative funding.*

“Do not cost cut the vision, the value and intent behind this project. Finish the project to the fullness of its original intent. I implore the Council to be part of that enduring history for the good.” (submission #459)



Consultation: themes (Option A continued)

- *A close connection between the building and its function/use as a museum.*
- *The building and the museum contribute to the district economy especially tourism.*

“From a business perspective, the more activities available in the town the better. Not everyone goes mountain biking, and those visitors need something to do in their down time. An iconic sight of the Bath House and museum visit is ideal for that.” (Submitter #666)



Consultation: themes (Option B)

- 3% of submitters.
- *Most external funders would withdraw their funding for this option.*
- *Building must be protected, restored and made safe.*
- *Make it better than it was before.*
- *Be practical, which probably means staged.*
- *Concern about the cost to ratepayers, staging would make it more affordable.*



Consultation: themes (Option C)

- 12% of submitters.
- *A museum with modern facilities would be an asset to the community.*
- *Finishing the project has too much unqualified financial risk, do it when the city can afford.*
- *Find a quicker solution.*



Consultation: Option C continued

- *Not good building on geothermal activity, build a new museum in a new location.*

“The ground on which the existing Museum stands will always be problematic and it is highly likely there will always be ongoing issues and expense.”



Process to date



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Workshop 1: Construction feasibility

- The geotechnical and structural engineering testing, methodology and design.
- The range of potential outcomes are well understood and the project is designed to respond to those possibilities.
- No further testing or investigation work is recommended by the technical team to de-risk the construction.



Workshop 2: Council funding and debt

- Council debt funds long-term community infrastructure over multi-generation period – so we don't under-invest for future.
- Debt ceiling policy caps debt at **250% of revenue**. Our banking covenants actually allow 290% (reducing to 280% from 2025/26 onwards).



Workshop 2 continued

- Council has committed to provide \$15.5m (2021/24 LTP).
- Council has sufficient debt headroom to contribute another \$10m to support the project (**including** risk associated with WWTP, Tarawera and Rotoiti/Rotoma WWTP and IAF).
- Recommended that Council carry only risk of escalation beyond \$81.4m and look for further external funding to close the gap.



Workshop 3: External funding

- Existing funding contracts: MCH \$5m, Kanoa \$17m, Lotteries \$6m, Rotorua Trust \$10m (total \$38m).
- Subject to Council commitment: MCH \$4m, Kanoa \$3m-\$5m, Lotteries \$350k.
- Potential (applications to be made): Private donation, Rotorua Trust, NZ Community Trust and BOPRC.



Workshop 4: Risk mitigation

Construction risk – first workshop.

Cost risk:

- Range of tools to manage cost escalation risk were discussed.
- Includes contract negotiation and having sufficient contingency:
 - Quantitative Risk Analysis.
 - Treasury recommendation of P85 (85% confidence that the budget including contingency is sufficient). Project currently at P95.



Workshop 4 continued

Funder-risk (potential loss of external funding):

- Legally binding funding agreement and good communications with funders.
- Ring fencing some scope within the construction contract that can be removed if the additional funding is not fully secured.



Options and possibilities



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OPTION A RESTORE AND STRENGTHEN	OPTION C POSTPONE, OPEN A NEW MUSEUM
RLC contribution \$15.5m (existing LTP) +\$9M (new) + potential cost overrun	RLC contribution \$9m costs to date (to be written off) + \$1m to make safe + future project to strengthen building and cost of new museum
External contribution \$38m (existing commitments) +\$18.9m (to fundraise)	External contribution -\$16m (ie repay grants already drawn down)
Impact on debt <ul style="list-style-type: none"> • Debt already in LTP = \$15.5m • New debt = \$9m + potential cost overrun • Debt headroom improves 2.5 x capital grants (i.e. +\$142.5m) 	Impact on debt <ul style="list-style-type: none"> • Debt already in LTP = \$15.5m • Cash on hand to repay funders = \$2m • New debt = \$8.5m • Future debt to finish the project • Debt headroom lowers by 2.5 x rescinded grants (-\$95m)

Option A: Strengthen and restore

RAW RISK	MITIGATION	Residual Risk (using PMO framework)
Actual costs exceed the \$81.4m budget	<p>Extensive testing, experienced engineers/designers, early contractor involvement.</p> <p>Detailed scope of works (consented), procurement process, contingency (QRA) at P85, fix pricing as far as possible.</p> <p>Budget reflects market conditions.</p> <p>Preserve Council debt to cover potential exceedance over \$81.4m.</p> <p>Contract scope allows some work to be deferred.</p>	<p>Likelihood: Unlikely</p> <p>Impact: Severe (>\$1m)</p> <p>Risk Score: Medium</p>
Unexpected defects	<p>Extensive testing, experienced engineers/designers, early contractor involvement, fix pricing as far as possible.</p>	<p>Likelihood: Unlikely</p> <p>Impact: Severe (>\$1m)</p> <p>Risk Score: Medium</p>
Loss of existing funding	<p>Legally binding funding agreements.</p> <p>Keep funders informed.</p> <p>Council commitment to the project.</p>	<p>Likelihood: Rare</p> <p>Impact: Moderate</p> <p>Risk Score: Low</p>
Unable to raise new funding to fill the gap	<p>Council commitment to the project unlocks potential \$17m.</p> <p>Contract scope allows some work to be deferred.</p>	<p>Likelihood: Unlikely</p> <p>Impact: Severe (>\$1m)</p> <p>Risk Score: Medium</p>
Impact on future funding	<p>Keep funders informed.</p>	<p>Likelihood: Rare</p> <p>Impact: Moderate</p> <p>Risk Score: Low</p>

Option C: Postpone the project and build new

RAW RISK	MITIGATION	Residual Risk (using PMO framework)
Actual costs exceed the \$81.4m budget	As per Option A Plus potential future changes to Building Code Plus ongoing deterioration Plus construction inflation (\$81.4m @ 2.5% p.a over 20 years = additional \$52m to find)	Likelihood: Almost certain Impact: Severe (>\$1m) Risk Score: Extreme
Unexpected defects	As per Option A Plus ongoing deterioration	Likelihood: Possible Impact: Severe (>\$1m) Risk Score: High
Loss of existing funding	All external funders would withdraw funding. Future project to scope, design, consent and raise funding to restore the building.	Likelihood: Almost certain Impact: Severe (>\$1m) Risk Score: Extreme
Unable to raise new funding to fill the gap	Costs to stop the project and repay funders would be debt-funded.	Likelihood: Likely Impact: Severe (>\$1m) Risk Score: Extreme
Impact on future funding	Likely to impact RLC's reputation with funders.	Likelihood: Likely Impact: Severe (>\$1m) Risk Score: Extreme

Other possibilities

1. Leave the building as a façade or abandon the building.
2. Give the building to a third party (eg government or a trust).
3. Minimum compliance with the building code (34%).
4. Apply for an exemption.
5. Alternative use (eg hotel, office, storage).



Overall summary of the options

The risk assessment is that Option C increases construction risk, and significantly increases funding risk.

On the other hand, it is recommended that Council **further de-risk Option A** by seeking **full** external funding for the remaining \$27.9m. Council would remain responsible for the residual risk that actual costs exceed \$81.4m (including exceeding contingency).



The decision today



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Unpacking the recommendation

That the Council confirms its intention to proceed with the strengthening of Te Whare Taonga o Te Arawa and to re-open it as a Museum subject to:

...



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...



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Unpacking the recommendation (cont'd)

...

- a) Council acknowledges that it would not be prudent for Council to apply additional funding beyond the \$15.5m already committed for the project.
- b) Council acknowledges that it will be required to meet any escalation in cost beyond the identified contingency. The contingency for the first phase will be sized to ensure there is at least an 85% probability that work can be completed within the funding available.



Unpacking the recommendation (cont'd)

...

- c) Council directs that there be a progressive approach to construction taken as funding becomes available. Council understands the first step is to undertake work only to the value of the confirmed funding to provide sufficient scope for the Museum to commence operation.
- d) Existing and additional funding being confirmed.
- e) A future Council approval to enter into the construction contract.



He patai? Questions?



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