

3.4 SARJEANT GALLERY TE WHARE O REHUA WHANGANUI REDEVELOPMENT: REVITALISATION OF A KEY REGIONAL TOURISM ASSET.

PGF Application		For: Decline	
Applicant:	Whanganui District Council (WDC)	Pipedrive ID #	Commercial Information
Entity Type:	Local Authority	PGF Funding Sought:	\$12,000,000
Region	Manawatu-Wanganui	Total Project Value:	Commercial Information
Tier:	1 - Regional	Co-contribution rate:	Commercial Info
Sector:	Regional Projects	Funding Structure:	Grant

We recommend that the IAP:

- a) **Recommend that this application be declined** \$12 million from the PGF for the Sarjeant Gallery redevelopment on the basis that the investment does not sufficiently meet the primary objective of the PGF in accelerating sustained regional development. Other projects have been identified by the Sector Investment Team as a priority for Whanganui (Sector investments – Whanganui Port and the Advanced Aviation Hub); if these projects do not progress then the PDU would revisit the suitability of this application.

If the decision was made to approve it is recommended that funding be subject to:

- Commercial % of the funding required via confirmed commitments have been achieved;
- The PDU finalising its funding terms in consultation with all other major funders to ensure continuity of conditions and mutually agreed protection for funders should any adverse matters affect the project;
- PDU reviewing and agreeing the project management and governance systems;
- MBIE agreement of the tender/contract strategy for the planned civil and building works, including a fixed price contract expected to be negotiated with the developer; and
- Agreed strategy for the funding of any potential cost over-runs with the expectation that any cost over-runs will be underwritten by WDC.

- b) **Note** that the project is time critical:

- Funding commitments will not remain in place indefinitely with the loss of significant committed funding if the project does not commence in the current year.
- The conditions in which the collection and taonga is been stored is inadequate with considerable risk of long-term damage.
- The heritage Gallery building deteriorates further every year, and the cost of construction is rising making it difficult to close the funding gap.
- The temporary site has severe restrictions in terms of display/exhibition space and is at risk of flooding (located on the riverfront).

- c) **Note** That without PGF funding the project is likely to be delayed indefinitely. With delays resulting in a withdrawal of committed funding already held and the continued increase in construction costs the funding gap will continue to widen. There is a strong likelihood that such a delay would prove to be fatal with the likely scenario being the permanent closure of the Gallery and dispersal of the collection. In this situation Whanganui would lose a key regional asset.
- d) **Note** that there is strong support for PGF funding from MBIE Tourism and the Ministry of Culture and Heritage – refer comments attached.
- e) **Note** that the requested PGF funding would fund the new wing not the upgrade of the existing heritage building.
- f) **Note** co-contribution, including significant community donations, is made up by:

Commercial Information	\$ Commercial Information
Commercial Information	\$ Commercial Information
Commercial Information	\$ Commercial Information
Commercial Information	\$ Commercial Information
Total	\$ Commercial Information

- g) **Note** that there has been strong consultation within the community through surveys, referenda, public meetings, hui with iwi and community feedback forum on-line. The strong community support is reflected in the level of private donor contributions, the close working relationship with iwi (the acknowledged importance of the site), and the cooperation between WDC, Heritage NZ and iwi for the resource consent process.
- h) **Note** the project is 'spade ready' and on the basis funding is confirmed the applicant is targeting late August to sign the key construction contract.
- i) **Note** that a review of building and design plans has been undertaken to challenge the project budget. Late 2018 an updated cost estimate was received which advised a total project cost of \$ Commercial Information. An alternative EQ strengthening scheme was investigated with an alternative strengthening design developed reducing the total cost of the development to the current level of \$ Commercial Information.

Proposal:

The project is the redevelopment of the Sarjeant Gallery in Whanganui. The Sarjeant Gallery is currently closed due to earthquake vulnerability and the deterioration of the 1919-era Category 1 heritage-listed building. The Gallery has been relocated to temporary facilities within Whanganui, but due to space and configuration restrictions the historical growth in visitor numbers has stalled.

The project will construct a major new wing as well as undertaking a significant seismic upgrade of the existing heritage building. The new gallery will improve public access to the Collection for New Zealanders, provide a functional public space for the Whanganui community including for powhiri at a significant site for iwi, and provide an education space for students. The new wing will also address issues of inadequate exhibition and storage space and provide appropriate environmental conditions to preserve the nationally significant Collection held by the Gallery and the taonga held on behalf of iwi.

Redevelopment of the Sarjeant Gallery would be a key enabler for the proposed Taranaki Art Trail, which will help catalyse further tourism and economic growth in the region. The proposed trail is a self-driving itinerary from New Plymouth to the Kapiti Coast and onto Wellington. Anchor points for the Arts Trail will be the major regional

facilities – the Govett Brewster Gallery and the Len Lye Centre in New Plymouth, the Sargent Gallery in Whanganui and the existing Kapiti Coast Art Trail – with extensions to Pataka Gallery in Porirua and Te Papa in Wellington. Art trails throughout New Zealand have a proven track record of increasing visitor numbers and visitor spending. Whanganui is well situated at the mid-point of the proposed trail to secure the benefit of overnight stays.

Why is PGF Funding required?

The project commenced in 2012 when concept designs were developed. Construction costs have continued to escalate and despite the significant level of community funding raised over the last 6 years, the time elapsed has worked against closing the funding gap. There is now a real risk that if the project does not commence this year financial commitments from individual donors will be withdrawn (the Ministry of Culture and Heritage has already extended commitment date once and is in the process of extending for a second time) and the project will not proceed and the region will lose a key asset. There are no viable alternative funding sources to close the funding gap.

What makes this project unique?

The Sarjeant Gallery is one of only seven New Zealand regional arts assets already recognised internationally, and the only one outside the main metropolitan areas of New Zealand, providing Whanganui with a significant point of difference. The Sarjeant Gallery is one of New Zealand's oldest art galleries and has most significant art collections and taonga held on behalf of iwi. The importance of the gallery is reflected in the \$^{Commercial Information} contribution from ^{Commercial Information} Commercial Information, the largest single grant made by ^{Commercial Information} Commercial Information.

Assessment against the PGF criteria:

Eligibility Criteria

This application is eligible for PGF funding.

Productivity Potential

A detailed economic impact assessment identifying the anticipated uplift to the regional economy on completion of the project has been undertaken. Confidence in the forecast economic impact is based on detailed data sourced on the actual impact on the local economy of the Len Lye Centre in New Plymouth and the Suter Gallery in Nelson. **Please refer** to the attachment for this assessment.

Sarjeant Gallery - Assessed Impact:

It is assessed that the Sarjeant Gallery project would drive increased employment and overall economic activity, as well as be an anchor facility for a growing arts, culture and heritage sector.

Local Regional impact:

- Construction - \$^{Commercial Information} (estimated ^{Comin}% local contract content) ^{Commercial Information} FTE (local employment over 2 years)
- Attract circa 22,800 additional visitors to the district per year (by year 2 of operations) generating circa \$^{Co} ^{erc} ^{Commercial Info} in additional regional spending.
- Create ^{Commerci} FTEs within Whanganui in direct and induced employment.

The performance of the two regional galleries reviewed suggests that the projections for the economic impact of the Sarjeant Gallery are conservative in both visitor numbers and the level of spending of arts-related tourists, and the resulting economic benefit to the region.

The Len Lye Centre:

First full year of operation:

- Out of district domestic visitors: increase of 18,000
- International visitors: increase 3,400
- Out of district domestic spending: increase \$^{Commercial Information}
- GDP uplift: increase \$^{Commercial Information}
- Employment uplift: FTE ^{Com}

The Len Lye Centre also provides the evidence that investment in cultural facilities act as a catalyst for subsequent private sector investment. The redevelopment of the West End Precinct in New Plymouth was a direct follow on from the Len Lye Centre development which provided the economic impetus for investment in accommodation, hospitality, and retail businesses.

Policy objectives and regional priorities

The Accelerate 25 – the Manawatu-Whanganui Economic Strategy and Action plan identifies ‘Tourism and Visitor Services’ as an opportunity with the challenge of providing “wet weather activities which will make the region more attractive year-round”. The Sarjeant Gallery would offer a year-round, all-weather experience and with the development of the proposed Taranaki Art Trail will play a key role in unlocking the tourism potential for the region.

The following WDC strategies are relevant and have strong alignment to the Sarjeant Gallery project:

- Whanganui Visitor Strategy 2013-2018: The strategy acknowledges the Arts, Culture and Heritage sector in Whanganui as one of four main strengths to attract visitors.
- Arts and Culture Strategic Plan 2019-2029: This is currently in draft and seeking feedback from the community. The Plan aims to put creativity at the heart of the city’s identity.
- Economic Development Strategy 2019-29: Two of five priorities in the strategy are Tourism and Education. The Strategy recognises Whanganui’s heritage, art and culture as unique and a national asset. The Sarjeant Gallery redevelopment brings together all three in one project.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	An Economic Impact Assessment has calculated that the Gallery redevelopment will create in excess of ^{Commercial} jobs in the short-term (construction period) and around ^{Co etc} direct and indirect jobs in the local economy in the long term.	✓✓✓✓
Delivers benefit to the community	<p>Within the Gallery itself, an internship programme will be introduced to highlight career paths for young people in the community interested in the cultural sector. This will also focus on developing skills among Māori so that they can care for and preserve their taonga.</p> <p>The redeveloped Sarjeant Gallery is planned to be the anchor for building a cluster of art and craft -related businesses including artisans and retail.</p>	✓✓✓✓

	The Gallery project will be linked directly to the pathways to work developed locally in the SWEET programme (Students in Whanganui in Education, Employment and Training), and to the national programmes aligned with MSD.	
Increased utilisation and returns of Maori asset base	Māori artists will be involved in both the exterior and interior design of the new building, showcasing their art and culture. Because of the significance of the site, local iwi Te Rūnanga O Tūpohō see the Gallery as a place to hold pōwhiri and host important ceremonial occasions for the city and district. The presentation and preservation of taonga on behalf of iwi sits at the heart of the Gallery's mission.	✓✓
Enhanced sustainability of natural assets	No impact	
Mitigation of climate change effects	No impact	
Additionality		
Adding value by building on what is already there	<p>This project builds on the history and standing of the Sarjeant Gallery in the culture and heritage community. The collection incorporates over 8,500 works valued at \$28 million and will provide the facility to exhibit and store the collection. This will create the key asset in attracting visitors to the city providing a strong impetus to the local economy.</p> <p>The Sarjeant Gallery is situated close to the recently renovated Regional Museum making a compelling cultural hub.</p> <p>Currently the Sarjeant Gallery has a low profile in the general domestic and international visitor market. This has been a conscious decision forced by the closure of the old facility. The new facility will allow the Sarjeant Gallery to begin a wider and more aggressive marketing profile. The Gallery is seen as a platform for long-term economic transformation.</p>	✓✓✓✓
Acts as a catalyst for productivity potential in the region	<p>An Economic Impact Assessment has estimated that the Gallery redevelopment will result in additional spending by visitors of Commercial Information per year.</p> <p>One of the outcomes sought from the Sarjeant Gallery project is to be the anchor for building a cluster of art and craft related businesses, including artisans and retail. Building on the heritage buildings, history and</p>	✓✓✓✓

	existing arts sector could result in Whanganui developing into a recognised centre for Maori arts and culture experiences.	
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	The project has strong alignment with the following Whanganui City Council strategies: Whanganui Visitor Strategy 2013-18, Arts and Culture Strategic Plan 2013-2018, Economic Development Strategy 2019-29, and Accelerate 25	✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<p>The project has strong ties with Whanganui Iwi reflected in the proposed dedicating of the new wing to Sir Te Atawhai Archie John Tairaoa.</p> <p>Letters of support from the Hon Dame Tariana Turia, Hari Benevides (Iwi Representative), John Niko Maihi, Kaumatua, Whanganui District Council, Horizons Regional Council, and 37 community letters of support.</p> <p>The national importance of the Gallery and Collection is reflected in the largest to date funding commitment made by the Ministry for Culture and Heritage.</p>	✓✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	<p>The Project Director (Gaye Batty) reports into the Sarjeant Gallery Redevelopment Committee and Executive Leadership Team. Gaye Batty has extensive experience in delivering a project of this nature having delivered the Len Lye Centre project in New Plymouth in 2014/15.</p> <p>The Sarjeant Gallery Redevelopment Committee members: Cr Kate Joblin (WDC), Cr Graeme Young (WDC, Keria Ponga (Iwi Rep), Hari Benevides (Iwi Rep), Nicola Williams (Chair Sarjeant Gallery Trust).</p> <p>Executive Leadership Team members (WDC): Kym Fell (CEO), Bryan Nicholson (COO), Other Group Managers</p>	✓✓✓✓
Risk management approach	A robust risk management approach has been established. A detailed risk register has been developed and a project programme is in place.	✓✓✓✓
Future ownership / operational management	<p>Ownership and governance will continue to sit with the WDC post redevelopment.</p> <p>The WDC has an Operations Asset Management Plan which plans for expected maintenance and associated</p>	✓✓✓✓

	<p>costs of the Sarjeant Gallery and other key District assets from 2018 to 2048.</p> <p>The Gallery also has a Business Plan, which outlines its goals, short-term and long-term actions to achieve the goals and how success will be measured.</p>	
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Analysis of the benefits and costs

The PGF investment provides the catalyst for significant co-investment of ^{Commercial Information}.

The timeline for completion of the new wing of the Gallery is ^{Commercial Information} while the existing building upgrade is forecast as September 20121.

Once completed the Gallery is expected to attract circa 22,800 additional visitors to the district per year (by year 2 of operations) generating circa ^{Commercial Information} in additional regional spending.

An estimated increase of ^{Commerc} FTEs within Whanganui in direct and induced employment is forecast.

Commercial Information

^{Commercial Information} The Sarjeant Gallery
Redevelopment is a key factor in this discussion.

Assessment against the Tourism Investment Framework

The Government's Tourism Investment Framework supports government to make choices about how, when and where to intervene or invest in the tourism system, providing greater certainty to regions and the sector. Central to the framework are the '5As' which need to be developed in a co-ordinated way if regions are to become successful, established destinations.

5As	Project Alignment
Access	The Gallery is located in Whanganui, close to the Regional Museum. Whanganui is well situated at the mid-point of the proposed Taranaki Art Trail.
Amenities	<p>Accommodation stocks are adequate however further investment will be required. Like New Plymouth the investment in the Sarjeant Gallery will play an integral part in the rejuvenation of the city centre.</p> <p>Occupancy rates are currently low (35.5% over the 12 months to April 2019) in the commercial accommodation monitor for Whanganui indicating that there is plenty of spare capacity.</p> <p>There is high rates of peer-to-peer listings such as Airbnb and the entity that used to be called Book a Bach.</p> <p>Quay Apartments is going to provide new accommodation on the River and has received resource consent.</p> <p>There is a brand new 3-story boutique hotel in process for Ridgeway Street awaiting planning consent.</p>
Attractions	<p>In the case of Whanganui the Sarjeant Gallery will deliver another key product attraction aimed at a different type of visitor, and will complement the other key attraction of the Whanganui River.</p> <p>The Sarjeant Gallery project will act as an anchor project for the</p>

	local and regional arts and heritage visitor segment.
Awareness	The project has strong alignment with the Whanganui Visitor, Arts and Culture Strategic Plans
Attitudes	There is strong local support for this project reflected in the level of private donations and the broad community patronage exhibited in the 37 letters of support.

Financial Analysis

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Sarjeant Gallery

The plan is for admission to remain free. The café will be sub-leased and rental income will be a revenue stream for the Sarjeant Gallery as will income from retail sales.

Sarjeant Gallery activity has been incorporated in the WDC 2018-2023 Long Term 10 year Plan. Once in the redeveloped building the annual operating deficit is forecast at circa \$^{Commercial Information} (included in the WDC long term 10 year plan). What is yet to be included are income figures for the new café, which will likely be a lease agreement with a provider. This income will be incorporated along with updated costs in the 2021-2031 LTP that will be finalised next year.

Funding Arrangements

Payment of grant funding against key construction milestones supported by certificate of correctness issued by either a QS or engineer together with a cost to completed certificate.

Due Diligence and Ownership

Entity due diligence not required for a regional authority. The PDU works with DIA to assess risk around local authorities.

Key contracts in place:

- Structural Engineer: Clendon Burns and Park, Wellington.
- Building Service Engineers: Pacific Consultants, Wellington.
- Quantity Surveyor: Rider Levett Bucknall, Wellington.
- Mckee Fehl Constructors Ltd is undertaking a peer review of the design and construction works.

Main Contractor Procurement

Following an EOI process, four contractors were selected to submit a tender for the Sarjeant Gallery Redevelopment.

On Monday 1/7/19 the RFP will be released and the tender will close on the 2/8/19. Following negotiation they are targeting signing a contract on or before 21/8/19.

Resource consent

A Resource Consent for the redevelopment (Council reference RCLU14/0013) was granted in August 2014. The project is deemed to have made 'reasonable progress' to 'give effect' to the Resource Consent and its associated conditions in the period between award of consent and now.

Building consent

A building consent will be lodged, as is usual on a project of this scale, con-currently with the tender process. Their tender and negotiation period through to contract signing is ^{Commercial Inform} long. Notwithstanding requirements for additional information, a building consent must be completed in ^{Comm} working days.

A pre-application meeting with the Whanganui District Council's consenting team has been requested by the applicant and is expected to occur within the fortnight.

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Timeline	Delay in commencement of project	Based on the current tendering and building consent programme the applicant does not believe the resource or building consents are likely to constrain construction commencement as soon as practicable after the signing of the contract on the 21st August 2019. The applicant has confirmed there are no other consents considered relevant to project commencement.	Medium
Budget	Construction cost over-runs	PDU agreement of the tender/contract strategy for the planned civil and building works, incorporating a fixed contract for the main contractor.	Medium
Project Delivery	Lack of WDC capacity to deliver the project	The WDC has completed the following major projects since 2015: <ul style="list-style-type: none"> • Wastewater Treatment Plant • Regional Museum upgrade • Earthquake strengthening to Alexander Library, Royal Whanganui Opera House and War Memorial Centre. 	Low
Benefit realisation	The expected economic uplift from the development of the gallery is not achieved	The analysis of the actual benefits in economic activity recorded and achieved by similar regional developments like the Len Lye Centre provides comfort that forecast benefits will be achieved.	Medium / Low

Note: A detailed project risk register has been provided for the development of the gallery- attached.

Consultation undertaken or implications:**MBIE Tourism**

The application is supported for the following reasons:

- Whanganui is a surge region and tourism is identified as a key opportunity in their ED Strategy
- The Sarjeant Gallery is an existing attraction with strong brand recognition & quality collection
- It supports Govt's focus on dispersal and spreading benefits to more regions – the investment will reopen it and enhance the experience and the gallery will continue to be a key part of Whanganui's tourism offer
- It's easier to add value to an existing experience than develop new attractions
- There is a significant commitment and funding from the community & across govt – they are clearly dedicated and value it's contribution
- They have committed to a marketing budget \$^{Commercial Information} pa. This level of investment is significant and will enable them to impact the market and drive visitation.
- The cost of not supporting it could mean that an important visitor experience for the region is lost.

Ministry of Culture and Heritage**EXECUTIVE SUMMARY**

The Ministry for Culture and Heritage (MCH) considers the \$^{Commercial Information} Sarjeant Gallery redevelopment project to be one of several current Arts, Culture and Heritage (ACH) priorities for government support across the regions. It has taken the applicant a decade of fundraising effort for this project to reach this point. MCH considers that PGF support is essential to retaining the over \$^{Commercial Information} already raised as most of these grants have clawback condition clauses in case the project cannot proceed within an agreed timeframe. \$^{Commercial Information} has already been contributed to the project **Commercial Information**

. The \$12 million sought from the Provincial Growth Fund is the final major funding brick needed to get this project over the line so that construction can commence without delay.

ECONOMIC IMPACT

MCH considers this to be a strong community-led initiative which will create employment opportunities in a less economically vibrant area of New Zealand. Separate regional economic impact reports commissioned by the applicant (for the Sarjeant Gallery); and the New Plymouth District Council (for the Len Lye Centre) both inform and support this view.

In addition to the economic impact of this multi-year construction project, MCH considers the gallery will bring domestic and international visitors to Whanganui who might otherwise have passed it by.

Once completed, the Gallery will strengthen the self-drive arts tourism route being developed between Wellington and New Plymouth's Len Lye Centre (the Len Lye Centre has been internationally promoted by Tourism New Zealand).

ADDITIONAL COMMENT**BEST FIT WITH GOVERNMENT STRATEGY**

- MCH considers that the Sarjeant Gallery project aligns strongly with our Ministry's strategic priority: *Investing in culture for the wellbeing and prosperity of New Zealanders.*

BARRIER TO PROGRESS

- The barrier to this project's commencement has been a ^{Commercial Info} construction market and quickly increasing costs.
- To do its part in managing costs down, the applicant has been reviewing the design of its project which has brought the anticipated cost of the project down to \$^{Commercial Information} so far. The final stage of that cost-savings review is occurring now and it is focussing on options for lowering the seismic strength outcome in an attempt to keep the project affordable and achievable.

SECURITY OF FUNDS ALREADY RAISED

- We note that it has taken a decade of continuous fundraising effort to get this strongly supported regional project to this point.
- In addition to the \$^{Commercial Information} granted from the Regional Culture and Heritage Fund (RCHF), the applicant has raised over \$^{Commercial Information} from a combination of council, community, and national philanthropic sources. This has been a significant and hard fought fundraising achievement which is, in our opinion, unlikely to be replicated because much of these funds have been secured from philanthropists, many of whom are located outside of the region.
- **Free and frank opinions**

Confidential advice to Government

Free and frank opinions

Supporting proposal:	No
Appendices:	Yes – Applications ^{Commercial Information}
Author of paper:	Nick Hough, Investment Director, PDU Investment Team

PROACTIVELY RELEASED