REGIONAL CASINO BID FOR NEWCASTLE

ADDITIONAL INFORMATION IN SUPPORT OF THE BID

OCTOBER 2006

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KPMG Site appraisal for the proposed regional casino entertainment centre in Newcastle 31 August 2006

Pro-formas from potential casino operators

1. **The unique locational advantages particularly the balance between the non-ambience and accessibility within the City Centre**

1.1 **Accessibility within the City Centre, Tyne and Wear and the North East**

The Panel and objectors asked how the potential sites could be both accessible and non-ambient. The ability to be both is one of the reasons why the City's offer is unique and explained below.

The Discovery Quarter which has been identified as the potential location for a regional casino in Newcastle is a highly accessible area on the edge of the City Centre. Newcastle's bid is unique as potential sites are non-ambient yet are in a regional capital which is compact and highly accessible by all modes of transport throughout the region. Potential sites enjoy edge of City Centre locations and are all located within the City Centre as defined in the Unitary Development Plan.

Figure 1 Illustrates public transport travel times from the Discovery Quarter to major centres of population within Tyne and Wear, highlights key transport interchanges, Newcastle airport, Royal Quays (ferry link to Europe) and major road networks.

Figure 2 highlights public transport accessibility from potential regional casino/ convention centre sites, from a City Centre perspective.

Figure 3 shows the number of residential properties accessible within 40 minutes by public transport

Figure 4 illustrates that the Discovery Quarter is a non-ambient location by highlighting residential properties within 500m of the Discovery Quarter

Figure 5 illustrates that the Discovery Quarter is a non-ambient location, by highlighting the proximity the retail core

The Discovery Quarter provides a non-ambient location within the city centre. Sites have the advantage of being divorced from existing residential areas and also from the main retailing areas and therefore ambient gambling. While promoting the Discovery Quarter as the potential location for a regional casino and convention centre the City Council does not rule out sites elsewhere within the City.

1.2 **Site evaluation of potential sites within the Discovery Quarter**

In order to assess potential sites, the Council commissioned KPMG to undertake a site evaluation against a set of criteria including accessibility, availability of hotel accommodation, complementary land uses, 'aesthetics' and site credentials. KPMG examined seven sites within the Discovery Quarter which could be considered as suitable sites for a regional casino and convention centre (a copy of this report is enclosed). The sites include the following:

- St James / Gallowgate
- Scottish and Newcastle Brewery
- George Street
- Metro radio Arena
- Pottery Lane 1
- Pottery Lane 2
- Calders

The objective of this exercise was not to identifly a preferred location but to evaluate whether all or some of the sites in question match a range of requirements and could be considered as suitable potential sites for such a facility.

While promoting the Discovery Quarter as the potential location for a regional casino and convention centre in its proposal, the City Council does not rule out sites elsewhere provided they meet the appropriate criteria including those relating to transport sustainability and employment demand.

The S&N Brewery which was recently acquired by the City Council and partners with a view to its redevelopment as ‘Science Central’ (part of the Science City initiative) was included as a potential site given its size and location. Physically the site is large enough to accommodate a development of the size but it is unlikely that the City and its partners would make the site available for a regional casino/convention centre.

Within the Discovery Quarter the City Council considers that there are sites which offer significant potential to accommodate a regional casino and convention centre, and there have been discussions with a number of casino operators. These sites are large brownfield sites in need of redevelopment which would act as a catalyst for regeneration of the surrounding area.

1.3 Operator willingness to develop a Regional Casino / Convention Centre

In addition to this analysis each of the four casino operators confirmed that alongside the development of a Regional Casino they could deliver a conferencing facility capable of accommodating 1, 500 delegates (see attached pro-forma’s)

2. Clarifying capital costs of a Regional Casino

During the Examination in Public of Newcastle City Council’s bid for a regional casino one issue raised by the Panel related to apparent confusion between the potential capital cost of establishing a regional casino facility in Newcastle and the potential level of funds which might be made available by a casino operator to contribute towards the cost of developing a regional convention centre. This confusion arose as a result of the fact that the amounts quoted for both of the above items was £143million. The distinction between the above items and explanation of the calculation of such amounts are explained further below (these are enclosed).

2.1 Capital Cost of Establishing a Regional Casino operation in Newcastle

The key issue faced by the Council in considering the potential economic impacts associated with establishing a regional casino facility was that no detailed proposals had been put forward by casino operators and the Council were no aligned with any particular operator. Initial exploratory meetings had been held with a number of casino operators and outline proposals had been provided by MGM Mirage and Isle of Capri. However such proposals were not sufficiently detailed to enable a detailed cost estimate to be developed.

The approach taken by the Council to estimate potential capital costs involved utilising estimates developed by Professor Peter Collins of Salford University who was engaged by the Council to advise on the potential level of financial contribution that a casino operator may be willing to provide to support the development of a regional convention centre or other economic development priority specified by the Council. On the basis that this estimate represented only gaming operations a further amount was added to represent the potential cost of developing a 350 room hotel (regarded as being a complementary development to accompany gaming operations and an integral part of the outline proposals put forward by MGM Mirage). Costings for such a development were estimated utilising development cost benchmarks published by Davis Langdon. The potential cost of developing a regional casino facility can therefore be estimated as follows:

	£m	
Casino building costs (including fixtures and fittings) – 7,500sq.m.[1] at £3,000/sq.m[2]		22.5
Slot machines – 1,250 machines[2] at £7,000 each[2]		8.7
Gaming tables – 50 tables[2] at £50,000 each[2]		2.5
Pre-opening costs[2]	10.0	
350 room[1] hotel – building costs (incl. fixture and fittings)		100.0[3]
	143.7	

1 As per MGM Mirage outline proposal provided to the Council

2 Estimates provided by Prof Peter Collins of Salford University

3 As per hotel development cost benchmark data published by Davis Langdon

2.2 Potential cross-subsidy of a Regional Convention Centre

As outlined above, as part of the process of preparing its bid to the CAP the Council engaged Prof Peter Collins of Salford University to consider the potential level of financial contribution which a casino operator may be prepared to offer in return for a regional casino licence. Such a contribution may be a financial or in-kind consideration to support the development of a regional convention centre or alternative economic development priority of the Council.

The methodology utilised by Prof Collins involved calculating the potential level of net gaming revenue which may be generated by a regional casino operator in Newcastle and calculating a net present value of this revenue stream over a 20 year period utilising a discount rate of 20% (as a proxy for Prof Collins assessment of an appropriate rate of return for a casino operator). Prof Collins estimate of potential capital costs associated with the development of a regional casino facility was then deducted from this net present value to arrive at a net surplus remaining and potentially available both to secure the regional casino licence and finance further investment in additional developments. Professor Collins calculations are summarised below.

Average annual operating cashflow over years 1-20	£48.3m	A
Present value factor (yrs 1-20) at 20% discount rate	4.87	B
Net present value of total operating cashflow over years 1-20	£235m	(AxB)
Less: potential development cost of gaming facilities	(£92m)	
Remaining surplus available for investment	**£143m**	

PricewaterhouseCoopers LLP ("PwC") were engaged by the Council to review Prof Collins work and consider the potential impact of a series of sensitivities on the surplus identified above. This exercise indicated that the potential surplus (and by extension contribution which a casino operator may be able to offer in return for a regional casino licence) is sensitive to changes in revenue and operating cost assumptions. A series of potential sensitivities explored as part of PwC's study resulted in net surpluses being reduced from £143million to £70million.

Regional casinos have the potential to generate substantial regeneration benefits and are likely to be influenced by a number of factors including:

- Regulatory environment at the time that a licence is to be awarded (with commitment to only one Regional Casino licence potentially giving rise to a monopoly situation and resultant higher value to the operator);
- The view of individual casino operators on the relative attractiveness of the North East market;
- Economic conditions at the time a licence is awarded; and,
- The nature of the business model proposed by operators.

Given the number of uncertainties which are likely to affect casino operators' perceptions of the potential value of a regional casino licence it is not possible to accurately estimate any surplus arising from a casino investment. However, PwC's initial analysis of potential revenue and profit levels suggests that even when a number of potential sensitivities are taken into account there will still be a surplus - after accommodating an acceptable rate of return to a casino operator – which could be available to contribute towards additional activities and projects which facilitate wider regeneration. PwC's analysis indicates that this amount could represent a substantial sum that could be available to subsidise a regional convention centre, although ultimately the only way to determine the level of such a contribution would be to undertake a robust procurement exercise whereby operators are invited to submit bids to the licensing authority.

Despite the uncertainties outlined above it is clear that Regional Casino operations have the potential to generate substantial regeneration and other benefits to local areas. PwC's review of a range of international examples from the United States, Australia and South Africa indicates that there are a number of precedents for convention centres to be funded by casino operations. A list of such developments is set out below:

- The Venetian Resort and Casino and the Sands Expo and Convention Centre operated by Las Vegas Sands Corporation in Las Vegas;
- In January 2005 it was reported that Las Vegas Sands was in talks with city officials in Detroit to build a new convention centre, complete with a hotel and a casino;
- The MGM Grand resort in Las Vegas features a 171,500 sq ft casino, world-class entertainment, restaurants, and a 510,000-sq ft conference centre;
- In 1999, Australian Casino company Jupiters announced it had been selected by the Queensland state government to develop and manage the Gold Coast Convention and Exhibition Centre under long term contract. The A$145 million project was progressed in parallel with an A$150 million upgrade of Conrad Jupiters Casino; and,
- The Cape Town International Convention Centre was established in 1999 by the Western Cape Provincial Government, the City of Cape Town and Business Cape, costing a total of R582m (approximately £55million) with funding from The City of Cape Town R284m, The Provincial Government of Western Cape R142m, SunWest International R140m, and Convenco (the Centre's operating company) R16m.

The above examples demonstrate a range of outcomes, from examples where convention centre facilities were funded entirely by casino operators as part of major casino, hotel and leisure complexes, to examples where contributions from casino operators represented only a proportion of the cost of developing a convention centre, and public private partnership arrangements where state owned facilities were developed and managed under long term contract by private sector operators.

3. The Robustness of the Consultation

The Panel raised concerns about the wording used in the public consultation documents in particular that they led towards a more favourable response towards proposals for a regional casino. It was clear to the City Council that there was confusion between the 'show cards' used in the survey seen by the interviewees and the background information. The following explanation indicates that the surveys were carried out in a non-biased manner.

As with the data collected in the initial research undertaken in March 2006, the findings of the second round of consultation were both current and focused. The data obtained harnessed the most up to date information available from people who live in Newcastle upon Tyne.

The consultation was also statistically robust. The survey utilised 865 resident interviews from an adult population of approximately 211,000. This sample allowed us to be 95% certain that the statistics generated were within just 3.3% either side of those that would have been generated had ALL adult residents in Newcastle upon Tyne been interviewed.

The on-site City Centre survey utilised an additional 186 interviews from an unknown weekly usage, but incorporates the views of commuters, workers, shoppers, tourists, residents and socialites, spread across the entire spectrum of a fortnight, and using views collected through daytime to evening use. Additionally, the views of 155 more specialist groups, faith communities and organisations were captured, together with the macro discussion group detail of what city centre residents felt.

The consultation was also clearly representative, ensuring the views of those of both genders, all ages, ethnicities, and economic status were not overlooked. The sample stretched out - through a range of direct methods which included interviews, together with the opportunity to email, telephone or visit the information event - to reach those in the most rural and the most urban areas of the Newcastle upon Tyne.

A key point to note is that the consultation was also impartial. The data was collected, analysed and presented by persons NOT employed within the framework of the regional casino and convention centre bid, maintaining a professional independence necessary for the execution of the research.

The questionnaire began with a flavour of Newcastle City Council's vision for a regional casino and convention centre bid, followed by a number of ice breaker questions to establish the frequency and rationale of city centre use, before both the benefits and drawbacks of the concept were highlighted to respondents, both verbally and through the use of a show card. Only at this point were respondents asked to give their views – either positive or negative – on the concept. At which point both the potential benefits <u>and</u> drawbacks had been clearly spelled out.

The results bear testament to the fairness of the research, with 51% of residents and city centre users supporting the concept; 38% declaring themselves to be against the concept and 11% being undecided. An overall key figure of +13% net support was ultimately obtained. This compares with, for example, the survey in Brent in which a comparable figure of -45% was obtained. Similar percentages of support/non-support were evident among specialist groups, faith communities and organisations, with 45% supporting the concept, 34% being against and 21% being undecided, yielding a figure of +11% net support.

Throughout the research and the concluding report, no attempt was made to either distort or misrepresent public opinion in any way, with arguments both for and against the convention centre/casino clearly and fairly presented in great detail.