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# Sarjeant Gallery Te Whare O Rehua Whanganui

## Cost Benefit Evaluation



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## SARJEANT GALLERY COST BENEFIT EVALUATION

This report sets out the results of a cost benefit assessment of the redevelopment project for the Sarjeant Gallery.

### SUMMARY

1. The summarised results of a cost benefit evaluation of the Redevelopment Project for the Sarjeant Gallery Te Whare O Rehua are shown in the following table:

Cost Benefit - Summarised		
	To completion	Life of Asset View
Cost Sarjeant refurb	\$ 24,628,443	\$ 24,628,443
Benefit	\$ 33,762,217	\$ 123,823,225
NET benefit	\$ 9,133,774	\$ 99,194,782
Ratio	1.37	5.03
FTE estimate	188	2,047

Note: all costs and benefits are expressed as Net Present Values in the table.

2. The project shows a significant net benefit for both the time period to completion and for a life of asset view and is likely to deliver net present value benefits in the range \$95m – to \$105m. Between 1,500 and 2,000 or more FTE employment positions are likely to be associated with the development throughout national, regional and local economies.

### CONTEXT

3. At first glance the net benefit value appears to be a high number. Some context which helps place it in context includes the facts that:
  - a. It is a “life of asset” view which sees the Sarjeant contributing over generations just as it has for the last 90 years. The single number simply expresses that number as a single figure in today’s dollars;
  - b. The estimated GDP output of Wanganui District is just under \$1.38 billion per year. The Sarjeant value is a one off value (not an annual value) and represents a net benefit of around 7% of one year of the district’s GDP.

## INTRODUCTION

1. Brent Wheeler Group Limited (BWGL) has been asked to provide an evaluation of the likely costs and benefits of the proposed redevelopment of the Sarjeant Gallery Te Whare O Rehua Whanganui. This report presents the findings of our investigation.
2. Since 1995 when local iwi gave the gallery the name “Te Whare O Rehua” (the house of inspiration) the full name of the gallery has become the Sarjeant Gallery Te Whare O Rehua Whanganui. In this report the common shortening (amongst all communities) “Sarjeant Gallery” is used and the project is referred to as the Redevelopment Project.

## PURPOSE

3. The purpose of the report is to consider whether or not the likely benefits of the Sarjeant Gallery redevelopment project will exceed the likely costs. In other words will the redevelopment project produce net benefits.
4. In preparing for the redevelopment project a comprehensive portfolio of submissions has been prepared by a large number of individuals and groups associated with the gallery, the Wanganui District Council (WDC) and others. The process involved in evaluating and initiating a project of this magnitude is lengthy and involves a considerable number of deliberations with national, regional and local governments, their agencies, various communities (arts, culture and others) throughout the district and the country, and a variety of other constituencies.
5. The broader Pakeha and Maori communities, as these are affected both locally and on a wider front, have or will also be involved.
6. The present report provides an economic perspective on the Redevelopment Project. It should be stressed that an economic perspective does not involve a narrow money or fiscally based view. Economics is concerned with social wellbeing conceived in its broadest sense.
7. Neither is the ability to quantify costs or benefits of any particular relevance insofar as whether or not a given cost or benefit exists. Quantification concerns measurement. Economics is concerned with social wellbeing and in the present instance the extent to which it is expected that there will be benefits which exceed the costs of the redevelopment project.

## DECLARATIONS

8. BWGL makes the following declarations:

### CONFLICTS OF INTEREST

9. BWGL has no conflicts of interest in undertaking this work. In particular the company has no beneficial interest either in the WDC and its assets or the Sarjeant Gallery and its assets. As

standard practice BWGL undertakes to inform both of the above entities of any alteration in this situation in writing should this change.

#### INDEPENDENCE

10. This report is prepared on an independent basis without any overriding brief from either the Sarjeant Gallery and its management or the WDC and its advisors except insofar as the requirement to provide an objective cost benefit evaluation appropriate to the proposed renovation and upgrade of the Sarjeant Gallery. The evaluation has therefore been prepared on an arms-length basis with both the Sarjeant Gallery and the WDC filling information provision roles only.

#### CONSULTATION

11. In collecting information and analyses for this evaluation management of both the WDC and the Sarjeant Gallery have been consulted and have provided both written and oral advice and discussion. In respect of matters relating to River Iwi a draft of material appearing in the report has been discussed with and provided to appropriate leaders amongst Iwi who are involved for their comment, input and approval as to fact and interpretation.

### APPROACH AND METHODS

12. This section sets out the scope of the Cost Benefit Evaluation.

#### WORKING DEFINITIONS AND SCOPE

13. The project being evaluated consists of the Redevelopment as discussed and detailed in the Giblin Group Feasibility Study and comprises the following:

Sarjeant Gallery Development Project	
Phase 1	Construct the new extension and storage facilities, and transfer the collection from the existing heritage building to the suitably controlled facilities.
Phase 2	Strengthen the heritage building.
Phase 3	Complete the cosmetic work to the external cladding and introduce plant for climate control to the heritage building.

14. Thus the entire cost of interim storage and redevelopment is counted in the total cost of the project.
15. The estimated cost for the project is some \$32.412m as reported in the April 2012 Feasibility Study. That study draws on the standard set of investigations and design exercises for such a project. These are reported in full in the appendices to the application for funding and supporting documents and include an Upgrade Business Case report, full cost breakdown (Appendix 9), project budget (Appendix 23), quantity surveyors assessment of the project

(Appendix 29), appraisals of collection condition (Appendix 32) and timelines (Appendices 28a, 28b).

#### TIMEFRAMES

16. For the purposes of the cost benefit evaluation the project is considered as providing a long term asset (or liability) for the community through the generations. A long run view is appropriate because the assets are long lived, the legacy tends to grow rather than diminish over time because time itself is (typically) a value positive characteristic of a gallery and communities are expected to continue to reap benefit (certainly at a cost but a net benefit nonetheless) in perpetuity.
17. The cost to be considered is, as noted, for the entire project and is considered as a one off capital cost. That capital cost is expected to provide such benefits as are estimated. The implication is that future maintenance and capital costs will be undertaken and will match the benefit stream.

#### OPERATING VERSUS CAPITAL COSTS

18. Operating costs are not considered in this evaluation since:
  - a. Regardless of the merits or otherwise of this particular project the gallery would (in its present or some substitute form) incur operating costs;
  - b. A reasonable assumption is that the funding of operating costs and their management will be able to be continued on a satisfactory basis upon project completion;
  - c. The business case and revenue generation plan (see Appendix 24 of the Feasibility Study) contemplate satisfactory operating budgets for the future; and,
  - d. The deliberations of the WDC reflect a current willingness (insofar as it is the WDC's responsibility) to accept the operating budget for the on going operation as well as their responsibility to act having regard, in a general sense, to the reasonably foreseeable duties and obligations of future Councils.
19. The Redevelopment Project is thus considered as a single capital item but that "item" includes all related and ancillary costs (transition etc.).

#### PHASE I TRANSITION

20. The first phase of the re-development project involves re-locating the current operation to Taupo Quay. The key purposes of that transition through the temporary operation is:
  - a. To maintain the assets of the Gallery while refurbishment takes place. All assets of the Gallery need to be moved off the site while the re-development takes place; and,

- b. To maintain, albeit on a reduced scale, the critical mass of interest and benefit flowing from the gallery over the re-development period.
- 21. This arrangement is purely temporary and would not deliver any benefits other than fulfilling these transitory objectives since:
  - a. The brief for the Taupo Quay arrangement was for a temporary set of arrangements;
  - b. The exhibition space is halved;
  - c. None of the existing deficiencies in the operation or ability to mount exhibitions equal to the asset base are addressed (see separate submissions).
- 22. These issues are addressed in the re-development project.

## COSTS

- 23. Costs in this study are taken as being the capital expenditure (as described above) expressed in dollar terms involved in the Redevelopment Project. Underlying the concept is the fact that all costs are opportunity costs and thus capital spent in redevelopment is not available for expenditure elsewhere.
- 24. It is critical to note that all costs on any project or activity involve opportunity cost. Thus even “savings” made on any given project are, ultimately, spent on something else and impose opportunity costs at that point. The project cost in this case simply expresses in dollar terms the size of the opportunity cost and thus allows informed choice amongst competing uses for capital.

## BENEFITS

- 25. Benefits in the analysis shown below are expressed in two forms.
- 26. One is the relatively familiar “output” which is a proxy for GDP. There are several ways of measuring GDP and those associated with the “output” term typically seek to capture expenditure over a given period of time. The underlying assumption is that expenditure indicates monetary value given up to gain benefit. It should be noted that in this sense expenditure – the fact of its having taken place – summarises a diverse variety of values and utility attached to goods and services being purchased.
- 27. Secondly a broad measure of full time equivalent (FTE) employment is estimated. Most importantly there is no necessary causal link supposed between activity (gallery based or otherwise) and FTE positions. The reason for this is that in some cases there are clear links (operating the gallery and being a gallery staff member for example) but in others (perhaps a supplier of services to the cultural sector which probably includes being a supplier to the gallery) the nature of the link is less obvious. Prudence requires that the relationships be characterised as association rather than causation.

## NET BENEFITS AND THE BROADER PICTURE

28. Projects such as the Redevelopment of the Sarjeant Gallery frequently attract attention and gain profile – justified and unjustified – because of their size and because they compete with the numerous alternative uses individuals and groups have in mind for the investment involved.
29. In the case of expenditure in the areas of sports, culture, entertainment and the arts it seems relatively easy to criticise expenditure on the grounds that there are “more worthy” areas in which expenditure might be made.
30. Outside of considering the merits of any such project (including the Sarjeant Redevelopment Project) such criticism is frequently ill founded because the basis for criticism fails to note that:
- a. In considering such issues the important question does not in fact concern undertaking a project or not undertaking it. Thus when similar queries arose over the expenditure on Te Papa (in excess of \$385m) the appropriate question was not so much “should NZ have a national museum or should it not”, as given that NZ will have some sort of national museum, does this project provide the greatest benefit given its cost; and,
  - b. The potential loss should projects not proceed is easy to lose sight of because most analyses tend to focus on the positive aspects of undertaking a given project rather than the losses likely to be incurred through failing to commit. Thus the investment should be assessed on a relative basis which looks at the incremental gain including the loss avoided when assessing the net benefit.
31. It is also clear that context is important. It is not common to hear strident criticism of, say, protection schemes for the Parthenon or the Great Pyramid of Giza, yet the logic is much the same and the economies in which those icons are situated are presently heavily stressed. At some point in the analysis involving such icons, the incremental gains and losses to be avoided have to be placed alongside costs. In such cases it is net benefit which offers a reasonable criterion for decisionmaking.
32. Assessing net benefit through the tools available, imperfect as they may be, seeks to clarify the extent, if any, to which benefits are likely to exceed and therefore justify the opportunity costs of incremental gains. It therefore offers a considerable advance on ad hoc, reactive and especially purely politically driven, means for making decisions.

## BENEFITS – ECONOMIC BENEFIT

33. The key issue for the cost benefit analysis involves determining the benefits since the costs of undertaking the project have been elaborated in the Feasibility Study and in the detailed Project Appraisal prepared by engineering and project management staff (see above). While the engineering, construction and project management task is itself a significant challenge it

nonetheless produces tangible costs which are relatively simple to enumerate, analyse and provide as inputs to decisionmaking.

34. Benefits are rather more difficult. There is a common understanding amongst those involved for example that the benefits are many, fragmented in some cases, spread over a number of different dimensions of benefit and frequently characterised by being difficult to quantify. Benefit tends as well to be something of a matter of perception.
35. Consequently the present exercise (Cost Benefit Analysis) involves estimates rather than precision points. That is neither unusual nor fatal to robust analysis. The process involves estimating likely benefits in a quantitative sense expressed in dollar values while at the same time elaborating the contributory causes to benefit.
36. The adjective contributory is used deliberately so as to set apart the idea of clear causal links (which are often extremely difficult to identify) from the idea of a number of factors which contribute collectively to produce "benefit".

## MODELLING BENEFITS

37. The model developed to estimate benefits consists of two components:

### EXTERNAL SOURCES OF EXPENDITURE

- a. Expenditure derived from international and national (outside the Wanganui district) visitors and their expenditure in the tourist sector. The Sarjeant Gallery forms one of a portfolio of activities and interests pursued by visiting tourists<sup>1</sup>;
- b. Various surveys have consistently noted the significance of the "arts" component of the activity suite pursued by tourists in N.Z. The "spend" of these tourists makes a positive contribution to the local economy; and,

### INTERNAL SOURCES OF EXPENDITURE

- a. The expenditure of local city district and regional residents and households in the arts and culture sector. This is the expenditure which local residents make in the arts and culture sector. That might involve expenditure at local shops providing materials and output from local artists, local artist product and services, training and activities in arts and culture and like inputs;
- b. Consequently the "spend" associated with this sector makes a positive contribution to the economy and the place of the Sarjeant (measured for example through visits to the Gallery) is critical in driving that spend<sup>2</sup>.

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<sup>1</sup> Various surveys commencing with the Colmar Brunton work in 2004 for the Ministry of Tourism have highlighted the important place of the arts in tourist activity. The Ministry of Tourism website holds a variety of surveys and reports attesting to this.

38. These components are projected into the future having regard to:

- a. Expected growth rates in external sources (based on consensus growth estimates at an economy wide and global economy basis);
- b. Expected growth in local spend in the local (Wanganui) economy, again based on consensus estimates and consistent with other economic assessments for the region and district<sup>3</sup>; and,
- c. Two time periods being a shorter run of years to project completion which offers some insight into immediate benefits, and a “life of asset” view or perpetuity. Under the latter it should be noted that “asset” refers not only to “bricks and mortar” (which it is expected will be maintained and grown as discussed above) but also to the wider asset which incorporates less tangible benefits of having a vibrant arts and culture sector<sup>4</sup>.

39. The sum of these two components is expressed as a net present value (NPV) so as to provide an estimate in “today’s dollars” which is comparable to the dollar sums to be committed in costs (which is also expressed in NPV terms). The discount rate used is the current estimate (as provided by the market for long dated government securities) of the return required to offset NZ wide economic risk.

40. To model FTE employment associated with such benefits, current productivity ratios (output per employee) statistics are used to produce estimates of the long run association between output as expressed in dollar NPV benefits and FTE employment. The statistics are those applying to the Wanganui economy in 2011 – the date of the last economic update.

41. All values are brought to comparable levels for 2014 when the Project is assumed to commence in earnest, but acknowledging that expenditure has already been incurred and significant planning has already been done. Appendix I contains printout from the model containing data, sources and notes.

## TOURISM

42. The prime source for the tourism data is the regional projection set for expenditure, visitor nights and total visits to the district. The raw data provides the base to estimate:

- a. International visitor spend per visit;
- b. National visitor spend per visit; and,
- c. Expected visits.

<sup>2</sup> It is important to note in respect of this contribution that it does not equate in any sense to a “revenue through ticket sales” model which would be associated with “admission costs” if the Gallery were to charge locals for visiting exhibitions.

<sup>3</sup> See Infometrics 2011 and Wheeler Heritage Update 2013.

<sup>4</sup> This includes human capital and capacity to create and perform in the sector given a critical mass for production of arts and culture “production” along with factors such as reputation and credibility.

43. Obviously not all visitors or visits or both are motivated by or involved in spending in the arts and culture sectors. Consequently total visits and visitor numbers are likely to exaggerate spending. Actual visits split by international and domestic visits are a better indicator and these have been used in developing the estimates.
44. Resulting spend per visit for the two sources (international and domestic) can thus be combined with expected visits to produce an estimated annual spend. Growth rates have been set at a conservative 2% for local and 3% for international reflecting the lower bound consensus economic growth expectations over the period.
45. On the basis of these assumptions the estimated tourist spend is some:
- |                      |          |
|----------------------|----------|
| a. NPV to completion | \$ 7.90m |
| b. NPV life of asset | \$27.63m |
46. It should be noted that given a conservative approach, the visitor numbers on which the benefits are estimated assumes no additional intrinsic growth due to improved “output” from the gallery or any “higher value” being placed on activity associated with it.

## ARTS AND CULTURAL SECTOR

47. Estimates for expenditure by the district and regional community in the arts and culture sector were derived from base data provided in the NZ Household Expenditure Survey (2010 data). These surveys are undertaken on a triennial basis and allow breakdowns of particular items to be identified.
48. The data were tabulated so as to isolate:
- Weekly components which could be annualised;
  - Wanganui household composition translated to an individual basis to match the single visitor spend concept used for the tourism benefit estimates;
  - Specific allocation of expenditure to art gallery and related activity from amongst the total expenditure and the expenditure in the culture sector.
49. From this a per person expenditure on art gallery related activity was derived.
50. On the basis of these assumptions the estimated tourist spend is some:
- |                      |          |
|----------------------|----------|
| a. NPV to completion | \$15.65m |
| b. NPV life of asset | \$25.08m |

## MULTIPLIER EFFECTS

51. The direct value of spending is only part of the economic impact picture (direct effects) and only measures part of the value. Increases in direct spending by tourists and spending by local

communities are accompanied by indirect effects (such as spending on inputs into businesses – energy, supplies etc).

52. These are accompanied by induced effects which reflect spending by households whose income is created or increased because of the initial spending (direct effects) and the indirect effects spending.
53. Adopting standard methods for estimating multipliers which draw from the New Zealand input – output tables and adjusting for compatibility with the district economy allows estimates of total economic impact (direct plus indirect plus induced) to be made<sup>5</sup>.
54. A typical problem with multiplier analysis is a tendency to overestimate the value of additional spend. This often occurs because the spending which is “crowded out” by “new spend” is lost sight of or because “bleed” of economic value from subject economies to the nation or further are ignored. In this analysis only 70% of the multiplier effect is counted and the multiplier has been adjusted downward (location quotient approach<sup>6</sup>) to reflect the effects likely to be felt locally.
55. Adding together tourist based effects and local effects and applying the multiplier as discussed gives the following final total for benefits:

a. NPV to completion	\$ 46.60m
b. NPV life of asset	\$136.70m

56. Because the impact of the Redevelopment will not be felt until the project is completed it is necessary to adjust the benefits which will flow as well. This has been done by assuming that only a portion of the benefits, broadly equivalent to the staging and stage of completion of the project unfolds over the timeline for development.
57. Developing profiles of this type necessitate arbitrary decisions. Guidance has been drawn from the staging details. The NPV of benefits lost was then calculated and subtracted from the “raw” benefits shown above.
58. The result is an adjusted value such that the final estimate of benefits becomes:

a. NPV to completion	\$ 33.76m
b. NPV life of asset	\$123.82m

## BENEFITS NOT CONSIDERED

<sup>5</sup> There is significant debate about appropriate methods and their merits. These are discussed in reports such as NZEIR “The Economic Impacts of the University of Auckland in the Auckland Region”, Study for University of Auckland, publicly available via Internet, and Wheeler, P.B. “The Gold Handbook”, Brent Wheeler Limited, 2003.

<sup>6</sup> The location quotient method adjusts the multiplier to compensate for the “open” nature of regional and district economies and the fact that certain new activity involves importing and exporting from beyond the region rather than within region economic activity. The adjustment is specific to Wanganui.

59. Two categories of general benefit have not been included in the calculations shown above. These are:

a. Benefits from Construction and Redevelopment Activity

There will undoubtedly be spin offs from the redevelopment activity itself. Indeed these are also likely to produce multiplier effects. These have not been included and the reasons for that omission are as follows.

In the first place such activity will displace other activity, if not in the district then in the region and certainly at a national level. The net effect may thus be smaller than might at first be supposed. Undoubtedly the expenditure of some \$30m will be of significance but in the first instance the funding is likely to be derived from existing sources.

Secondly it is the long run value of the redeveloped asset which is of prime significance. Consequently the decision regarding the long term net value ought to be based primarily on the long run benefits of the project.

Construction will then provide a “bonus” economic boost which while not to be ignored should be viewed, in line with the conservative approach adopted for the analysis, as being of lesser importance than the long run value.

b. Reputational Capital Opportunities

The Redevelopment Project will provide a number of branding opportunities and the reputational capital growth possibilities which might accompany these. There are two areas of possibility:

- i. Commercial branding opportunities in which there could be scope for various operators to brand events (e.g. exhibitions, events and activities), buildings or ancillary building components (buildings, foyers, rooms and so on) or provide sponsorship capital.
- ii. More generalised reputational capital for the district, region and possibly the country (particularly in the arts and culture niches). The value of such branding and capital has been discussed elsewhere in respect of heritage buildings and streetscapes<sup>7</sup>.

60. Both types of benefit are difficult to quantify and typically involve specific one off transactions or agreements. Their value is not of course to be underestimated. The ability of the gallery to develop a strong business plan on a year by year basis is also heavily dependent on such value.

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<sup>7</sup> See Wheeler 2004 and 2013 Heritage Valuation reports and update for WDC.

61. Both construction and redevelopment impact and reputational capital value should be considered to stand over and above and in addition to the benefits identified in the formal analysis.

## BENEFITS – CONTRIBUTORY FACTORS

62. The following section highlights some of the factors which contribute to the benefits defined in financial terms above. It should be noted – as stressed elsewhere – that no attempt is made to link specific components in a causal sense with the overall flow of benefit. The reason for this is simply that the links are complex, nuanced and constantly changing. It is the overall and total effect which is important. At the same time it is helpful to at least sketch some of the major contributory factors to benefit.
63. I note that in the feasibility package there has been assembled a plethora of reports and detailed compilations relating to the various components, their current state of contribution and the manner in which they contribute to the benefits which flow from the gallery.
64. In the present report these are simply noted and highlighted. It should further be noted that the “list” set out below seeks neither to be comprehensive nor is it set out in any particular order of rank, or importance and merely enumerates the contributory components of benefit.

## STATEMENT OF COLLECTION SIGNIFICANCE

65. The Sarjeant Gallery collection comprises approximately 5,500 pieces. It is unrivalled in regional New Zealand and is typically referred to in similar terms to the major municipal collections of Auckland, Wellington, Christchurch and Dunedin.
66. The collection is significant in its size and content. The collection – which has been gathered over almost 100 years - is also inextricably linked to the Sarjeant Gallery building and thus the redevelopment project concerns both the building and the collection.
67. In terms of benefits the full force of the benefit flow is derived from the inextricable connection between the collection and the building complex which together define the Sarjeant Gallery concept and its operation. The redevelopment project has been evolved and developed with precisely this notion in mind.

## REPUTE AND CREDIBILITY

68. This is best summed up in the Gallery’s own statement noting that:

“A further indication of the importance of this Collection, in the New Zealand context, came with the 2010 publication of *Angels and Aristocrats: Early European Art in New Zealand Public Collections* by Mary Kisler (Senior Curator, Mackelvie Collection, International Art at Auckland Art Gallery). Based initially

on the municipal collections of Auckland, Wellington, Christchurch and Dunedin, the author quickly realised that one other important collection existed fitting her criteria – that of the Sarjeant Gallery. Spanning approximately four hundred years of art history (and the entire swathe of New Zealand’s art history) Mrs Kisler found a good many examples from within the Sarjeant’s Collection suitable for illustration in her book. The works she considered both unique and significant are: Adoration of the Shepherds by Lelio Orsi (1511-1587); The Appearance of the Virgin to St. - Maurice by Domenico Piola (1627-1703); Untitled (Fishing) attr. Gaspard Dughet (1615-1675); Flower Study by Jan Baptiste (active Amsterdam 1629-1640); Cupid Awakes after Bartolomeo Schedone (1578-1615); Untitled (Two seated figures), attr. Adriane van Ostade (1610-1685) and Portrait of Robert Maunsell, Member of the Council of Madras after George Romney (1734-1802). This substantial book will be translated into a touring exhibition, included in which will be a selection of the above works from the Sarjeant Gallery’s Collection.”

## HERITAGE BUILDING

69. The Sarjeant Gallery has a New Zealand Historic Places Trust category 1 listing under the NZHP Trust Act 1993 acknowledging the significance of the existing building including its fabric, its form and the natural lighting which the exhibition spaces feature. The siting of the building is both prominent and idiosyncratic.
70. Both the site, its development, its juxtaposition with other elements of the urban landscape (for example the considerable number of war and related memorials) coupled with the physical infrastructure of the building itself combine to form the idiosyncratic complex which is the Sarjeant Gallery.
71. Again the design of the redevelopment project has been dominated by the need to preserve, maintain and extend this concept in line with the spirit and operation of the Gallery over the past 90 years.

## HERITAGE VALUE

72. The specifics of the heritage value of the Sarjeant Gallery have long been recognised (see above) and various heritage assessments have been undertaken over the years. The most recent is that undertaken by Chris Cochran in March 2012 which resulted from a commission by the Deputy Property Manager and Building Maintenance Property Group of the WDC. The purpose of that assessment was to define the cultural heritage values of the Sarjeant Gallery so that in designing and executing the proposed cultural upgrading and refurbishment those values could be preserved.
73. The 2012 assessment was a revision of a previous assessment prepared fourteen years earlier in December 1998 for the Trust board which then managed the gallery.

74. The assessment provides a comprehensive evaluation of all relevant elements of the building, the site, its function and its contribution to heritage by describing and assessing the history, the significance, and the several factors influencing the conservation and conservation objectives relevant to the building.
75. The conclusions are as noted elsewhere in this report. The building and its site is iconic. It represents something of a pinnacle in contribution to heritage in New Zealand with its being an unparalleled contribution in the area of art in particular and heritage more generally.
76. The significance of heritage in the Wanganui district has been well documented in two reports by Wheeler referred to elsewhere in this report. The conclusion of those reports is that heritage plays a significant role in adding a premium to tourist and related earnings in the local economy.
77. Significantly the reports prepared by Wheeler noted originally in 2004 and emphasised with even greater stress in 2013 the significance of identifying and isolating leading contenders to crystallise heritage value and contribution because scarce resources continually preclude the “preservation of everything”. In both a national and a local context few assets would qualify more readily than the Sarjeant Gallery.

## THE RIVER IWI, PUBLIC BENEFIT AND COMMUNITIES

78. Unique to the restoration project is the opportunity for all communities – district, regional and national - to salute and honour the legacy of the late Sir Archie Tairaroa, to acknowledge the central place of the River Iwi and at the same time crystallise the enrichment of several important relationships in Aotearoa N.Z.
79. The key features of this component are set out explicitly below so as highlight the considerable benefits which the project is able to deliver in these areas.

## ESSENTIAL CONCEPT

80. The key idea which lies at the heart of the link between the River Iwi, the communities of Wanganui and the restoration and development of the Sarjeant Gallery lies in the following statement of fundamental principle:

The enduring concept of Te Awa Tupua - the inseparability of the people and River – underpins the desire of Whanganui Iwi to care, protect, manage and use the Whanganui River through the kawa and tikanga maintained by the descendants of Ruatipua and Paerangi<sup>8</sup>.

81. The overarching aspiration of Whanganui Iwi is, amongst other things and as expressed in the October Record of Understanding with the Crown, to ensure that the benefit of:

First, the environmental, cultural and spiritual health and wellbeing of Te Awa Tupua;

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<sup>8</sup> Record of Understanding between the Crown and Whanganui Iwi, October 2011.

Secondly, the cultural, environmental, social, political and economic development of Whanganui Iwi; and,  
Ultimately, Aotearoa.

82. Sir Archie played a prime role in advancing this vision and aspiration. Dedication of the Sarjeant to his memory, legacy and vision, creates an enduring, living icon to underpin these fundamentals of spiritual, cultural, social and economic wellbeing.

## NATIONAL BENEFITS

83. Successive governments and iwi leaders have been at one for many decades regarding the national benefits of resolving Treaty claims and issues as essential to promoting social cohesion, unity and wellbeing. Honouring the Treaty stands as a means for promoting and developing improved cultural, social and economic development nationally.
84. The restored Sarjeant – dedicated as it is to be to a key leader and advocate of this - will stand as a positive reminder at the national level to these benefits and their importance to all.
85. A final element of national benefit lies in the fact that the Sarjeant through its dedication to Sir Archie will symbolise a Treaty settlement which is unique (to date) in dealing with complex ongoing management relationships in respect of Te Awa Tupua – inseparability of people and river - and thus demonstrates the remarkable possibilities which settlements of this kind offer for Aotearoa N.Z.

## REGIONAL AND DISTRICT BENEFITS

86. The two most prominent spiritual, cultural, social and economic assets of the region and the district are the river and the Gallery. Some of the benefits can be (and have been in this report) measured and documented quantitatively. Others are difficult to quantify.
87. Dedication of the restored Gallery to Sir Archie will symbolise both the importance of and the links between the two assets.
88. Region and District are brought together through the river drawing its life force from the headwaters of the Whanganui River on Mount Tongariro, and its tributaries as it flows to the sea. Inseparability from the people draws the Gallery together with the human endeavours and aspirations it promotes, develops and advances into this fold.
89. The Gallery will symbolise this connection for all of the community while at the same time enhancing its ability to generate cultural, social and economic wellbeing.

## COSTS

90. As noted, timelines, budgets and related material have been prepared in fine detail for each component of the project and total cost is the relevant figure for the present analysis.

91. The Redevelopment Project is to be undertaken in stages spanning the period 2012 (when planning began) to 2020. Thus expenditure will take place over a period of time. As a consequence the NPV of the total project cost is the value which ought to be compared with benefits.

92. Using the same discount rate as for benefits the value is \$24,628,443.

## NET BENEFIT

93. The final component in the analysis is to subtract costs from benefits. The following table summarises for the “view to completion” and the “Life of Asset” view of the project. In addition the estimated FTE employment (annual) likely to be associated throughout the district with the Redevelopment Project and resulting Sarjeant Gallery operation within the arts and culture section are also shown.

Cost Benefit - Summarised		
	To completion	Life of Asset View
Cost Sarjeant refurb	\$ 24,628,443	\$ 24,628,443
Benefit	\$ 33,762,217	\$ 123,823,225
NET benefit	\$ 9,133,774	\$ 99,194,782
Ratio	1.37	5.03
FTE estimate	188	2,047

94. The summary shows that:

- a. Benefits exceed costs by a comfortable margin for both views (to completion and life of asset); and,
- b. That there is a very considerable margin for error, most notably in the “life of asset” view indicating that considerable confidence can be placed in the net benefit estimate.

95. On the latter grounds little is gained through mechanistic sensitivity testing.

96. The net benefit of the Redevelopment Project is therefore estimated as lying in a range somewhere between \$95m and \$105m when viewed over the life of the asset. Further, the various affected economies – mainly the district and regional economies – will likely see some 1,500 to 2,000 or more FTE positions associated with the project, again on a life of asset average view.

## CONCLUSION

97. The cost benefit analysis of the Sarjeant Gallery Project differs from a standard cost benefit analysis in the sense that its benefit “net” is wider than that typically associated with a standard project bin which incoming cashflow is the primary expression of value. The two key characteristics of the present evaluation are that:

- a. There is a strong but very difficult to quantify sense coupled with observation of the side ranging and considerable benefits which will flow from the project; but with,
  - b. The quantitative expression of those benefits able to be summarised in aggregates which indicate the levels of economic impact likely to be experienced.
98. These characteristics tend to be accentuated by the long run nature of the benefits – stretching as they do through generations. Evidence of the benefits to date exist in the string reputation capital held by the Gallery as it stands at present, accumulated over some 90 years. The analysis suggests at least equivalent benefit looking ahead.
99. Of particular significance are those elements of the project – and thus its net benefit – which set it apart from other projects in general and projects in the arts and recreation sector in particular. Summarised the three most important are:
- The international quality and repute of the asset which is both the gallery’s collection and experience. N.Z. has few truly international threads of reputational capital and most cities in N.Z. even fewer. The Sarjeant is one such asset and the rejuvenation project promises to grow that capital;
  - The genuinely bicultural integration, founded in and executed as part of the Treaty by the River Iwi and the communities of Wanganui, and offering long run benefit both directly and through the boost to the economy; and,
  - Wanganui is like to suffer disproportionately through responses to the Christchurch earthquake because of the high proportion of at risk heritage buildings which form part of its building stock. The Sarjeant project offers a flagship and lead project in heritage promotion and re-orientation so as to allow the city to continue to gain in social and economic terms from the heritage asset under threat.
100. Incorporation of these features (along with the array of more standard benefits) when set against the cost of development see a net value in the order of \$95m - \$105m. It is difficult to see any other single project which is likely to offer this level of benefit.



Appendix I - Basic Model and Data

Sarjeant Gallery - Cost Benefit Evaluation 2013

2013 dollars except last two years dollars of the day, RBNZ deflator

External component	Basic tourist data - NZ and Wanganui. Ministry of Tourism (former) database. Satellite accounts and website.												
	Now						Future						
Case	1	2	3	4	5	6	7	8	9	10	11	12	
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020	
Total visits	29,253	29,838	30,435	31,044	31,664	32,298	32,944	33,603	34,275	34,960	35,659	36,372	
International	2,862	2,919	2,978	3,037	3,098	3,160	3,223	3,288	3,353	3,420	3,489	3,559	
National	7,094	7,095	7,096	7,097	7,098	7,099	7,100	7,101	7,102	7,103	7,104	7,105	
\$ 65.64 Spend International	\$ 65.64	\$ 67.61	\$ 69.64	\$ 71.73	\$ 73.88	\$ 76.09	\$ 78.38	\$ 80.73	\$ 83.15	\$ 85.65	\$ 88.21	\$ 90.86	
\$ 132.02 Spend National	\$ 132.02	\$ 134.66	\$ 137.35	\$ 140.10	\$ 142.90	\$ 145.76	\$ 148.68	\$ 151.65	\$ 154.68	\$ 157.78	\$ 160.93	\$ 164.15	
International sum	\$ 187,862	\$ 197,367	\$ 207,354	\$ 217,846	\$ 228,869	\$ 240,450	\$ 252,617	\$ 265,399	\$ 278,829	\$ 292,937	\$ 307,760	\$ 323,333	
National sum	\$ 936,550	\$ 955,418	\$ 974,667	\$ 994,303	\$ 1,014,335	\$ 1,034,770	\$ 1,055,617	\$ 1,076,884	\$ 1,098,580	\$ 1,120,712	\$ 1,143,291	\$ 1,166,324	
Total spend	\$ 1,124,412	\$ 1,152,786	\$ 1,182,021	\$ 1,212,149	\$ 1,243,204	\$ 1,275,220	\$ 1,308,234	\$ 1,342,284	\$ 1,377,408	\$ 1,413,650	\$ 1,451,051	\$ 1,489,656	
NPV to completion	\$ 7,886,526	Discount rate is 4.5% from secondary market long dated NZ Govt bond averages.						Completion 2019					
Life of asset	\$ 27,626,760	Life of asset - treats cashflows as a perpetuity with growth internal to the cashflows.											

Local Spend From three yearly Dept Statistics Survey (2010 most recent)

Estimates of Individual Spend in Visual Arts Sector		Households 2006 Population	
Recreation and Cultural Services		42,639	16,875
Recreational spend weekly average	\$ 34.10		Calculation from household spend what the individual spend is. Based on Census 2.53 household size (2006)
Annual	\$ 1,773		
Individual annual spend	\$ 701.77		

  

Estimate amount of this spend in visual arts		Surveyed	Percent of poss
Split in the original survey - overlap likely to be large between categories (same visitors to multiple attractions)	Literature	67	13%
	Museum	43	9%
	Opera	42	8%
	Govt and Community activity (traing etc)	41	8%
	Visual	37	7%
	Possible multi response allowed hence > 100	500	

Allocate from % on visual (which is art and related) \$ 51.93 Applies the average spend on an individual basis, to the category (art and related) to derive spend "associated" with art and related  
Apply spend to Sarjeant visitor numbers

Case	start 10 year											
	2	3	4	5	6	7	8	9	10	11	12	13
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total visits	29,253	29,838	30,435	31,044	31,664	32,298	32,944	33,603	34,275	34,960	35,659	36,372
Local	19,297	19,683	20,077	20,478	20,888	21,305	21,732	22,166	22,610	23,062	23,523	23,993
Spend p.a.	\$ 51.93	\$ 52.97	\$ 54.03	\$ 55.11	\$ 56.21	\$ 57.34	\$ 58.48	\$ 59.65	\$ 60.85	\$ 62.06	\$ 63.30	\$ 64.57
Total local spend	\$ 1,002,111	\$ 1,042,597	\$ 1,084,718	\$ 1,128,540	\$ 1,174,133	\$ 1,221,568	\$ 1,270,920	\$ 1,322,265	\$ 1,375,684	\$ 1,431,262	\$ 1,489,085	\$ 1,549,244
Total spend	\$ 2,126,523	\$ 2,195,382	\$ 2,266,739	\$ 2,340,690	\$ 2,417,337	\$ 2,496,789	\$ 2,579,154	\$ 2,664,548	\$ 2,753,093	\$ 2,844,911	\$ 2,940,135	\$ 3,038,900
Est FTE	44	45	47	48	50	52	53	55	57	59	61	63
NPV to completion	\$ 15,648,429											
NPV perp	\$ 25,078,671											

Multipliers from Wheeler 2013 heritage update - location adjusted from national multipliers for the arts and recreation sector  
GDP data from Infometrics 2011 update

Totals	Multiplier of	Raw total	Multiplier	Op Cost	Net impact
NPV to completion	2.4	\$ 56,483,893	\$ 32,948,938	70%	\$ 46,599,212
NPV perp	2.4	\$ 126,493,035	\$ 73,787,604	70%	\$ 104,356,754

Cost	\$ 24,628,443	\$ 24,628,443
Benefit	\$ 33,762,217	\$ 123,823,225
Net	\$ 9,133,774	\$ 99,194,782
Ratio	1.37	5.03
FTE	188	2047

Combined Benefits	Historical only - not included in calculations - minor expended these years											
	1	2	3	4	5	6	7	8	9	10	11	12 Terminal
Case	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
External	\$ 1,124,412	\$ 1,152,786	\$ 1,182,021	\$ 1,212,149	\$ 1,243,204	\$ 1,275,220	\$ 1,308,234	\$ 1,342,284	\$ 1,377,408	\$ 1,413,650	\$ 1,451,051	\$ 1,489,656
Plus multiplier	\$ 1,889,011	\$ 1,936,680	\$ 1,985,795	\$ 2,036,411	\$ 2,088,583	\$ 2,142,370	\$ 2,197,833	\$ 2,255,036	\$ 2,314,046	\$ 2,374,931	\$ 2,437,765	\$ 2,502,623
Local	\$ 2,126,523	\$ 2,195,382	\$ 2,266,739	\$ 2,340,690	\$ 2,417,337	\$ 2,496,789	\$ 2,579,154	\$ 2,664,548	\$ 2,753,093	\$ 2,844,911	\$ 2,940,135	\$ 3,038,900
Plus multiplier	\$ 3,572,559	\$ 3,688,242	\$ 3,808,121	\$ 3,932,358	\$ 4,061,127	\$ 4,194,605	\$ 4,332,978	\$ 4,476,441	\$ 4,625,195	\$ 4,779,451	\$ 4,939,428	\$ 5,105,353
Total	\$ 5,461,570	\$ 5,624,922	\$ 5,793,916	\$ 5,968,769	\$ 6,149,710	\$ 6,336,975	\$ 6,530,812	\$ 6,731,478	\$ 6,939,241	\$ 7,154,382	\$ 7,377,192	\$ 7,607,975

NPV to completion	\$ 46,599,212	Consistent NPV parameters throughout (see above)	
Adjust for completion	\$ 12,836,995	Perpetuity less net benefits over completion period.	
NPV to completion	\$ 33,762,217		
Terminal value	\$ 90,061,008		\$ 169,066,122 Perpetuity
Adj net	\$ 123,823,225	For net benefit equation	\$ 113,765,342 NPV at yr
Perpetuity	\$ 136,660,220	Carried to summary table (spreadsheet and report)	\$ 39,538,725
		for calculating gross before adjusting for timing of costs	\$ 153,304,067