City of Joondalup

Performing Arts & Cultural Facility Assumptions Review

PAXON GROUP

Corporate Finance
Management Consulting
Project Finance and Infrastructure

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1 Scope and Approach

1.1 Scope

The City of Joondalup are preparing the Business Case for the proposed Joondalup Performing Arts and Cultural Facility ("JPACF"). This facility will provide Perth's northern population with an 'art box' – a place for the pursuit of performing arts, visual arts and crafts, film and media, writing and cultural events.

This Business Case includes a detailed financial evaluation of the project and a 40-year cash flow assessment. Paxon Group ("Paxon") has been engaged to review specific assumptions utilised in the development of these forecasts.

The specific items that are within the scope of this review include assumptions relating to the following items:

- Art Gallery and exhibition space;
- Conferences, special events, weddings etc.;
- Capital replacement costs;
- Utilities Costs;
- Photovoltaic Cells;
- Repairs and Maintenance;
- Café and Food and Beverage; and
- Opportunities for annual grants and sponsorships.

Specifically, Paxon has been engaged to review and provide sensitivity analysis for the "steady state" assumptions, rather than the ramp up profile for the project.

The existing assumptions and details of their source have been taken from the document "Financial and Options Evaluation" ("FOE").

It is noted that there is no current operating or business plan which sets out the model for operation of the facility. Detail of such a plan may impact on a number of the cost elements set out within the analysis. Consequently, assumptions are made in relation to the proposed operating model based on prior experience of comparable facilities and operations, as detailed within the report.

1.2 Approach

The approach taken for each group of assumptions was as follows:

- Determine from the FOE and the supporting documentation what the current assumptions are and, to the extent possible, what they are based on;
- Make an assessment of the reasonableness of the current assumptions and their logical grounding; and
- Determine a revised set of assumptions, incorporating appropriate risk analysis to provide a low, medium and high estimate.

In order to determine low medium and high estimates, Paxon considered a number of simple and advanced evaluation techniques. For many items, it was determined that an advanced risk analysis technique was capable of application.

Advanced techniques involve estimating the probability of the forecasts occurring by constructing probability distributions and interpreting the resulting outputs. A number of probability distributions could be utilised for modelling uncertainty, including:

- Beta –PERT Distribution;
- Lognormal distribution;
- Exponential distribution;
- Bernoulli distribution;
- Triangular distribution; and
- Normal distribution.

Those distribution that are based on a normal or exponential base require significant historical data to assist in the development of the appropriate parameters, such as a mean and standard deviation. In contrast, the beta-PERT is designed to model scenarios without well-defined parameters or with very few inputs, but with estimates for the minimum, maximum and most likely values.

The PERT distribution emphasizes the 'most likely' value over the minimum and maximum estimates. However, unlike the triangular distribution the PERT distribution constructs a smooth curve that places progressively more emphasis on values around (near) the most likely value, in favour of values around the edges.

Assuming that many real-world phenomena are normally distributed, the appeal of the PERT distribution is that it produces a curve similar to the normal curve in shape, without knowing the precise parameters of the related normal curve.

Using the PERT distribution, Paxon estimated the outcomes for a number of key assumptions using a specific risk-modelling product that has generated the probability distributions and conducted the Monte-Carlo simulation. A set of random numbers was generated for a given sample size to provide a set of expected values for the project. These were then fitted to an assumed probability distribution and can be used to estimate the value of risk for a given confidence interval. The simulation has been based on 5,000 random events to determine the mean of the expected outcomes for each risk, and the risk pools.

The low, medium and high estimates are based on the P25, P50 and P75 values for each risk where Monte Carlo Simulation was deemed to be appropriate. These are exceedance values, and represent the probability of a certain value being exceeded. For example, P50 values have a 50% chance of underestimating the outcome, and an equal chance of overestimating the outcome.

2 Art Gallery and Exhibition Space

The Schematic Design Report for the JPACF, prepared by ARM Architecture, allows for an art gallery and additional exhibition space.

The art gallery is expected to be a 400sqm space, with direct access to the main foyer via a generous corridor including the additional exhibition space. Services to the gallery will enable temperature and lighting control, with the aim of facilitating a wide range of high quality touring exhibitions. However, the schematic design does not include humidity control, which prevents the facility from potentially hosting premium exhibitions. This feature is considered a potential "value add".

2.1 Current Assumptions

The FOE does not include any assumptions relating specifically to the art gallery and exhibition spaces.

This implicitly assumes there are no revenues generated by these areas and no operating cost burden beyond that which the FOE takes into account under the building maintenance and utilities assumptions.

2.2 Evaluation of Current Assumptions

Pracsys, in their feasibility study, based the model program for these spaces on existing programs, market analysis and expert opinion. The program predicts that the key uses will be:

- The Joondalup Community Art Exhibition;
- The Invitation Art Awards; and
- Other popular exhibitions.

The art gallery and exhibition spaces are not expected to generate any revenue.[1] Rather, these spaces are intended to contribute to the cultural significance of the JPACF and enable the facility to attract a higher calibre of performing arts events.

The assumption that there is no revenue directly associated with these spaces is appropriate. Art galleries across the State will only charge admission fees for exclusive and special shows, predominantly from overseas. Without humidity control, the JPACF would not be eligible to host exhibitions of this calibre. If the JPACF exercised the option to include humidity control as a "value add", the ability to attract revenue generating shows would remain inhibited by the dominance locally of the Art Gallery of Western Australia, as well as the prohibitive costs associated with attracting these exhibitions.

The absence of any assumptions relating to the art gallery and exhibition spaces implicitly assumes there are no operating costs associated with these areas. This is not considered reasonable, as these spaces will incur incremental operating costs, as detailed below.

[1] Whilst these areas are available for events hire and functions, analysis of the cash flows associated with venue hire is included in section 3.

There is also likely to be an additional staffing cost associated with the gallery, for a security guard, gallery guard or similar overseeing role or roles. The nature of this cost will be dependent upon the proposed operating and exhibition model for the gallery, so is not able to be determined with confidence given currently available information.

2.3 Proposed Assumptions

The City of Joondalup is likely to incur costs directly associated with the operation of the art gallery and exhibition spaces. These costs will relate to the management of the exhibitions and the maintenance of the facilities and the collection.

Within the context of the JPACF, many of these recurrent costs will be most efficiently managed through existing facilities management arrangements, in order to take advantage of economies that will be created through the bundling of responsibilities. The incremental impact of bundling these responsibilities within contracts (or assigned to existing FTEs) is considered to be adequately captured by the utilities and maintenance assumptions, which work on the basis of capital cost and total building area. However, should the humidity control option be included the utilities consumption assumptions will need to be revised accordingly to reflect greater power usage.

Without regular touring exhibitions, there may be additional capital costs associated with the acquisition of a collection worthy of display of significant public interest. This potential cost is difficult to quantify at this stage, and will require a curatorial evaluation of the current collection in terms of quality and composition, before determining the need for additional acquisitions.

3 Venue Hire (Excluding Theatres)

The schematic design incorporates a number of spaces that could potentially generate venue hire revenue. This includes the plaza as well as a mixture of performance and visual arts studios, practice rooms and meetings rooms together with a flexible conference facility.

Table 1 provides and overview of the respective sizes and capacities of these areas.

Table 1: Venue Hire Overview

Description	Area	Max Capacity (Banquet)	Max Capacity (Lecture)
Plaza	2,000	n/a	1,000
Gallery	400	200	336
Exhibition Space	2,000	n/a	1,000
Craft Studio	189	50	63
Drawing and Painting Studios	378	120	183
Conference / Function	567	130	191
Practice Rooms	108	n/a	n/a
Music Studio	90	n/a	n/a
Dance Studio	378	80	n/a
Rehearsal Rooms	756	220	373

3.1 Current Assumptions

The initial assumptions for usage, pricing and costs were based on the Pracsys feasibility study and before coming under review by the City in 2014. The review considered that estimated utilisation was optimistic and revised these assumptions down as a matter of prudence. The following sections provide details of the finalised assumptions within the FOE.

3.1.1 Community Subsidies

The FOE shows that community groups will receive a 30% subsidy on the commercial rate of hire for the areas outlined above. Generally, as a matter of policy, the City of Joondalup subsidises facility hire charges if a local not-for-profit group is able to demonstrate that at least 50% of its active members reside within the City of Joondalup. The Facility Hire Subsidy Policy provides a range of between 50%-100%.

However, this policy does not apply to facilities contained within the City of Joondalup Leisure Centres, and may not apply to the JPACF. As this assumption represents a matter of policy it was not tested further.

However, the availability of larger subsidies at other City-managed facilities may shift community demand away from the JPACF to another of the existing halls, clubrooms or community facilities within the region.

3.1.2 Visual Arts, Craft, Dance and Music Studios

The FOE assumes there will be 1,026 hires per annum, averaging 20 attendees. This assumption implies that these studios will hired out a little under 3 times per day for 365 days of the year.

The FOE does not differentiate between hires for art or rehearsal purposes, and hires for private functions. This may affect projections, as the nature of the hire will have implications for demand, as well as for revenue generating activities (e.g., food and beverage).

Only 2.6% of these hires will be for community use, and the commercial rate is $125.00 for each hire. Finally, the only operating expense incurred in leasing out these studios is the cost of a duty technician for a single hour.

3.1.3 Conference & Function Rooms

The FOE assumes there will be 399 hires per annum, or just over one per day of the year. The average number of attendees is assumed to be 40, and 62% of hires will be community related. The commercial rate for each hire is $600.00 and the only operating expense incurred in leasing out these studios is the cost of a duty technician for four hours.

3.1.4 The Art Gallery & Exhibition Space

The FOE does not include any assumptions relating to forecast utilisation or operating cash flows for the hire of these areas.

3.2 Evaluation of Current Assumptions

3.2.1 Visual Arts, Craft, Dance and Music Studios

The Pracsys feasibility study used a revealed preference model to develop demand projections for JPACF facilities. Table 2 shows the implied annual demand for the studios based on this model.

Table 2: Participation to JPACF Event Conversion

	Formal Participation	JPACF Market Share	JPACF Participants	JPACF Events Participation	JPACF Events
Arts and Crafts	11,280	7.09%	800	14,400	1,440
Music	16,469	8.06%	1,328	23,904	2,390
Dance	13,300	5.41%	720	12,960	1,296
Theatre	4,232	6.99%	296	5,328	533
Total	**45,281**	**6.94%**	**3,144**	**56,592**	**5,659**

As outlined in Figure 33 of the Pracsys report, formal participation rates are used to estimate the number of JPACF events using the following steps:

1. Estimate the JPACF market share;
2. Assume each participant undertakes 18 attendances per year;
3. Assume an average class size of 10.

This methodology results in a much higher studio demand forecast than that utilised by the FOE and was presumably revised downwards as part of the 2014 review.

However, this analysis fails to take into account where these activities are currently taking place, and whether there is scope to convert any forecast participation in these areas into demand for the JPACF studios.

As identified within the Pracsys report, the majority of adult participants in these activities are not engaging in organised activity such as lessons, classes, clubs or interest groups. Whilst participating in these activities, these adults are not likely to contribute towards demand for JPACF studios. Additionally, Pracsys was not able to identify any shortage of suitable venues for engaging in these activities and did not present any evidence for unmet demand beyond ABS surveys of culture and arts participation.

Without sufficient evidence, it is difficult to justify the demand estimate for the JPACF studios.

3.2.2 Other Venue Hire

The Pracsys feasibility study indicates that the case for further conference or function facilities within the Joondalup catchment is marginal at the present time. Additional conference facilities at the JPACF would probably be redundant as existing conference and function venues are currently under-utilised. Whilst there is a case for future growth, this is dependent on the City of Joondalup's maturation as an economic centre and is inherently uncertain.

This analysis of the local market for conference or function facilities is consistent with the views of existing facilities in the catchment area, including the following:

- Joondalup Reception Centre;
- Joondalup Arena; and
- Joondalup Resort.

During consultation, these venues expressed concern with the JPACF's plan to bring forward additional supply.

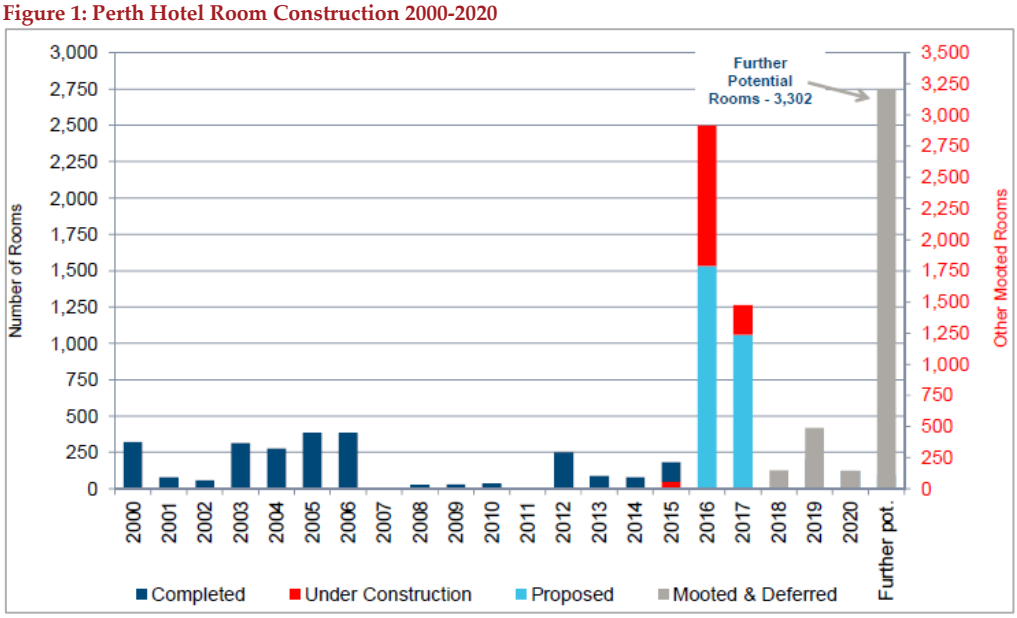
Nationally, the exhibition and conference centre industry is expected to post moderate growth over the next five years. A major determinant of industry demand is business confidence, as future expectations largely determine whether organisations believe events will be successful in terms of future revenue streams. Looking forward, IBISWorld forecast that business confidence will fall and conference industry revenue will grow by a meagre 1.3% during the 2015/16 financial year. Over the medium term, industry revenue is projected to grow by an annualised 2.3% over the five years through 2015-16. The existing excess capacity for conference and function space and the moderate growth outlook suggests the utilisation of the JPACF conference and event space will be poor.

The Pracsys report notes that Perth CBD conference venues are quite full, and suggests therefore that there is potential for increased demand in Joondalup. However, this analysis fails to contemplate any planned additional supply that is set to enter the Perth market over the coming years. Colliers International report that Greater Perth currently has 1,215 hotel rooms under construction, with 3,698 rooms in total mooted for construction to 2020. An additional 3,300 rooms are at various stages of consideration by developers.

A number of these rooms are to be housed within new or refurbished hotels which will offer competing conference facilities. While the exact specifications of these hotels is yet to be determined, an estimate based on current market breakdown is that there will be an additional five hotels offering these services.

The following graph illustrates the number of hotel rooms completed in the past in Perth and potential ones coming on line in the future. This aligns with a related growth in available conference and function facilities.

Figure 1: Perth Hotel Room Construction 2000-2020



Taken together, these factors suggest the City of Joondalup should be very cautious before assuming there will be any market for the conference facilities.

3.2.3 Food and Beverage Offering

The FOE does not contemplate potential revenues from any ancillary services provided to conference and function hires. There may be opportunities to offer catering services and generate additional revenues.

The restaurant operator could potentially provide these services, which is an arrangement that is evident in benchmarking analysis. Alternatively, the JPACF could procure the services of an external caterer, particularly where the scale of an event is beyond the capabilities of the restaurant. However, as the conference and function rooms only include a warming kitchen, an offsite preparation kitchen will be required, limiting the pool of potential outside caterers.

Under either arrangement, the JPACF would earn a commission based revenue stream that was tied to catering revenues. This commission would be between 9.00 and 12.00%, based on similar commercial arrangements.

3.3 Proposed Assumptions

In order to devise revised projections, the number of hires per year were estimated for each of the spaces available for hire within the JPACF (excluding theatres).

The current FOE figures were used to inform the maximum venue hire demand, acknowledging that there is weak evidence to support these figures. These figures were apportioned across the spaces in the amounts implied by the Pracsys report.

The most likely demand was estimated to be 70.00% of the maximum parameter, and the minimum demand by definition is zero. This level was chosen based on the identified low underlying demand for function and conference spaces, availability of alternative venues in the catchment and Perth CBD, and an assessment of activity levels at benchmark facilities.

Table 3 presents the results of this analysis.

Table 3: Venue Hire Demand Estimates

	Low	Medium	High
Plaza	4	5	6
Gallery	5	6	8
Exhibition Space	4	5	6
Craft Studio	93	119	142
Drawing & Painting Studios	40	51	61
Conference / Function	189	242	289
Practice Rooms	81	104	124
Music Studio	138	177	211
Dance Studio	119	153	182
Rehearsal Rooms	49	63	75

In terms of community use, the distribution of possible outcomes will lie between 0-100% with the most likely result depending on the particular area in question. Conference space was determined to be most likely to be used equally by commercial and community groups. Community groups are forecast to account for 30.00% and 10.00% of event and studio space respectively, based on an assessment that hire of studios for classes or similar activities is most likely to be by commercial operators. Table 4 presents the results of this analysis, showing the estimates for the proportion of commercial use.

Table 4: Commercial Use

	Low	Medium	High
Plaza	50.68%	64.89%	77.48%
Gallery	50.68%	64.90%	77.49%
Exhibition Space	50.67%	64.90%	77.48%
Craft Studio	66.90%	79.73%	89.36%
Drawing & Painting Studios	66.89%	79.73%	89.35%
Conference / Function	35.94%	50.00%	64.05%
Practice Rooms	66.89%	79.73%	89.36%

	Low	Medium	High
Music Studio	66.90%	79.73%	89.36%
Dance Studio	66.89%	79.73%	89.36%
Rehearsal Rooms	66.89%	79.73%	89.36%

Proposed Pricing for the respective areas is based on market rates at similar facilities. The pricing for function hire spaces is based on publicly available rates for Venues West function spaces, which is shown in Table 5.

Table 5: Venues West Hire Rates

Description	Max Capacity (Banquet)	Max Capacity (Lecture)	Price
Champions Club	60	100	$473.00 per half day
Executive Suite	20	40	$342.00 per half day
Lecture Theatre	n/a	220	$589.00 per half day
Fred Napier Conference Room	60	90	$473.00 per half day
Ellis Room	200	100	$589.00 per half day

As the proposed conference facilities will accommodate 191 guests lecture style, it was determined that the pricing should be slightly higher than the lecture theatre available within the Mount Claremont sports precinct. This premium reflects the standard of the facility and the greater flexibility inherent within the space, and provides a venue hire cost aligned to similarly sized facilities in the CBD and surrounds.

For the various studio rooms, pricing was informed by rates at Curtin University, which similarly has a wide variety of studio space available for hire. Market evidence was also taken from Ausdance, who manage venue hire for the Kings Street Arts Centre studios located within the Perth CBD.

Table 6: Studio Hire Rates

Description	Max Capacity	Price
410.208 Studio	46	$100.20 per hour
410.314 Studio	44	$100.20 per hour
410.428 Studio	44	$100.20 per hour
Collaborative Teaching Rooms	< 25	$75.20 per hour
Ausdance Hire Rates	40	$65.00 per hour

The Curtin rooms were determined to be the more comparable, and pricing for the JPACF was based on these rates.

No distinction has been drawn between the various studio options, although the hire for practice rooms is lowered based on the low capacity of these rooms and likely use for individual use or tuition. Function space hire rates assume that there are limited add-on options, such as tea and coffee provision, basic catering or welcoming and staff presence as is seen at comparable facilities. There are no costs associated with these functions, so revenue is aligned with a basic service level. Given the identified competition in the market, it may be necessary to investigate such differentiating options to deliver a reasonable volume of functions and events.

Table 7: Venue Hire Fees

Area	Price
Plaza	$1,000 per half day
Gallery	$600 per half day
Exhibition Space	$600 per half day
Craft Studio	$100 per hour
Drawing & Painting Studios	$100 per hour
Conference / Function	$600 per half day
Practice Rooms	$50 per hour
Music Studio	$100 per hour
Dance Studio	$100 per hour
Rehearsal Rooms	$100 per hour

Labour requirements have been estimated based on the size of the space and the nature of its use.

Table 8: Labour Requirement

	Manager	Technician	Usher
Plaza	1	1	2
Gallery	-	1	2
Exhibition Space	1	1	2
Craft Studio	-	-	-
Drawing & Painting Studios	-	-	-
Conference / Function	-	1	1
Practice Rooms	-	-	-
Music Studio	-	-	-
Dance Studio	-	-	-
Rehearsal Rooms	-	-	-

These labour requirements are dependent on the level of service associated with venue and facility hire. The presence of other supervisory or facility management staff will also impact on the requirement of dedicated staff for these areas, however as no analysis of the overall workforce model has been conducted this is not considered above. The proposed staffing provides for dedicated staff to handle visitors for larger conference and function-style events.

4 Capital Replacement Costs

The large capital investment associated with the facility brings with it large capital replacement costs.

The JPACF is comprised of a number of different systems and components, crossing civil, mechanical, and electrical construction disciplines. Each of these components works interdependently with others to allow the facility to function efficiently. These components age and deteriorate at varying rates, and will need to be maintained and replaced at various stages of the building's lifecycle.

The lifespan of each component is difficult to predict, and actual service life depends greatly on local environmental factors, use and abuse, and levels of routine maintenance accomplished. Periodic repair or replacement of the various deteriorated components is needed to restore condition and performance capabilities for the component and the building as a whole.

4.1 Current Assumptions

The FOE breaks down constructions costs into six different components and assigns a maximum life to each of these components. The FOE then selects a condition that each component may reach before the City will need to renew them, and calculates the renewal life (service life) based on this basis.

Only capital expenditures that are within the 40-year evaluation period are included within the FOE. These costs are modelled as they are incurred over the project's 40-year life. The total capital renewals in real terms is $23,765,565 (roughly 24% of the initial capital cost). In nominal terms, this equates to $79,433,130.

4.2 Evaluation of Current Assumptions

Table 9 presents the maximum life and renewal life assumptions detailed in the FOE.

Table 9: Capital Renewal Assumptions

Component	Maximum Life	Renewal Life
Structure	80	80
Roof	80	80
Fixtures & Fittings	40	24
Services(1) – Long Life	40	40
Services(2) – Short Life	20	16
Equipment	20	16

When compared with benchmark capital asset planning practice,[2] these assumptions overestimate the time before which renewal will be required.

[2] Referenced to Recurrent Cost Plan for recent project within Western Australia, comparable in nature and scale to JPACF.

In addition, modelling capital renewals as a lumpy profile of capital replacement costs (with the majority of expenditures incurred beyond the project evaluation period) has the potential to skew perceptions of the apparent financial position of the JPACF.

Industry profit margins are traditionally quite high because of the relatively low revenue generated from individual assets as a proportion of the industry's capital assets. High margins are required to cover investment costs. Whilst not a review of assumptions per se, it is recommended the City of Joondalup consider what size contributions would need to be made to a hypothetical sinking fund to enable the satisfaction of future liabilities as they arise. This would provide a better picture of the JPACF's financial performance.

4.3 Proposed Assumptions

To determine the necessary major repairs and component replacements for the JPACF, and to approximate the timing of that work, a building component model was defined.

Similar to the approach adopted in the FOE, this model creates an inventory of components that comprise the building, and assigns a service life to each, reflecting the average expected time that the component will perform as required in service before it will need replacing. Table 10 shows the inventory of components, and the corresponding service life.

Table 10: Inventory of Building Components

Component	Capital Value	Service Life
Substructure	$3,554,600	50 Yr(s)
Superstructure	$36,761,400	50 Yr(s)
Finishes	$4,858,400	10 Yr(s)
Fitments	$8,564,400	7 Yr(s)
Services	$20,577,000	15 Yr(s)
External Works	$4,677,000	15 Yr(s)
External Services	$1,175,000	15 Yr(s)

The service life assumptions are from cost planner estimates developed for comparable recent projects[3].

The assumed escalation was 4.28% per annum, representing the average annual change in the price index for building construction within Western Australia from September 1998 through to June 2016.

[3] The reference projects used were feasibility studies and cost plans developed between 2014 and 2016 for metropolitan facilities in the cultural and recreation category, within Western Australia. The estimated capital cost of the projects considered ranged between $30m and $70m.

4.3.1 Requirement for Lifecycle Replacement

The costs shown in Table 10 exclude all preliminaries and design costs, so relate only to construction capital amounts. In considering the requirement for lifecycle replacement, there is the potential that not all capital against a category would be required to be replaced at the interval shown. For example, within the services category, while it may be necessary to replace air conditioner chillers and outlets, the piping and connections may not require as frequent capital replacement.

Similarly, a decision may be made to delay lifecycle replacement works on aspects of the facility. For example within the finishes category, wall and floor finishes may be renewed more regularly than roof finishes, while still presenting a facility of contemporary appearance.

As the assumed lifecycle replacement periods are based on cost planner best practice estimates, there may be an opportunity to reduce the frequency of replacement of some elements of the capital cost. As the capital cost element does not provide significant additional detail over the categories presented above, this is not done on a cost item basis, however overall percentage costs for replacement can be assumed.

Table 11 presents the assumed value of each component requiring replacement within the timeframes provided, based on an assumed percentage of 70% of initial capital cost requiring replacement.

Table 11: Assumed Replacement Values

Component	Capital Value	Assumed Value Requiring Replacement
Substructure	$3,554,600	$2,488,220
Superstructure	$36,761,400	$25,732,980
Finishes	$4,858,400	$3,400,880
Fitments	$8,564,400	$5,995,080
Services	$20,577,000	$14,403,900
External Works	$4,677,000	$3,273,900
External Services	$1,175,000	$822,500

4.3.2 Range of Assumptions

Monte Carlo analysis was conducted on both service life and escalation to account for the following risks:

- The time at which capital replacements are required, based on best practice useful life estimates; and
- The price at which the City of Joondalup can carry out capital replacements.

This analysis was carried out using beta-PERT distributions for each risk in the manner described in Section 1.2.

Table 12: Service Life

Component	Low	Medium	High
Substructure	46 Yr(s)	50 Yr(s)	54 Yr(s)
Superstructure	46 Yr(s)	50 Yr(s)	54 Yr(s)
Finishes	9 Yr(s)	10 Yr(s)	11 Yr(s)
Fitments	6 Yr(s)	7 Yr(s)	8 Yr(s)
Services	14 Yr(s)	15 Yr(s)	16 Yr(s)
External Works	14 Yr(s)	15 Yr(s)	16 Yr(s)
External Services	14 Yr(s)	15 Yr(s)	16 Yr(s)

For escalation, the maximum and minimum annual changes to the index for building construction within Western Australia over the sample period were utilised as parameters, producing the following results.

Table 13: Capital Escalation

	Low	Medium	High
Escalation	2.51%	4.67%	6.97%

5 Utilities

This section considers the cost of utilities that the City of Joondalup will incur as part of operating the JPACF.

5.1 Current Assumptions

The FOE details the following assumption relating to utilities.

Table 14: Current Utilities Assumptions

Utilities	Cost
Energy	$12.00 per square metre
Water Rates	$0.45 per square metre
Water	$0.75 per square metre

5.2 Evaluation of Current Assumptions

The FOE does not provide the source of the utilities assumptions, although reference is made to the previous business case.

The area used to multiply the square metre rates does not appear to be consistent with ARM's design. The FOE assumes only 11,000 square metres is to be used for building costs, however, this is the area associated with the car park rather than the remaining building which has an area of 13,000 sqm. This will be causing the City of Joondalup's financial evaluation to understate utilities costs.

As the car park and the remainder of the facility are likely to have different utility usage rates, it is appropriate to estimate these separately.

Where possible, it is also more appropriate to provide estimates of usage per square metre rather than cost. This provides a clearer basis for assumptions and allows assumed usage rates to be tested if further technical reports are conducted. This methodology also allows volume and price to be projected independent of one another.

5.3 Proposed Assumptions

Proposed assumptions for utilities are set out in the following sections.

5.3.1 Energy

Minimum, maximum and most likely estimates for general facility energy use were taken from benchmark facilities in order to generate a distribution of potential outcomes.[4] Table 15 presents the resulting low, medium and high estimates.

[4] The benchmark facility information sourced utility costs from facilities management providers at a number of Western Australian and other Australian performing arts and educational facilities, using costs from recent years.

Table 15: General Facility Energy Usage

	Low	Medium	High
Energy Use	72.64 kWh / sqm p.a.	78.19 kWh / sqm p.a.	84.75 kWh / sqm p.a.

The applicable tariff is $0.303104/kWh.

For the car parking area, benchmark usage data was not available. However, the following medium cost per square metre is based on a recent Western Australian car-parking project and should provide a reasonable forecast of utilities costs for the JPACF car park. The low and high estimates provide a range at a 20% discount and premium to the benchmark.

Table 16: Car Parking Utilities Cost

	Low	Medium	High
Car Park Utilities Cost	$2.15 / sqm p.a.	$2.69 / sqm p.a.	$3.23 / sqm p.a.

5.3.2 Water

Assumptions relating to water service charges were taken from the Water Corporation's website.

Table 17: Water Service Charges

Charge	Value	Basis
Water Service Charges	$13,287.95	Rate for Up to 150mm in absence of technical advice.
Sewerage Service Charges	$45,317.91	Based on full rate for 82 fixtures detailed in Appendix 10 to Schematic Design Report Volume 2.
Drainage Service Charge	$8,640.00	Based on rateable value of $100 million.

The JPACF may qualify for a 100% discount on water service charges. Generally, these discounts are available to the following groups:

- non-government schools, churches and community facilities;
- charitable organisations;
- regional local government; and
- non-profit homes for the age.

Assuming the JPACF qualified, the water service charge would not be applicable and there would be a reduced cost per fixture for the sewerage service charge.

Water use is charged at $2.187 per kilolitre, and the following range of assumptions are proposed for usage.

Table 18: Water Usage

	Low	Medium	High
Water Use	0.77 kL / sqm p.a.	0.84 kL / sqm p.a.	1.01 kL / sqm p.a.

The low, medium and high assumptions represent best practice, efficient, and fair usage respectively utilising Sydney Water's benchmarks for commercial office buildings and shopping centres. Whilst not a perfect benchmark, this was the most analogous to the JPACF of those available.

These calculations should not include the car park, as the utilities estimate for that space is all inclusive.

6 Photovoltaic Cells

A possibility raised during the Schematic Design phase was for the installation of photovoltaic cells (also known as solar panels) on the roof of the JPACF. This section considers recommended assumptions in order to assess the financial viability of installation of solar cells.

6.1 Current Assumptions

The possibility of photovoltaic cell installation is not currently included in modelling. As a result, there are currently no assumptions available to test.

6.2 Modelling Approach

Paxon undertook the following steps in order to ascertain the viability of the installation of photovoltaic cells:

1. Determine the size of the potential photovoltaic cell installation at JPACF and thus the amount of energy it would be able to generate
2. Conduct market research relating to the cost of electricity and the price able to be received for selling power back into the grid
3. Ascertain installation costs, including any incentives
4. Create a financial model over twenty years, modelling the result of both installing photovoltaic cells and continuing to purchase all electricity requirements from the grid

The following sections detail these steps.

6.2.1 Determine Size and Energy of Potential Installation

The size of the proposed photovoltaic array was sourced from architectural designs, as demonstrated in Figure 2.

Figure 2: Joondalup Performing Arts and Cultural Facility Roof Plan

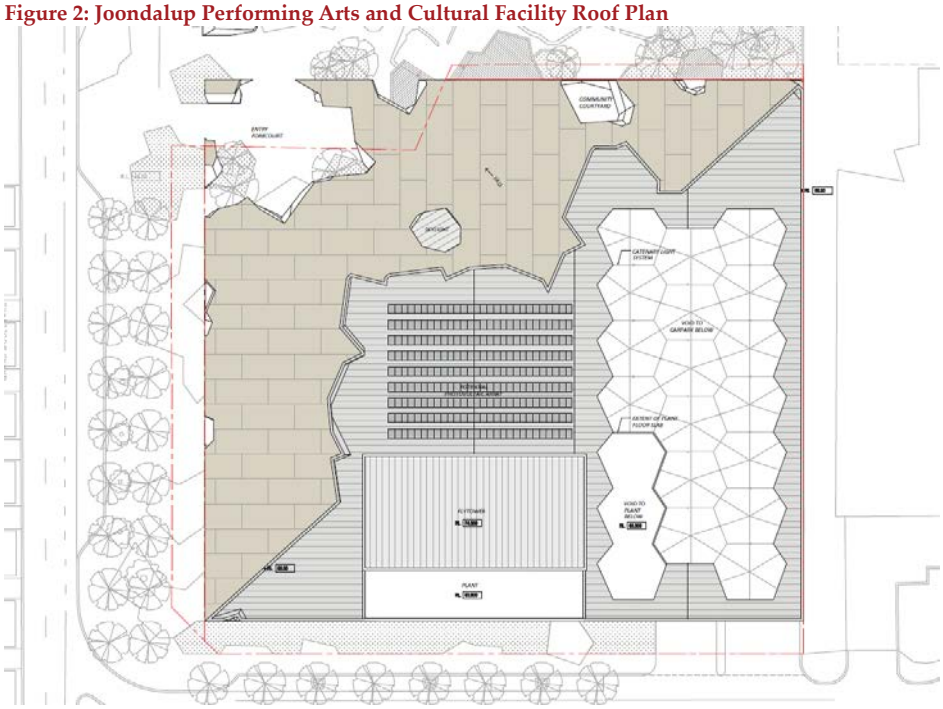


Figure 3 shows this equivalent area on a map of the precinct in which the JPACF will be located.

Figure 3: Location of Photovoltaic Cells

Making an allowance for the space between the arrays, this has an area of approximately 560 square metres.

In order to evaluate the output of this area, an efficiency factor must be estimated. Table 19 demonstrates the efficiency of the two photovoltaic cell models available through Synergy.

Table 19: Synergy Photovoltaic Cells

Model	Efficiency
Q.Cells Q.Plus G4	16.2%-16.8%
Hanwha Solar HSL 60 S Poly	15.6%-16.2%

Based on the information in Table 19, an efficiency of 16% was assumed. Additionally, a standard assumption of solar irradiance of 1,000W per square metre was used.

Thus, an area of 560 square metres is equivalent to a system capacity of approximately 90 kWdc under currently available technology as demonstrated in **Equation 1**.

Equation 1: System Capacity

$$Size\ (kW) = Array\ Area\ (m^2)\ \times Solar\ Irradiance\ \left(\frac{W}{m^2}\right) \times Module\ Efficiency\ (\%)$$

$$90.4\ kW = 565m^2\ \times 1{,}000\ W/m^2 \times 16\%$$

A standard fixed roof mount module arrangement is assumed, with the parameters outlined in Table 20 also utilised, based on manufacturer recommendations and industry research.

Table 20: Further Modelling Parameters

Assumption	Value	Rationale
System Losses		
Soiling	2%	Losses due to dirt and other foreign matter on the surface of the PV module that prevent solar radiation from reaching the cells. Benchmark estimate.
Shading	3%	Reduction in the incident solar radiation from shadows caused by objects near the array such as buildings or trees, or by self-shading. Benchmark estimate.
Mismatch	2%	Electrical losses due to slight differences caused by manufacturing imperfections between modules in the array that cause the modules to have slightly different current-voltage characteristics. Benchmark estimate.
Wiring	2%	Resistive losses in the DC and AC wires connecting modules, inverters, and other parts of the system. Benchmark estimate.
Connections	0.5%	Resistive losses in electrical connectors in the system. Benchmark estimate.
Light-Induced Degradation	1.5%	Effect of the reduction in the array's power during the first few months of its operation caused by light-induced degradation of photovoltaic cells. Benchmark estimate.
Nameplate Rating	1%	The nameplate rating loss accounts for the accuracy of the manufacturer's nameplate rating. Field measurements of the electrical characteristics of photovoltaic modules in the array may show that they differ from their nameplate rating. Benchmark estimate.
Age	0%	This is not modelled initially, but degradation is included in output modelling over time (see Section 6.2.4). Benchmark estimate.
Availability	2%	Reduction in the system's output cause by scheduled and unscheduled system shutdown for maintenance, grid outages, and other operational factors. Benchmark estimate.
Total System Losses	**14%**	
Panel Positioning		
Tilt	41.7°	10 degrees are added to Joondalup's latitude of 31.7° South to allow for an anticipated extra load during winter. This extra load is due to both extra heating requirements for evening shows/performances and the lesser utilisation of the space anticipated over summer.
Azimuth	0°	This allows the panels to be as north-facing as possible, maximising overall output.

Assumption	Value	Rationale
Inverter Characteristics		
DC to AC Size Ratio	1.30	This is the ratio of the inverter's AC rated size to the array's DC rated size. Increasing the ratio increases the system's output over the year, but also increases the array's cost. The chosen value of 1.30 means that a 90 kW system size would be for an array with a 90 DC kW nameplate size at standard test conditions and an inverter with a 69.2 AC kW nameplate size. This value is based on estimates of equivalent ratios of larger systems.
Inverter Efficiency	97%	This is the inverter's nominal rated DC-to-AC conversion efficiency, defined as the inverter's rated AC power output divided by its rated DC power output. This value is estimated from currently available products available from Synergy as indicated in Table 21.

Table 21: Synergy Inverters

Model	Efficiency
Fronius Symo Hybrid	97.6%
Fronius Symo	98.1%
Fronius Primo	97.8%
Fronius Galvo	96.1%

Using resources provided by the US-based National Renewable Energy Laboratory, these parameters produced an annual output of 146,687 kWh per year. A monthly breakdown of this figure is provided in Table 22.

Table 22: Annual Output

Month	Solar Radiation (kWh / m^2 / day)	AC Energy (kWh)
January	6.75	14,374
February	6.71	12,891
March	6.52	13,900
April	6.00	12,549
May	4.69	10,403
June	4.40	9,589
July	4.61	10,416
August	4.88	11,070
September	5.62	12,070
October	6.09	13,577
November	5.92	12,472

Month	Solar Radiation (kWh / m^2 / day)	AC Energy (kWh)
December	6.25	13,376
Total	**5.70**	**146,687**

As battery technology is not yet mature, nor commercially viable for large scale installations, no batteries were assumed in the model.

6.2.2 Electricity Costs

Current Synergy prices from the Business Plan (L1) Tariff were used as the costs for purchasing electricity. As described in Section 6.2.4, these are escalated forward appropriately for future years.

As the system exceeds the 5kW threshold for the Renewable Energy Buyback Scheme, enhanced rates were not able to be accessed by JPACF. An indicative value based on market analysis was chosen.

Table 23 summarises these costs.

Table 23: Electricity Cost Parameters

Parameter	Value
Cost of Electricity - Normal	$0.303104/kWh
Cost of Electricity - Excess	$0.273503/kWh
Excess Electricity Threshold	1,650
Daily Supply Charge	$0.461185/day
Price Received for Electricity	$0.06/kWh

6.2.3 Installation Costs

Architectural assumptions indicate that the photovoltaic cells would cost between $350,000 and $450,000. The upper bound of these figures was chosen in order to minimise any adverse cost risks.

There are currently no governmental solar incentives available, so the full cost of installation was modelled.

6.2.4 Modelling

A number of other parameters had to be selected before modelling could proceed. These were determined through desktop analysis and are outlined in Table 24. The discount rate used was chosen for consistency with other discounted cash flow analysis conducted in this report.

Table 24: Further Modelling Parameters

Parameter	Value
Macroeconomic Cost Escalation	3%
Electricity Use Escalation	1.5%

Parameter	Value
Annual Deterioration of Photovoltaic Cells	0.5%
Discount Rate	7.70%

Modelling was conducted over 20 years. A summary of the results of the modelling is included in Table 25.

Table 25: Modelling Results

Model	NPV
Option 1: No Photovoltaic Cells	-$2,009,384
Option 2: Photovoltaic Cells Installed	-$1,916,622

Table 25 indicates that there is marginal difference between the two options modelled, with the installation of pholtovoltaic cells showing approximately a $100,000 benefit in NPV terms over the 20-year period. This however excludes any additional maintenance or lifecycle costs associated with the installation of cells.

This analysis suggests that the installation of pholtovoltaic cells is not supported by compelling financial reasons. If, however, their installation is preferred from a sustainability perspective, this is not likely to come at a high financial cost, and may lead to a marginal saving dependent on maintenance expenses.

6.3 Sensitivity Analysis

The assumptions utilised in developing the modelling are based on industry benchmarks, and are likely to be dependent on the design of the building and characteristics of cells to suit installation on the specific built form proposed. As a result, sensitivity analysis is not considered to be appropriate without further design and input from electrical and renewable energy specialists on the likely characteristics of a solar cell installation as part of the facility.

7 Repairs and Maintenance

Regular repairs and maintenance are required for any facility through normal use. This section considers both building repairs and maintenance, and a number of associated operating costs which are not captured in other components of the modelling and assumptions.

7.1 Current Assumptions

A number of parameters required assumptions regarding building maintenance and repair. These are detailed in Table 26.

Table 26: Building Maintenance and Repair – Modelling Assumptions

Item	AUD
Insurance	$50,000 p.a.
Air-conditioning	$3.17 p.sqm.
Fire protection	$1.40 p.sqm.
Cleaning	$18.00 p.sqm.
Security	$1.50 p.sqm.
Repairs and Maintenance	$18.41 p.sqm.
Rubbish Collection	$1.00 p.sqm.

Insurance is costed at a lump sum of $50,000 annually, while the other maintenance costs are quoted as a per square metre figure on a per annum basis. The source of most of these assumptions is not clarified in the current model.

Of further note is the Pracsys report which also includes a number of assumptions relating to building operations and maintenance costs.

Table 27: Building Maintenance and Repair – Pracsys Assumptions

Item	Cost ($/m^2)
Rates and Taxes	-
Insurance	7.60
Air-Conditioning	8.30
Lifts	6.70
Fire Protection	1.40
Energy	25.90
Cleaning	14.90
Buildings Staff	6.90
Security	2.80
Repairs and Maintenance	6.20
Management	11.00

Item	Cost ($/m^2)
Sundries	4.30
Void Allowance and Contingency	2.70

The source of these assumptions is quoted as being the Rawlinsons Australian Construction Handbook (2012).

7.2 Evaluation of Current Assumptions

The assumptions used in the modelling and the Pracsys assumptions differ in a number of ways. This section explores these differences and evaluates each assumption.

7.2.1 Insurance

Current modelling uses a fixed insurance amount, while the Pracsys report uses a per square metre rationale. If the per square metre rate quoted in the Pracsys report is taken as representative of insurance costs, its value would increase by 67% in current modelling.

A fixed rate is considered as the more reasonable approach as it is the industry standard. The Pracsys report most likely reported insurance at a per square metre rate due to uncertainty around the overall facility specifications.

However, the current fixed amount used in modelling is believed to be low based on industry experience and the likely nature of the facility.

7.2.2 Air Conditioning

Air-conditioning costs are significantly lower in the modelling than in the Pracsys report, with a cost of $3.17 vs $8.30 per square metre respectively.

The approach used of apportioning costs per area does not provide accuracy around the outcome of the values. An alternative approach is outlined in Section 7.3.

7.2.3 Fire Protection

Fire protection costs are consistent across the modelling and the Pracsys reports, with both utilising an apportionment based on floor area. This approach does not achieve optimum efficiency as an overall system approach to maintenance is preferred, with an alternative approach is outlined in Section 7.3.

7.2.4 Cleaning

The modelling utilises an assumption of $18 per square metre as an annual allowance for cleaning. This is higher than the Pracsys assumption of $14.90 per square metre.

Paxon's analysis of the market indicates that a more realistic value may lie in between these two amounts. This is further detailed in Section 7.3.

7.2.5 Security

Security costs of $1.50 per square metre were used in the modelling, higher than the Pracsys recommendation of $2.80 per square metre.

While the modelled value accorded with the upper range of market evidence, Paxon suggests that a lower figure may be able to be obtained. This is discussed in Section 7.3.

7.2.6 Repairs and Maintenance

There was a significant disparity between the amounts quoted for repairs and maintenance across the modelling and the Pracsys report. The former totalled $18.41 per square metre, almost three times the amount in the latter of $6.20.

This disparity is likely due to a number of other areas of required recurrent spending individually identified by Pracsys being combined in the modelling. These areas include the following:

- Lifts;
- Energy;
- Buildings staff;
- Management;
- Sundries; and
- Void allowance & contingency.

As outlined in Section 7.3, this approach of apportioning costs per square metre does not provide accuracy around the outcome of the values.

7.2.7 Rubbish Collection

This individual cost is not identified in the Pracsys report, but is allocated a value of $1.00 per square metre in modelling.

Market evidence suggests that this cost is reasonable, although it is subject to the operating model employed, particularly in regards to food and beverage and function catering. There is a possibility of operators of sections of the facility being responsible for elements of rubbish disposal which would lower the assumed value.

7.3 Alternative Assumptions

Section 7.2 indicates that the majority of costs associated with repair and maintenance are provided on a square metre basis. Paxon's market experience indicates that for a number of costs modelled, providing costs in this structure does not provide values as accurate as apportioning costs by proportion of the overall capital cost for maintenance, as maintenance costs include a significant fixed component. These are explored in this section.

7.3.1 Costs to Apportion by Capital Cost

Air-conditioning and fire protection form part of the overall fitments of the building, and as such, artificially segregating one element of the repairs budget makes little sense.

Thus an overall cost of repairs and maintenance, inclusive of air-conditioning as well as other fitments and finishes, is suggested. The breakdown of these costs accords with the building component model defined in section 4.3. The repairs and maintenance expense for each component was estimated as a proportion of capital cost based on a benchmark capital project.[5]

[5] The referenced project was based on operating cost estimates develop as part of business case development for a metropolitan project in WA of comparable nature to the JPACF, with a capital cost of between $40m and $60m.

Table 28 shows the estimated repairs and maintenance expense for each building component, and a total repairs and maintenance expense as a proportion of the total capital cost.

Table 28: Inventory of Building Components

Component	Capital Value	R&M%	R&M
Substructure	$3,554,600	0.10%	$3,699
Superstructure	$36,761,400	0.10%	$38,228
Finishes	$4,858,400	1.56%	$75,790
Fitments	$8,564,400	0.78%	$66,804
Services	$20,577,000	0.52%	$107,001
External Works	$4,677,000	0.26%	$12,160
External Services	$1,175,000	0.52%	$6,110
TOTAL	**$80,167,800**	**0.39%**	**$309,792**

The assumed escalation was 4.28% per annum, representing the average annual change in the price index for building construction within Western Australia from September 1998 through to June 2016.

7.3.2 Costs to Apportion by Area

Per square metre rates are appropriate for cleaning costs. However, as discussed in Section 7.2.4, market evidence suggests that the cleaning cost will be less than the $18 allowed for in the modelling. For a facility of the size and specialisation of the JPACF, market analysis suggests a figure of $16 per square metre to be more accurate.

Security costs are also suited to being modelled on a floor area basis. The chosen value of $1.50 per square metre appears to accord with market evidence although is on the high end of a scale of costs for similar facilities. Similarly, the rubbish collection parameters are acceptable, although potentially overstated.

It is noted that these costs are dependent on the operating model for the facility, or elements therein. For example, should an external caterer assume control for functions, they are likely to absorb elements of the security, cleaning and rubbish disposal costs.

7.3.3 Fixed Costs

The fixed approach to modelling insurance costs was found to be accurate by Paxon. However, the value used in the modelling is believed to be low. An annual cost closer to $100,000 is likely to be required, based on the projected capital cost and the nature of the facility.

7.3.4 Summary

These alternative assumptions are summarised in Table 29.

Table 29: Building Maintenance and Repair – Alternative Assumptions

Item	Value (per annum)
Apportioned by Capital Cost	
Repairs and Maintenance	0.39% of Capital Cost
Apportioned by Area	
Cleaning	$16 p.sqm.
Security	$1.50 p.sqm.
Rubbish Collection	$1.00 p.sqm.
Fixed Costs	
Insurance	$100,000

In order to determine a low medium and high estimate for these assumptions, minimum, maximum and most likely estimates were gleaned from benchmark facilities in order to generate a distribution of potential outcomes. Table 30 presents the resulting low, medium and high estimates.

Table 30: Repairs and Maintenance Range

	Low	Medium	High
Repairs and Maintenance	0.33%	0.39%	0.47%
Cleaning	15.48	16.25	17.11
Security	1.42	1.49	1.55
Rubbish Collection	0.86	1.00	1.14
Insurance	85,998	97,451	108,085

8 Food & Beverage and Restaurant

Plans for the JPACF include a restaurant area (indicated as a café in the *JPACF Schematic Design Report*). In addition to this, there are areas for serving food and beverages to patrons of events held at the JPACF. The assumptions around revenue generated from these areas are discussed in this section.

The catering aspects of any externally hired function held at the JPACF are discussed in Section 3.

8.1 Current Assumptions

The current assumptions used in the modelling are outlined in Table 31. Assumptions are provided in two broad categories, as outlined above.

Table 31: Food/Beverage and Restaurant Assumptions

	Assumption
Food and Beverage	
Income	8% Primary and Secondary Theatre Revenue
Cost of sales	66% of F&B Income
Restaurant	
Area	180 sqm
Turnover	$5,000 p.sqm.
Rent	10%

8.2 Evaluation of Current Assumptions

This section evaluates the assumptions outlined in Section 8.1.

8.2.1 Food and Beverage Current Assumptions

The model assumes that food and beverage revenue is structured as a proportion of the overall theatre revenue earnt by the JPACF. The assumed value of 8% is unable to be validated due to a lack of information available for comparable facilities, with overall performance of food and beverage sales more readily tested.

A cost of sales of 66% is also assumed, implying a gross profit margin of 34%. This does not accord with the Pracsys report, which stated that this part of JPACF is intended to be cost-neutral. Cost neutrality implies a cost of sales equivalent to the total amount raised as income, with analysis of similar sites elsewhere showing a similar outcome. As the primary purpose of food and beverage provision is to supplement visitor amenity rather than make a profit, the assumed value is considered to be low.

8.2.2 Restaurant Current Assumptions

The restaurant assumptions used in the modelling are taken from the Pracsys report. However, this report mentions the need to independently assess the viability of the restaurant and its ability to achieve industry average turnover.

The restaurant mentioned in the modelling is assumed to be equivalent to the café indicated on the *JPACF Schematic Design Report*. The modelling indicated an area of 180 square metres. Turnover of $5,000 per square metre per annum was also assumed, with a rent/commission of 10% payable.

The structure of the modelling indicates that a private operator is assumed to run the restaurant. This conforms with the industry practice of a private operator being contracted to manage the food and beverage services offered by a facility. This operator then pays a variable amount to the owner of the facility (in this case, the City of Joondalup) which is structured as a percentage of revenue generated through food and beverage sales. The modelling assumes that this payment amount (termed "rent") is 10%. This accords with market evidence elsewhere.

Overall, the assumptions indicate total annual revenue received by the management of the facility from the restaurant lease of $90,000 (unindexed). Based on local market analysis, this appears to be somewhat higher than expected. This is likely due to the high level of turnover assumed to be received per square metre of $5,000.

8.3 Alternative Assumptions

The following sections provide alternative parameters for the two categories of assumptions listed in Table 31.

8.3.1 Food and Beverage Proposed Assumptions

Without further market evidence, it is difficult to ascertain a realistic proportion of total ticket sales translating to food and beverage revenue. For this purpose, it is recommended that the current modelling structure of 8% is retained until further evidence is obtained.

As discussed in Section 8.2.1, it is recommended that the assumption relating to the proportional cost of sales be modified to 100% in order to allow the food and beverage area to be considered revenue neutral rather than a source of income.

8.3.2 Restaurant Proposed Assumptions

An important issue for consideration is whether there exists sufficient demand for the restaurant and whether its location is attractive enough as a dining option such as to warrant dedicated foot traffic outside of theatre operational times. A clear benchmark here is the Perth Concert Hall, which does not have its restaurant open on non-concert nights. Initial analysis indicates that demand is likely to be lower at JPACF than at a CBD-based location, which is likely to limit the rent or commission payable by a private operator.

As stated in Section 8.2.2, the proposed assumptions result in a higher level of revenue received as commission than would be expected. Reducing the turnover expected to be received per square metre, from $5,000 to $3,500, would result in commission more in line with market expectations and a realistic operating profile of the restaurant.

9 Opportunities for Annual Grants & Sponsorship

At present the Financial Projections have not assumed any grant income to support annual operations. This section investigates whether the JPACF is in a position to access State or Commonwealth grant programs.

9.1 Approach

Paxon investigated potential opportunities for annual grants or sponsorship and identified the following six possible funding avenues:

- Lotterywest;
- Australia Council for the Arts;
- State Government (Department of Culture and the Arts);
- Federal Government (Department of Communications and the Arts);
- Creative Partnerships Australia; and
- Direct corporate sponsorship.

These opportunities are explored in the subsequent sections.

9.1.1 Lotterywest

Lotterywest, formerly known as the Lotteries Commission of Western Australia, run the State lottery in WA. Established in 1932, it offers a variety of lottery and instant win tickets. Approximately 33% of funds raised by Lotterywest are disseminated in the form of grants, either directly managed by Lotterywest or through the State Government.

Lotterywest manage several programmes through which it awards grant money to community and local government organisations. Of relevance to the JPACF is Lotterywest's Big Ideas scheme, which is for the following purposes:

- Assets that relate to WA's social, natural and built features that add significantly to WA's resources and capital base and benefit many people over a long period of time; or
- Large scale projects that create exceptional opportunities, address important community issues and/or have a major community impact.

The JPACF relates to the first of these criteria.

However, due to the scale and scope of funding required, Lotterywest funding is likely to be difficult to obtain for a material portion of the anticipated capital cost. It may be possible to access funding, either for specific elements of the build or a contribution to the overall capital cost.

9.1.2 Australia Council for the Arts

The Australia Council for the Arts ("Australia Council") is the official arts funding body of the Australian Government. It is responsible for funding arts projects around Australia as well as formulating and implementing policies to foster and promote the arts in Australia. The Australia Council also advises governments and industry on arts-related issues. In addition, it supports strategies to develop new audiences and markets for the arts both in Australia and overseas. The Council is accountable to the Australian Parliament and to the Government through the Minister for the Arts.

Since moving to a new grant model in 2014, the Australia Council has one main stream of recurrent funding – the Four Year Funding for Organisations. This program provides multi-year core program funding for small to medium arts organisations of significant regional, national or international standing. Four Year Funding aims to enable organisations to plan their artistic programs with longer term certainty and increase their capacity to leverage other support and collaborations.

The most recent round of grants was made in May 2016, with 128 organisations receiving a total of $28 million a year. Applications for the following round of grants will open in 2019.

Acquiring funding through this program is a highly competitive process and is for a limited time. It is also targeted to organisations as opposed to venues, and as such, it is not considered a viable long-term funding strategy.

9.1.3 WA Department of Culture and the Arts

The Department of Culture and the Arts ("DCuA") is the State Government department responsible for the arts in WA. It is responsible for State-level arts facilities such as the Art Gallery of WA, the WA Museum and the State Library of WA.

DCuA supports the development and delivery of culture and the arts in WA through the provision of funding to individual artists and organisations, devolved funding through selected organisations, and partnerships with Commonwealth, State and local government agencies. It provides funding to non-government arts organisations as a base from which they can then generate additional income through sponsorship, box office earnings and funding from other bodies to support their annual program of activities.

The Lotteries Commission Act requires that 5% of net subscriptions each year are paid to the Arts Lotteries Account, which is then distributed by DCuA through recurrent funding agreements as a contribution towards the delivery of annual programs of activity.

In 2015, DCuA introduced the Organisations Investment Program, a new model for providing recurrent funding for arts and cultural organisations in WA. However, this program is not available to governmental organisations, which precludes any annual grant being allocated to JPACF.

9.1.4 Federal Department of Communication and the Arts

The Australian Department of Communications and the Arts ("DCoA") is a department of the Government of Australia charged with responsibility for communications policy and programs and cultural affairs.

In November 2015, DCoA commenced a new arts funding program, Catalyst – Australian Arts and Culture Fund ("Catalyst"). This program complements funding arrangements by the Australia Council, Creative Partnerships Australia and other programs.

Catalyst gives priority to small or medium organisations, but also supports some gallery, library, archive, museum, arts education and infrastructure projects.

This funding is highly competitive and it is unlikely that JPACF will be successful in attaining recurrent funding through catalyst given it prioritises smaller organisations.

9.1.5 Creative Partnerships Australia

Creative Partnerships Australia ("CPA") was established following the merger of Australia Business Arts Foundation and Artsupport in 2013. It invests in the professional and business development of the arts sector by working with business and philanthropists to facilitate arts partnerships and investment. Additionally, it runs matched funding programs for artists and arts organisations. CPA is funded by the Australian Government through DCoA.

CPA administers the Australian Cultural Fund, a collective giving platform for Australian artists founded in 2003 that encourages and facilitates tax-deductible donations to the arts. This platform is targeted towards artists and would not seem to be suitable for the JPACF.

Another option is Plus1, a program for not-for-profit arts and cultural organisations to develop and undertake a dollar-for-dollar matched fundraising campaign. This program does not provide yearly recurrent funding and as such would be unsuitable for JPACF's requirements.

9.1.6 Direct Corporate Sponsorship

A potential option for funding JPACF's ongoing requirements are a commercial sponsor, either a company or private donor.

While there are numerous examples of corporate sponsorship of the arts more broadly, this most often involves sponsoring a specialist arts organisation or project (e.g. national/regional tour). There is limited precedent for a private entity to directly sponsor a performing arts facility. As such, it is considered that there is little possibility of the JPACF being successful in sourcing direct corporate sponsorship.

9.1.7 Summary

Overall, it is unlikely for JPACF to be able to source annual grants or sponsorship over the long term, with the possible exception of Lotterywest contribution towards the capital expenditure.

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