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City of Joondalup

Financial Evaluation and Review

Final Briefing Note

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1 INTRODUCTION

1.1 Background

The City of Joondalup (the City) will be presenting the Business Case for the proposed Joondalup Performing Arts and Cultural Facility (JPACF) to Council in October 2016. This represents a critical milestone in progressing towards financial investment decision and in order to equip decision-makers with sufficient information a robust financial evaluation of the project is required.

The City identified the need for a critical review of assumptions used the existing *Financial and Options Evaluation Assessment* (City of Joondalup, 2016) for community spaces, gallery/exhibition spaces and conference/event spaces.

This briefing note includes a review of assumptions on the utilisation, fees and operating expenses associated with:

- Conference/Function Rooms (x2)
- Drawing & Painting Studios (x2)
- Craft Studio
- Dance Studios (x2)
- Practice Rooms (x4)
- Music Studio
- Rehearsal Rooms (x2)
- Gallery
- Foyer/Exhibition space

1.2 Primary and Secondary Research

The preparation of this review involved primary and secondary data collection from range of benchmark facilities including:

- Joondalup Resort - Joondalup
- Moores Building Contemporary Art Space - Fremantle
- Mandurah Performing Art Centre (MPAC) – Mandurah
- Alcoa Gallery - Mandurah
- PS Art Space (PSA) – Fremantle
- Salamanca Arts Centre – Tasmania
- Joondalup Art Gallery - Joondalup
- Linton & Kay Galleries – Perth
- All Joondalup community facilities
- Bunbury Regional Art Centre – Bunbury

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- Albany Entertainment Centre
 - Fremantle Recording Studio
 - Perth Convention Bureau

1.3 Assumption Spreadsheet

This briefing note should be read with the accompanying Assumption Spreadsheet (Appendix 1).

2 ASSUMPTIONS OVERVIEW

2.1 Area Schedule

The following area schedule underlies pricing and usage assumptions in the JPACF operation model.

Table 1: Area Schedule

Area	Number	Approximate Size (m ²)	Operating assumptions	Other Assumptions
Conference and Function Rooms	2	250 m ² and 300 m ²	Hired out for corporate functions/events and general community use.	-
Drawing & Painting Studios and Craft Studio	3	190 m ² each	Hired out under a residency arrangement to community or commercial users. Hirers charged a monthly rate. Hire periods of 6 months to 1 year.	As per the Schematic Design, the 378m ² Drawing and Painting studio can be separated into two rooms. It has been assumed that this separation will be in place for everyday use.
Dance Studios	2	190 m ² each	Hired out to community and commercial users under existing City of Joondalup facility hire model.	As per the Schematic Design, the 378m ² Dance studio can be separated into two rooms. It has been assumed that this separation will be in place for everyday use.
Music Studio	1	90m ²	Hired out to community and commercial users under existing City of Joondalup facility hire model.	-
Practice Rooms	4	25 m ² each	Hired out to community and commercial users under existing City of Joondalup facility hire model.	As per information provided by CoJ, total floors space across practice rooms is approx. 100m ² .
Rehearsal Rooms	2	200 m ² each	Hired out to community and commercial users under existing City of Joondalup facility hire model.	Total area not defined in Schematic Design, however drawings indicate that the two rooms are equal in size to the gallery (400 m ²)
Art Gallery	1	400 m ²	See Section 3 for more detail on the art gallery and the foyer/exhibition spaces.	
Foyer/Exhibition Area	1	2,000 m ²		

Source: City of Joondalup 2016, Pracsys 2016

2.2 Costing Assumptions

This review considers costs specifically related to the operation/hire out of the following spaces, outside of the overarching management, maintenance and operational costs of running the facility on a day to day basis:

- Conference/Function Rooms (x2)
- Drawing & Painting Studios (x2)
- Craft Studio
- Dance Studios (x2)
- Practice Rooms (x4)
- Music Studio
- Rehearsal Rooms (x2)
- Gallery
- Foyer/Exhibition space

Through consultation with a range of multi-use performing arts and cultural facilities, the costs associated with managing community use spaces within facilities should be considered within the broader management model for the facility itself. Centres/facilities consulted are typically staffed from 9am to 5pm, seven days a week. Staffing numbers that range from one full-time staff member to nine full-time staff members depending on the size of the facility. These staff are responsible for the day to day management and supervision of the facility, including primary, secondary and community use spaces.

Specific operation/hire costs for the gallery/exhibition space, the music studio and the conference/function rooms have been included in this review. These include:

- The preferred management model for the gallery/exhibition space would see a full time curator engaged
- The preferred management model for music studio would see a full time sound technician engaged
- The preferred pricing model for events held at conference/function venues would be based on a per head cost including catering

3 ART GALLERY MANAGEMENT MODEL

Direct consultation informed usage, pricing, cost and management assumptions for the gallery space. These include:

- Moores Building Contemporary Art Space - Fremantle
- Alcoa Gallery - Mandurah
- PS Art Space (PSA) – Fremantle
- Salamanca Arts Centre – Tasmania
- Joondalup Art Gallery - Joondalup
- Linton & Kay Galleries – Perth

The following management options were identified:

- Option 1: Community-driven Gallery
- Option 2: 'A' Class Gallery
- Option 3: Commercial Gallery

3.1 Option 1: Community-driven Gallery

JPACF could engage a local arts organisation to manage the art gallery for the City of Joondalup. While this option would likely reduce operational costs it may limit revenue generation opportunities. Importantly, it would reduce curatorial control over the content in the gallery; a high risk factor according to consultation.

3.2 Option 2: 'A' Class Gallery

Engaging an experienced curator was the most common management model among the facilities that were consulted. This is generally the preferred option as an experienced curator maintains the standard of exhibitions, with an opportunity for the gallery to operate as an 'A' Class gallery capable of showcasing touring exhibitions. Although this option is likely to increase costs for the City it could potentially provide a steady revenue stream through higher fees charged to exhibit in the space.

3.3 Option 3: Commercial Gallery

Engaging a commercial manager/ art dealer to manage the space would maintain a high standard of content exhibited. This option presents the opportunity for higher returns through commissions earned on sales but potentially increases the commercial risk bore by the City.

3.4 Multi-Criteria Analysis

A multi-criteria analysis was used to assess the management options. Options were scored against criteria of cost, control over content, quality of content (5 meaning the option scores well), for each criteria.

Table 2: MCA – Gallery Management Model

Criteria	Community-driven Gallery	A Class Gallery	Commercial Gallery
Cost	4	3	4
Control	2	4	2
Quality of content	3	5	5
Revenue	3	4	5
Risk	4	5	3
Flexibility	3	5	4
Total	19	26	23

Source: Pracsys 2016

The MCA found Option 2: A Class Gallery to be the preferred management option and this management arrangement has informed price, usage and cost assumptions for the gallery/exhibition space.

3.5 Recommended Option and Assumptions

Under Option 2, the gallery curator would invite artists to make submissions for exhibitions. These submissions would be reviewed by the curator and successful applicants would work with the curator to ensure the exhibition meets the standard of art expected at the gallery.

Most local metropolitan art galleries consulted as part of this review are booked for the next 12 to 18 months, indicating a high level of demand for art space across the Metropolitan area.

A combination of primary consultation and secondary research were used to develop the following assumptions for the gallery/exhibition space. Bolded text represents the assumption that should be included in the financial model.

Table 3: Gallery Space - Assumptions

	Low	High	Recommended
Hire rate	\$150/week	\$2,000/week	\$1,000/week
Hire rate source	CASM Gallery (Mandurah)	Moore's Contemporary Art Gallery (Fremantle) – Includes multiple spaces, 350 m ² in total.	\$1,000/week has been used as a conservative estimate, towards the high option given similarity to PS Art Space (Fremantle). PS Art Space charges \$2,000/2 weeks and supports changeover arrangements. PS Art Space host one exhibit at a time likely model for JPACF – and host high quality, A Class exhibits.

	Low	High	Recommended
Utilisation (weeks per year, assuming 50 weeks available in total per year)	34 weeks of gallery time 16 weeks of change over time (2-week exhibition, 1 week change over)	43 weeks of gallery time 7 weeks of change over time (6-week exhibition, 1 week change over).	37 weeks of gallery time, 13 weeks of change over (3-week exhibition, 1 week change over) Note: 32 weeks of <u>chargeable</u> gallery time given the assumption for 5 weeks of gallery time dedicated to the community and invitation art exhibitions as proposed under the program model.
Utilisation Source	PS Art Space (Fremantle)	ALCOA Gallery (within Mandurah Performing Art Centre)	Conservative middle-range estimate.
Commission	No Commission	15% on all sales	No Commission
Commission Source	PS Art Space (Fremantle)	CASM Gallery (Mandurah)	Conservative, there is an option for JPACF to obtain a commission on sales.
Staffing Costs	1 curator full time	1 curator part time, 1 other staff part time	1 Curator at \$75,000 per annum.
Cost Source	Moore's Contemporary Art Gallery (Fremantle)	PS Art Space (Fremantle)	Pascale.com. (Low = \$38,000 p.a., High = \$81,000 p.a.) Towards the high option given assuming the City engages senior curator.

Source: Pracsys 2016

3.6 Exhibition/Foyer Space

The foyer space will be available for exhibitions. Given the preferred option to operate the gallery as an 'A' Class Gallery the foyer space can be used to showcase local, community-based art.

The above assumptions regarding utilisation and staffing for the gallery also apply to the foyer space, with potential for **37 weeks of gallery time per annum**. The existing program accounts for 12 weeks of exhibition time dedicated to showcasing work from local schools, leaving 25 weeks available for other community-based exhibits.

The curator would manage the exhibitions within the foyer space. No additional labour costs for this responsibility are included in the review. Foyer hire prices have been adjusted to \$150 per week to meet the needs of local community art organisations.

There are a variety of opportunities that exist for the foyer space. The Mandurah Performing Arts Centre foyer is hired to a range of community users in need of a large open space and is used regularly for activities such as acrobatics classes as well as special events such as monthly art sales.

4 UPDATED ASSUMPTIONS

The following table outlines the event assumption recommendations for the JPACF financial model. For detail behind these assumptions as well as price and cost assumptions see the attached Assumptions Workbook.

It is assumed that the building will be open for 50 weeks of the year.

Table 4: Number of Hires - Assumptions

Space	Total Capacity p.a. (all rooms)	Utilisation	Total Events
Conference/Function Room (x2)	610	0.35%	304
Practice Room (x4)	4,200	25%	1,050
Craft Studio, and Painting and Art Studios (x2)	6 uses per year (based on 6 month residency arrangements)	80%	5
Dance Studios (x2)/Rehearsal Rooms (x2)	4,200	20%	840
Music Studio	1,050	50%	525
Art Gallery	12 (3 week exhibitions)	100%	12
Foyer/Exhibition Space	12 (3 week exhibitions)	100%	12
Art Gallery and Foyer/Exhibition Functions	n/a	n/a	30

Source: Pracsys 2016

Total general hires under the improved assumptions is 2,629, across all spaces considered within the scope of this review. This does not include the daily use of the gallery and foyer/exhibition areas. The *2014 Financial Evaluation* assumed 1,425 hiring events including a combination of gallery and function room events. The financial implications of the improved assumptions are detailed in Table 5.

Table 5: Recommended Assumptions – Financial Implications

Revenue (\$/p.a.)	
Music Studio	99,000
Practice Rooms (x4)	37,000
Dance Studios (x2)/ Rehearsal Rooms (x2)	150,000
Corporate/Function Rooms General Hire (x2)	62,500
Gallery hire	32,000
Foyer hire	5,000
Craft Studio, and Painting and Art Studios (x2)	42,000
Corporate Functions Revenue	292,500
Gallery Functions Revenue	97,500
Total Profit	817,500
Costs (\$/p.a.)	
Corporate Functions Costs	(243,000)
Gallery Functions Cost	(37,500)
Curator	(75,000)
Sound Engineer	(70,000)
Total Costs	(425,500)
Gross Position	392,000

Source: Pracsys 2016

The adoption of the recommended improved assumptions results in an operating surplus of approximately \$390,000 per annum for the community spaces, gallery/exhibition spaces and conference/event spaces.

A range of high, medium, low and recommended assumptions is provided in the attached Assumptions Workbook.

The Gross Position does not take into account the maintenance, administrative overheads, utilities or the indirect facility management labour costs. It is assumed that these staff will oversee the community spaces, gallery/exhibition spaces and conference/event spaces on a daily basis.