

This is a 'mark-up' version of the JPACF Business Case (Part 2 - Appendix 4) showing amendments made since the Major Projects Committee meeting held on 28 November 2016. Additions are highlighted green, deletions are highlighted in red.



Joondalup Performing Arts and Cultural Facility



FINANCIAL AND SCENARIOS EVALUATION

UPDATED JANUARY 2017

CONTENTS

1.	Introduction and Background	5
1.1	Purpose of Paper	5
1.2	Out of Scope	5
1.3	Whole of Life Approach	5
1.4	20 Year Strategic Financial Plan	5
1.5	Disclaimer	6
1.6	Data shown either in \$, in Thousands (\$k) or in Millions (\$m)	6
1.7	Values initially shown in 2016 dollars	6
1.8	Previous Version of This Paper	6
2	Research & SUPPORTING INFORMATION	7
2.1	Research 2012 to 2016	7
2.2	Industry Consultation – General Manager of Other Performing Arts Centre	7
2.3	Industry Consultation – Department of Culture and Arts	8
2.4	Industry Consultation – APACA (Australian Performing Arts Centre Association) ...	8
2.5	Schematic Design 2016	8
2.6	External Review of Operating Assumptions 2016	8
3	SCENARIOS, Assumptions and Research	9
3.1	Scenarios Evaluated	9
3.2	Assumptions	9
	ESTABLISHMENT PHASE	11
	11
4.1	Capital Costs EXCLUDING escalation	11
4.2	Schematic Design Costings & Value Engineering	11
4.3	Jinan Gardens & Planning Costs	12
4.4	Contingency	12
4.5	Exclusions	12
4.6	Phasing	13
4.7	Sunk Costs \$1.9m	13
4.8	Capital Costs INCLUDING escalation	13
5	Funding	14
5.1	Funding Estimates	14
5.2	Grants (NSRF) – National Stronger Regions Fund	14
5.3	City Reserves	15
5.4	Borrowings from West Australian Treasury Corporation (WATC)	16
5.5	Future Tamala Park Proceeds vs. Loan Repayments	16
5.6	Interest Costs and Alternative Financing Arrangements	17
5.7	Impact if \$10m Grant not Received	17

OPERATING ANALYSIS	18
6 Key Features & Definitions.....	18
6.1 Definitions.....	18
6.2 Year 5 (2023-24) is assumed to be Steady State.....	19
7 Primary & Secondary Spaces	20
7.1 Assumptions for Primary and Secondary Spaces.....	20
7.2 Program Model	20
7.3 Usage per Year.....	20
7.4 Attendees per Year.....	21
7.5 Pricing per Event/Hire	22
7.6 Annual Income Projections	23
7.7 Cost of Sales Assumptions	23
7.8 Annual Costs of Sales Projections	25
7.9 Annual Surplus/(Deficit) for Primary/Secondary Spaces	26
8 Conferences, Events, Gallery & Studios	27
8.1 Assumptions for Conferences, Events, Gallery and Studio	27
8.2 Area Schedule	27
8.3 Utilisation Assumptions.....	28
8.4 Financial Projections.....	29
9 Staff Costs	30
9.1 Previous Business Case	30
9.2 Revised Assumptions	30
10 Building Maintenance & Utilities	32
10.1 Repair, Maintenance, Cleaning & Security.....	32
10.2 Utilities.....	32
11 Parking	35
11.1 Parking Review.....	35
11.2 Parking Income.....	35
11.3 Parking Cost of Sales	36
11.4 Parking Surplus Summary	37
12 Other Income & Expense Assumptions.....	38
12.1 Food & Beverage / Restaurant Lease	38
12.2 Marketing and Admin.....	38
12.3 Sponsorship.....	38
12.4 Ticket Income	39
13 Operating Analysis – summary	40
13.1 Operating Income Summary	40

13.2	Operating Expenses Summary	40
13.3	Operating Subsidy Summary	41
13.4	Management Model / How Would the Subsidy Be Paid?.....	41
13.5	Comparison to Other Facilities	42
13.6	Operating Surplus Ratio.....	42
14	Operating Analysis – Years 0 to 4.....	44
14.1	Start Up Expenses (2018-19).....	44
14.2	Year 1 to 4 Utilisation.....	44
14.3	Building Maintenance.....	44
14.4	Subsidy Years 0 to Year 4	45
	TOTAL IMPACTS	46
15	Capital Renewal.....	46
15.1	Basis of Assumptions.....	46
15.2	Components	46
15.3	Renewal Life	46
15.4	Renewal Projections	47
15.5	Sinking Fund not Recommended	47
15.6	Depreciation Factors.....	47
16	Total Cash Flows to 2058-59	48
16.1	Total Cash flows 2014-15 to 2058-59	48
16.2	Cumulative Cash Flows	51
16.3	Costs per Rateable Property.....	51
16.4	Comparison of Cashflows to Previous Business Case	52
	SCENARIO EVALUATION.....	54
17	Scenario Evaluation	54
17.1	Value for Money Concepts.....	54
17.2	Value for Money Examples in the Design.....	54
17.3	Cost per Seat Comparison to Other Facilities	55
17.5	Non-Financial Evaluation	56
	SUMMARY	57
18	Impacts For City of Joondalup.....	57
18.1	Financial Summary of Scenario 3	57
18.2	Budgeting for the JPACF	57
18.3	Guiding Principles / Key Ratios.....	58
19	Risks, Opportunities and Sensitivity Analysis	59
19.1	Risk & Opportunities - Overview	59
19.2	How the Project Costs have changed over time and the Confidence of the Estimates	60

19.3	Establishment Costs - Capital Costs and Funding - Risk & Opportunities	61
19.4	Potential Opportunity – Cap the Establishment Costs at \$97.6m	64
19.5	Operating Analysis - Risk & Opportunities	64
19.6	Sensitivity Analysis	67
19.7	Further Reviews of the Financial Projections	67
19.8	Reviews undertaken of the Financial Modelling	67
APPENDICES.....		69
Appendix 1 – Construction costs summary.....		69
Appendix 2 – escalation assumptions applied		70
Appendix 3 – Tamala Park Proceeds (Post Construction) vs. Loan Repayments		71

INTRODUCTION

1. INTRODUCTION AND BACKGROUND

1.1 Purpose of Paper

This plan is prepared in support of the Business Case (September 2016) for the Joondalup Performing Arts and Culture Facility (JPACF). This report will include a detailed evaluation of the financial implications of the JPACF and an evaluation of Scenarios. The contents include:

- Establishment costs;
- Operating Analysis;
- Scenario Evaluation;
- Value for Money; and
- Summary, including risks and sensitivity.

1.2 Out of Scope

The following are out of scope:

- Project Justification – included in business case;
- Procurement Plan;
- Risk Management Plan;
- Project Management Plan; and
- Asset Management Plan.
- Economic and Social benefits. These are assessed separately in the business case.

1.3 Whole of Life Approach

The City applies a whole-of-life approach to all projects, and prides itself on applying a wide number of tools to ensure it is financially sustainable both now and in the future. The ongoing operational impacts are assessed as much as the one-off costs. This ensures that the overall costs of a project over the long-term are evaluated and budgeted.

The funding for the Facility has been subject to constant review, with several supporting projects in place to set aside funding.

1.4 20 Year Strategic Financial Plan

The key tool to ensure that all of the financial impacts of the JPACF are identified and financially sustainable is the City's *20 Year Strategic Financial Plan which is updated* on an annual basis. The plan was last adopted by Council in June 2016 (*Adopted 20 Year Strategic Financial Plan*), and included all whole of life implications (Establishment costs, funding, interest expense, operating subsidy, depreciation and capital renewals) of the JPACF. The *Adopted 20 Year Strategic Financial Plan* is based on the Concept Design costings from the December 2015 Business Case.

The SFP also includes assumptions for funding of the JPACF, including contribution from reserves. This is only a guide, the SFP is a planning tool and the City is not bound by the assumptions.

1.5 Disclaimer

This report does not contend that the financial projections will come to pass exactly as stated, but are merely a guide in support of the business case. The projections are best estimates at this point in time, but there is a level of risk and uncertainty in all of the projections. The actual costs and income will vary, due to the following:

- Detailed Design and Specification;
- Tender;
- Program Model;
- Management Model;
- Demand / Catchment / Changes in taste / participation in cultural activities; and
- Economic Factors.

The financial projections will be reviewed annually, or at times deemed necessary by the project.

It should also be emphasised that the assumptions included in this document (e.g. the discount that may be provided to community groups) are not binding in any way, and are merely assumptions used for the purposes of financial evaluation.

Due to the size of the proposal, the Risks/Sensitivity of the assumption should be considered as much as the financial projections.

1.6 Data shown either in \$, in Thousands (\$k) or in Millions (\$m)

There is a wide range of financial data referred to in this document. Data will either be shown in Dollars (\$), thousands ('\$k') or where necessary in millions (\$m), depending on the size of the values being referred to.

1.7 Values initially shown in 2016 dollars

The report will initially review all of the assumptions in today's dollars as this is easier to review. All values will then be escalated to take account of inflation so that the overall costs over a 40-year period can be assessed.

1.8 Previous Version of This Paper

This report was initially prepared in 2015 and was used to support the December 2015 Business Case presented to Council. The costings were based on CONCEPT DESIGN. This version of the report is now based on SCHEMATIC DESIGN. The projections from the December 2015 Business Case are included for comparison in all tables and commentary has been added to explain whether the assumptions differ.

2 RESEARCH & SUPPORTING INFORMATION

2.1 Research 2012 to 2016

The City has commissioned a variety of work during the past few years that forms the basis of the financial evaluation:

- 2012 Feasibility Study - The 2012 Feasibility Study included an initial evaluation of the project costs and operating impacts, and continues to be used as a reference point for the operating assumptions.
- 2013 Architectural Design Competition - The 2013 competition, as described in more detail with the business case, provided the basis of the capital costs used in the December 2015 Business Case.
- 2014 Financial Review - The City used internal resources to complete an internal review of the financial projections, this mostly focused on the operating results.
- 2015 Design Review – Consideration of alternative scenarios e.g. 1000 seat capacity in the Primary Theatre instead of 850 seats
- 2016 Schematic Design
- 2016 External review of operating assumptions. Three separate consultants have been engaged to assist with the review of the operating assumptions. The reviews will be explained in more detail later in this section.

2.2 Industry Consultation – General Manager of Other Performing Arts Centre

A General Manager of another WA Performing Arts Centre has been consulted on a regular basis during the past two years. The other centre is not an ideal benchmark for the JPACF because it is further away from Perth, the catchment is smaller and the demographics are very different but there are many aspects which are still useful to review, particularly as it is in WA. It has been useful to draw upon the live experience of the General Manager. Some of the key issues arising from the discussions are:

- Programming (i.e. the arrangement of events) has to be long-term i.e. 1 to 2 years before events are held.
- JPACF could tie into the WA 'circuit' with other centres such as Albany, Bunbury, Geraldton and Mandurah.
- Utilisation Maximum (i.e. number of days that the primary and secondary theatre) could be expected to be used per year is 200 days, but that would take a lot of effort and may be sub optimal (more events doesn't necessarily mean more attendees and could result in a higher loss than having the spaces used for less).
- Average Occupancy per performance may be approximately 50%, although will vary significantly depending on the type of performance.
- Commercial Hires are good earners; the Cost of Sales is approx. 25% of Income.
- Ticketing is best to be controlled by the facility themselves, do not recommend the use of a third party.
- Marketing is crucial to the operation and programming and should be driven by the facility itself.
- Staffing for shows is flexible, volunteers are also used.

2.3 Industry Consultation – Department of Culture and Arts

Discussions were held with the Department review the operating model. There was limited specific financial data available from the DCA, but it was useful for the following:

- Programming and Audience Development is the most important issue for an Arts Centre.
- Agreed that it will take some years to build up to 'steady state'. For the first couple of years, the facility has to make concerted efforts to develop the demand, and it may even be useful (and better financially in the long run) for the City to allow a resident company to use the facility for a couple of years for free hire, particularly a company who are up and coming and who can both develop their own brand and the JPACF at the same time.
- Average Occupancy of 50% level is a reasonable assumption.
- Capacity of the Primary Theatre at 850 seats was raised as an issue and consideration should be given to higher capacity. This has been evaluated and the results summarised in this report.
- APACA (Australian Performing Arts Centre Association) - vital source of information for planning an Arts Facility, and the City should join APACA to allow continued access to this data.

2.4 Industry Consultation – APACA (Australian Performing Arts Centre Association)

APACA prepare bi-annual reports based on information from Arts Centres around the country. Reports have been used throughout the review, and will be referenced throughout the report. Care has to be taken in using the APACA data as there is so much of it, and some of it may be irrelevant e.g. much smaller facilities.

The previous version of the Business Case relied upon the 2013 APACA reports. The City recently obtained the 2015 APACA reports and updated assumptions where relevant to do so.

2.5 Schematic Design 2016

The Schematic Design for the project has now been completed. This now includes updated establishment costs and changes to specifications which impact on operational estimates. The revised costings form the basis of the revised Scenarios.

2.6 External Review of Operating Assumptions 2016

Three consultants have been engaged during the past couple of months to assist with specific elements of the review of the business case:

- Pracsys – have provided detailed utilisation and pricing assumptions for the Non-Theatre spaces in the JPACF. The non-theatre spaces are the Conferences, Foyer, Gallery, Dance Studios, Music Studios and Community studios. Their findings have been used as the basis of updated income and cost assumptions for these areas.
- Ex General Manager of Perth Theatre Trust – review the assumptions for the Primary & Secondary theatres, and the staffing model. Their views have been taken on board and incorporated into the updated financials.
- Paxon Consulting – were engaged to review Utilities, Building Maintenance, Capital Replacement and also the non-Theatre Spaces. Their findings have been taken on board where possible to do so, although there are some elements that the City has opted not to use – these will be explained later on.

3 SCENARIOS, ASSUMPTIONS AND RESEARCH

3.1 Scenarios Evaluated

There are four sets of financial projections shown in this report:

- Business Case December 2015, based on Concept Design is shown for comparison.
- Three Scenarios which are all based on Schematic Design:
 - Scenario 1 – Worse Case. This includes some of the worse-case estimates for staff costs, utilities and repair/maintenance as provided by Consultants.
 - Scenario 2 – Idealistic. The other end of the range of possibilities with best-case estimates for staff costs, utilities and repair/maintenance.
 - Scenario 3 – Realistic. Amended set of assumptions, which are mostly halfway between Scenario 1 and Scenario 2

Where a table displays all four sets of projections, a green box has been placed around Scenario 3 to clearly indicate this as the recommended Scenario for inclusion in the Business Case.

3.2 Assumptions

The table below lists some of the general assumptions within the financial model:

	Assumption	Value	Comments
1	Ready for Service	July 2019	<ul style="list-style-type: none"> ○ The analysis assumes that the facility is ready by July 2019. ○ This assumes that construction commences by 2017 and is completed over 2 years, 2017-18 and 2018-19 ○ These timescales are the same as used in the previous Business Case (December 2015) ○ These timescales are highly unlikely taking account of the further steps that would be required before construction could commence (e.g. Detailed Design, Tender, and Contract Award). ○ Whilst these timescales are highly unlikely they have been retained to facilitate clear comparison to the December 2015 Business Case. ○ The project will need to develop a detailed program, including tender/procurement plan, as part of the next phase and once this is done the scheduling and financial estimates can be revised.
2	Financial Evaluation Period	45 Years	<ul style="list-style-type: none"> ○ The analysis evaluates the cash flows over a 45-year period, from 2014-15 to 2058-59. ○ 2014-15 and 2015-16 are past (Sunk Costs), but for the purposes of comparing clearly to the previous business case the costs for 2014-15 and 2015-16 are included in the overall evaluation ○ The evaluation includes 40 years of operation from 2019-20 to 2058-59 ○ The long timeframe is necessary to ensure that the long-term implications are fully considered, and also ensures that capital renewal expenditure can be included in the evaluation
3	Escalation– Assumptions	Same as Previous	<ul style="list-style-type: none"> ○ For purposes of clear comparison to the previous business case, the escalation assumptions for all items have

		Business Case	<p>remained the same as the December 2015 Business Case. A minor change in escalation assumptions can cause a large change in a 40-year evaluation and would distort the comparison to the December 2015 Business Case.</p> <p>A copy of the escalation rates in the financial projections is included in Appendix 2 of this paper. All cash flows use CPI for escalation except where otherwise stated.</p>
4	Borrowing Terms	15 Year Repayment Loans	<p>The costs of borrowing have reduced since the December 2015 previous business case, and WATC (West Australia Treasury Corporation) have recently provided updated forecasts. The assumptions used are:</p> <ul style="list-style-type: none"> o 2017-18 borrowings at a Fixed Rate of 3.61% (previously 4.25%), repaid over a 15-year basis o 2018-19 borrowings at a Fixed Rate of 4.01% (previously 4.75%), repaid over a 15-year basis <p>Additionally, there is a cost of 0.7% per year on the outstanding principal for the Govt Guarantee.</p> <p>The City has begun a detailed evaluation of alternative forms of financing, including variable rate loans and interest only loans. The findings are subject to a separate report that is attached. The findings are subject to external validation. Until the review is complete the JPACF business case will continue to assume the traditional method of financing, which is a Fixed Rate Fixed Term (15 years).</p>

ESTABLISHMENT PHASE

4 PROJECT COSTS

4.1 Capital Costs EXCLUDING escalation

The tables below summarise the total one-off costs to establish the facility and compare to the previous estimate. The Capital cost is same for Scenarios 1, 2 and 3 because the differences in those Scenarios relate to operational costs, not capital costs.

The Schematic Design costs are now estimated to be approx. \$2.1m (2.1%) more than the Concept Design estimate. The estimate includes contingency costs of \$5.3m, it is standard practice and prudent for the City to have contingency at this stage in the project because there are likely to be other changes that could arise through the other stages (Detailed Design, Tender).

Capital & Other One-Off Costs Excluding escalation	Concept Design Business Case (Dec 2015)	Scenario1	Scenario2	Scenario3
		Schematic Design		
		Worse	Idealistic	Realistic
1 Project Costs, excluding Contingencies	\$000s	(\$91,031)	(\$94,478)	(\$94,478)
2 Design & Construct Contingency	\$000s	(\$6,600)	(\$5,260)	(\$5,260)
Total Capital & Other One-Off Costs	\$000s	(\$97,631)	(\$99,738)	(\$99,738)

4.2 Schematic Design Costings & Value Engineering

The Capital Costs for each Scenario is based on data from ARM. ARM has used a range of sub-contractors (QS, Theatre Specialists) to prepare their estimates. ARM has intimated that Schematic Design costings can often result in costs being 5% to 7% higher than Concept Design and the first version of the Schematic Design costings were 12% higher. The initial increase of 12% arose for a number of reasons:

- Greater consideration given to finishes e.g. more toilets than just the basic number included in Australian Standards.
- Design improvements (e.g. walkways and foyer improvement as presented to Major Project Committee in April 2016)
- Some rates used at Concept Design were understated

ARM initiated an independent QS review of the costings, which confirmed that the level of rigour applied in the costings and the source of data was robust. Whilst the increased costs of 12% were legitimate it was acknowledged that the overall increase was too high and detailed reviews (value-engineering) were undertaken to reduce the costs. This culminated in a reduction to the final result of \$99.7m which is a 2% increase versus Concept Design. There are numerous changes which ARM have separately provided and out with the scope of this report but it should be emphasised that the key features of the facility remain intact i.e. the Primary Theatre is still 850 seats.

In summary the costings of the Schematic Design are now based on more up-to-date information and it can be expected that there would be differences to the Concept Design. Whilst the \$2.1m increase is far from ideal there has been a great deal of rigour applied to the latest costings and design.

4.3 Jinan Gardens & Planning Costs

The ARM Project Costs above now include all costs for the City, including Jinan Gardens and City Project Costs. The same assumptions as used in the previous Business Case:

- Jinan Gardens: Estimated cost for this is \$2.1m. This is based on indicative costs provided by QS, provided in 2013 and then escalated to 2016 dollars. The QS evaluation in 2013 is deemed sufficient at this point in time.
- Planning and Other Project Cost \$1.1m: Costs incurred within the City to manage the project and develop the business case. Additionally, the costs include an estimate of project management costs required to oversee the facility. These costs will be subject to further evaluation when the detailed implementation program is prepared

4.4 Contingency

The Contingency assumptions are based on standard practice for projects of this nature, with 2.5% Construction Contingency and 4% Design Contingency. It is possible that the contingency is not fully required and the overall establishment costs are less than estimated. The contingencies are helpful to mitigate issues that may still arise or are only known after Detailed Design is completed. It may be worth considering a reduction of the contingency and capping the overall costs at \$97,631 – this will be explored in more detail in the Risks/Opportunities section.

Now that Schematic Design has been completed though, there is a lot more certainty on the VOLUME assumptions included in the costings than were included in the Concept Design. However there continues to be uncertainty with the RATE PER SQUARE METRE assumptions, because they will be uncertain until Detailed Design is complete and the project goes to tender.

The key issue that must be emphasised is that the Capital Costs above are still only ESTIMATES; the final cost would be either lower or higher than the sums stated. The Risk analysis towards the end of this report will provide more commentary on the sensitivity of the forecasts and probabilities.

4.5 Exclusions

During project planning it is standard practice for there to be exclusions in the costings due to the lack of information or because it is too early to evaluate. As the plans become more detailed though, the exclusions should eventually dissipate. At the point of the Concept Design there were exclusions for Traffic Treatment and External works which have now been included into the costings.

At this point in the process there are still some exclusions which would only be considered as part of detailed design, however these are minimal. There are three additional costs which could enhance the facility at a total cost of \$1.63m, these are:

- Electronic Enhancement system \$1.0m
- PV Cells \$0.45m
- Gallery Climate control \$0.18m

These items can be considered at a later point in time including a review of the operational impacts (e.g. reduced electricity costs with PV cells). Paxon carried out an evaluation of PV cells and there was not a compelling financial case to use them, but taking account of the improvements in battery technology and benefits to environment it is likely that PV cells will be included in future costings.

4.6 Phasing

The estimated timing of capital expenditure for Scenarios 1/2/3 is summarised in the table below. This indicates that the majority (54%) of the expenditure may arise in 2017-18, which would relate to the bulk of the construction costs. As mentioned earlier the phasing is deemed unrealistic but is retained for comparison to the previous business case.

Phasing of Project Costs	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Scheduling	-\$0.2	-\$1.7	-\$11.3	-\$53.6	-\$32.9	-\$99.7
% of Total	0%	2%	11%	54%	33%	100%

\$11.3m has been included in the Adopted Budget 2016-17. This assumed that some of the construction would commence in 2016-17, which is no longer expected to be the case. The scheduling of the project will be subject to further review.

4.7 Sunk Costs \$1.9m

The Schedule above of the \$99.7m includes \$1.9m costs for 2014-15 and 2015-16 which are classed as Sunk Costs. There is no decision to make with the \$1.9m costs, they are sunk. The future project cost where a decision needs to be made is the remaining \$97.8m (2016-17 to 2018-19).

4.8 Capital Costs INCLUDING escalation

The final capital costs that will have to spent will be higher due to escalation from 2016. The table below summarises the Capital Costs for each Scenario excluding escalation and including escalation.

Capital Costs Excluding and Including Escalation	\$000s	Concept Design Business Case (Dec 2015)	Scenario01 Worse Case	Scenario02 Idealistic	Scenario03 Realistic
		Excluding Escalation	(\$97,631)	(\$99,738)	(\$99,738)
Including Escalation	(\$102,992)	(\$105,268)	(\$105,268)	(\$105,268)	

5 FUNDING

5.1 Funding Estimates

The City proposes to fund the project using three sources: City Reserves, Grants from National Stronger Regions Fund and the remainder from borrowings. Each of these three sources will be explained further in the next sections. The table below summarises the estimated funding sources for each Scenario. The funding for Scenarios 1 to 3 is assumed to be the same, as the differences between these scenarios are the operational assumptions. Grants and Reserves is the same for each Scenario, with borrowings being the final source of funding.

The table shows that the contribution from reserves is approx. \$7.7m less than the previous assumption due to reduced Tamala Park proceeds. The borrowings have increased by \$10m since December 2015 business case due to the reduced Tamala Proceeds and the increased capital costs of \$2.3m.

Funding Sources (including escalation)		Concept Design Business Case (Dec 2015)	Scenario1 Worse Case	Scenario2 Idealistic	Scenario3 Realistic
1 Grants	\$000s	\$10,000	\$10,000	\$10,000	\$10,000
2 City Reserves	\$000s	\$45,220	\$37,498	\$37,498	\$37,498
3 Borrowings	\$000s	\$47,772	\$57,769	\$57,769	\$57,769
Total Funding	\$000s	\$102,992	\$105,268	\$105,268	\$105,268

5.2 Grants (NSRF) – National Stronger Regions Fund

The National Stronger Regions Fund was set up by the Commonwealth in 2014 with \$1 billion to assist with projects that can demonstrate improvement against specific criteria. The criteria are not subject to comment in this report; a separate response to the criteria is available. For the purposes of the financial evaluation it is assumed that the application for \$10m is successful. It is recognised that there is a high risk of the City being unsuccessful with the \$10m application and this is subject to further review in the Risk Analysis.

The business case previously had an assumption of \$10m from National Stronger Regions Fund, but the City has been unsuccessful in the applications. The JPACF continues to assume a \$10m grant from an external source at this stage unspecified.

5.3 City Reserves

The table below summarises how City reserve funds are proposed to be used for the JPACF. At present there is \$22m within reserves that may be used, with a further \$15.5m forecast to be available in the next 3 years which would provide a total of \$37.5m from City Reserves towards the project. A further \$46.7m is forecast to be available after construction, providing an overall total of \$84.2m from City Reserves towards construction costs or repayment of borrowings.

Reserves Proposed for use in JPACF \$000s	Pre-Construction			Post Construction	Total
	Balance at June 2016	2016-17 to 2018-19	Total Available		
1 JPACF Reserve	\$12,258	\$8,917	\$21,175		\$21,175
2 Tamala Park Land Sales Reserve	\$9,765	\$4,558	\$14,323	\$46,681	\$61,004
3 Strategic Asset Management Reserve #1		\$2,000	\$2,000		\$2,000
Total Funding	\$22,023	\$15,475	\$37,498	\$46,681	\$84,179

Strategic Asset Management Reserve has a balance of \$22m at June 2016. This is not shown in the table above because only \$2m of it is set aside for the JPACF

Each of the reserve funds are explained further below:

The City has been planning for the JPACF for a number of years, and has implemented programs to partially fund the project, including:

- JPACF Reserve** Asset rationalisation strategy: Created in 2000-01 to assist with the design and development of a regional performing arts facility in the Joondalup City Centre. The reserve is mostly funded from proceeds of surplus land/property. evaluated with Scenarios considered for sale or alternative use. Where the assets are sold, the proceeds are set aside into the JPACF reserve, which can then be used by the project. This reserve was used to fund \$1.9m project costs for 2014-15 and 2015-16. There is currently (June 2016) \$11.8m in the JPACF reserve, which is intended to be used to fund the \$11.3m costs in 2016-17. The reserve is expected to provide a further \$8.0m funding in 2017-18. In total the JPACF reserve is estimated to contribute \$21.2m to the project costs.
- Tamala Park Land Sales Reserve** Proceeds: The City owns 1/6 of land in the north of the region, together with other Councils. The land is being developed, subdivided and sold, with the net proceeds allocated to each of the Councils. The reserve was created in 2013-14 to hold the City's share of the dividends received from the proceeds of the sales of Tamala Park land to be held and subsequently applied for investing in income producing facilities, to build significant one-off community facilities and to assist with the cash flow requirements of development significant infrastructure assets aligned to the 20 Year SFP. The City has assumed within the *Adopted 20 Year Strategic Financial Plan* that the Tamala Park proceeds (both pre-construction and post-construction) will be used for the JPACF, however the 20 Year SFP is a planning tool and the City is not necessarily held to all assumptions in the SFP. The reserve currently (June 2016) has \$8.9m. It is projected that there will be further proceeds of \$5.4m in the next couple of years, allowing this reserve to contribute \$14.3m in total towards the construction costs in 2017-18 and 2018-19. After the JPACF is constructed there will continue to be proceeds from Tamala Park, a further \$46m is expected to be available from the Tamala Park Reserve to contribute towards the repayment of the borrowings.
- Strategic Asset Management Reserve.** The reserve is intended to fund the acquisition and development of new and renewal of existing City infrastructure and building assets. \$2m has been identified within the 20 Year SFP as being available for the JPACF and therefore reducing the amount to be borrowed.

The values for Tamala Park proceeds described above are based on the most recent forecast from TPRC (Tamala Park Regional Council), as at June 2016. The previous Business Case, and also the Adopted SFP (June 2016) were based on forecasts from 2015. The 2016 Forecasts are a lot more pessimistic, with approx. \$7.7m less in the next few years to contribute to the construction. The reduced proceeds of \$7.7m are not caught up in later years either. As a result of the reduced proceeds from Tamala Park the estimated borrowings have increased.

5.4 Borrowings from West Australian Treasury Corporation (WATC)

The WATC is the state body in WA to assist Local Government and other State bodies with funding. The City can borrow from 3rd parties; however, the terms offered by the WATC have tended to be much better than other parties.

- Loan 1 2017-18 – 15-year repayment term, Fixed Rate of 3.61%
- Loan 2 2018-19 – 15-year repayment term, Fixed Rate of 4.01%

The interest costs at present are very low in comparison to previous years. It is expected that the low costs of borrowing will continue for a couple of years.

In addition to the standard terms above, the WATC also levy an additional cost of borrowings, known as the ‘Government Guarantee’. This is calculated as 0.7% of the average balance outstanding and has been included in the financial evaluation.

The table below summarises the total cost of borrowings for each Scenario. Line 2, ‘Interest’, includes interest expense on the borrowings and also the government guarantee.

Lines 3 and 4 indicate how the borrowings will be repaid by the City. Line 3 shows the projected Tamala Park proceeds (post-construction) of \$46.7m that can assist with the \$80.4m repayments – as these proceeds are directly attributable to the JPACF project they have been included in the project cashflows. Line 4 is the remaining \$33.7m which is a cost of the project and is therefore funded by general municipal funds.

Borrowings Costs		Concept Design	Scenario1	Scenario2	Scenario3
		Business Case (Dec 2015)	Worse Case	Idealistic	Realistic
1 Borrowings	\$000s	(\$47,772)	(\$57,770)	(\$57,770)	(\$57,770)
2 Interest	\$000s	(\$21,743)	(\$22,597)	(\$22,597)	(\$22,597)
Total Cost of Borrowings	\$000s	(\$69,515)	(\$80,367)	(\$80,367)	(\$80,367)
<u>Repayment of Borrowings</u>					
3 Future Tamala Park Reserve	\$000s	\$46,524	\$46,681	\$46,681	\$46,681
4 Shortfall funded by General Municipal Funds	\$000s	\$22,991	\$33,686	\$33,686	\$33,686

5.5 Future Tamala Park Proceeds vs. Loan Repayments

In overall terms the \$46.7m of Future Tamala Park Proceeds covers approximately 9 years’ worth of the 15 year repayments of the \$80.4m borrowings. A schedule (Appendix 3) has been prepared to compare the annual proceeds from Tamala Park versus the Repayment profile. The schedule was prepared to consider whether there is a reduction in the cost of interest that could be calculated and attributed to the JPACF business case. The schedule shows that the Tamala Park Proceeds do not cover the costs of the loan repayments and

therefore there is no benefit (reduction in interest costs) that can be calculated for the project.

5.6 Interest Costs and Alternative Financing Arrangements

The Interest Cost shown above of \$22.6m is based on the traditional method of financing, with an assumption of 15 Year Fixed Term Fixed Interest. The City is currently reviewing other alternatives to the financing of all borrowings which may result in a different outcome. The alternative method considers a move towards a more flexible strategy where there is an approach in matching the term and repayment profiles of the debt facilities to the underlying forecast cashflows of the City, thereby reducing total interest costs. This approach was reviewed by Deloitte (Nov 2016) and confirmed that this could be a worthwhile approach but the risks would need to be carefully managed. If the new approach is implemented then it could reduce the interest costs of (\$22.6m), but this could only be achieved using the overall City cashflows and would not be a benefit attributable to the JPACF business case itself.

Appendix 12 of the Business Case is the Alternative Financing Strategy. Note that the costs of borrowing used in Appendix 12 have lower borrowing rates than the rates of 3.61% and 4.01% used above. This is because Appendix 12 was completed at a later point in time than the JPACF business case and after feedback from WATC a new set of interest rate projections were provided for Appendix 12.

~~— A separate report is provided and is still subject to independent review. In the meantime it is prudent to continue to assume a Fixed Interest Fixed 15 year term as indicated above.~~

5.7 Repayment of Borrowings

~~As indicated earlier the City will use future proceeds from sale of land at Tamala Park to repay the borrowings. It is estimated that there will be a further \$46.5m proceeds from sale of land at Tamala Park after the JPACF is built. This would leave a shortfall of \$33.8m which would have to be funded municipal funds (unless there were other external sources which become available). Lines 3 and 4 of the table above summarise the repayment of the borrowings.~~

5.7 Impact if \$10m Grant not Received

The table below summarises the impacts if the City is unsuccessful in securing a \$10m grant's application to the National Stronger Regions Fund and increased borrowings. This shows that total repayments would be over \$94m.

Borrowings Costs if \$10m grant Unsuccessful		Scenario 1,2 & 3	\$10m Grant not Received	Difference
1 Borrowings	\$000s	(\$57,770)	(\$67,770)	(\$10,000)
2 Interest	\$000s	(\$22,597)	(\$26,509)	(\$3,912)
Total Cost of Borrowings	\$000s	(\$80,367)	(\$94,278)	(\$13,912)
Repayment of Borrowings				
3 Future Tamala Park Reserve	\$000s	\$46,681	\$46,681	
4 Shortfall funded by General Municipal Funds	\$000s	\$33,686	\$47,597	\$13,912

OPERATING ANALYSIS

6 KEY FEATURES & DEFINITIONS

6.1 Definitions

The table below summaries some of the definitions that are relevant for the Operating analysis:

	Item	Definition
1	Program Model	<p>The Program Model for the JPACF is the term used to describe all of the different activities that are run in all of the different spaces throughout the facility. The Program Model comprises of:</p> <ul style="list-style-type: none"> ○ Events set up and run by the JPACF themselves; ○ Hire of a space (Primary Theatre, Secondary, Conference, etc.) by a Commercial hirer ○ Hires by Community groups, charged at a lower rate than commercial ○ Hires by City of Joondalup
2	Subsidy	<ul style="list-style-type: none"> ○ The 'subsidy' is the difference between operating cash expenses compared to the income that the JPACF earns. ○ Interest expense associated with the costs of borrowings is excluded from the subsidy analysis because the interest costs are for 15 years whilst the subsidy is a longer term commitment (40 years). The interest expense is included in the overall whole of life evaluation.
3	Presented Event	<ul style="list-style-type: none"> ○ This term relates to those performances that are organised by Arts Centres at their own risk. ○ Arts Centres would take direct receipt (and risk) of the proceeds from ticket sales and would have responsibility for all the direct costs of the event (e.g. performance fee to the artists).
4	Hire	<ul style="list-style-type: none"> ○ The hire of the various spaces to promoters, community groups or to the City itself. The hires could be professional touring companies, local community groups or indeed the overall owner (i.e. Local Government). ○ The hirer has responsibility for organising the performance/event, and the collection (risk) of ticket proceeds. ○ A one-off fee is paid by the Hirer to the JPACF for the use of the space. This fee would reserve the space for a period of time to allow an event to be staged. ○ The fee would include the utility costs and use of the equipment. ○ The JPACF may provide support staff for the event (e.g. ushers), which would have to be separately paid by the hirer.
5	Performances	<ul style="list-style-type: none"> ○ General term relates to either a "Presented Event" or a "Hire"
6	Primary Space	<ul style="list-style-type: none"> ○ Main theatre ○ 850 Seat Capacity.
7	Secondary Space	<ul style="list-style-type: none"> ○ Proposal is for 200 Seats ○ Also referred to as the 'Black Box' which is an industry term intended to describe the flexibility of the space
8	Utilisation	<ul style="list-style-type: none"> ○ Number of days that a space is used per year. ○ The Utilisation % is calculated by comparing the number of days that the facility is used to the number of AVAILABLE days per year ○ The available days may be approximately 330 days per year as it would exclude the days that the spaces are unavailable due to holidays or maintenance.
9	Occupancy	<ul style="list-style-type: none"> ○ Number of Seats used per performance when compared to capacity. ○ For example, if there were <ul style="list-style-type: none"> - 425 attendees at the 850-capacity theatre, then the occupancy are 50%. - 650 attendees would be 76% of 850 seat capacity.
10	Cost of Sales	<ul style="list-style-type: none"> ○ Costs that can be directly associated with income raising activities

		<ul style="list-style-type: none"> Includes Operational Staff whose time can be directly associated with specific activities, whereas the costs/activities of Administration/Management staff cannot be directly associated with specific income raising events.
11	Full Time Equivalent	<ul style="list-style-type: none"> This term is used to equate jobs into a full time basis. For example, if there were two part-time positions that spent 19 hours per week each, these two positions would equate to one full-time equivalent
12	Depreciation	<ul style="list-style-type: none"> The Financial Model used to evaluate a project will initially only consider the CASH implications. Depreciation is a non-cash expense and is therefore excluded from the cash flow model. Although Depreciation is not included in the project cash flows, the cash implications of capital renewals are included. Depreciation is an important consideration as it forms part of several key ratios, most notably the Operating Surplus Ratio – this is explored in more detail later in the report.
13	Operating Grants	<ul style="list-style-type: none"> It is not assumed at this stage that there are any operating grants from State/Federal to help reduce the cost of the annual subsidy to City of Joondalup ratepayers. This was subject to research by Paxon.

6.2 Year 5 (2023-24) is assumed to be Steady State

Based on discussions with industry, it is assumed that it will take a number of years to build up the program into a steady state. The financial assumptions for Operating Income and Expenses therefore assume that from Years 1 (2019-20) to Year 5 (2023-24) the use of the facility will steadily increase, and that Year 5 becomes the 'steady state'. From Years 6 (2024-25) to Year 40 (2058-59) it is assumed that the operating income and expenses are the same as Year 5. Year 5 of the Operating Income and Expenses is therefore analysed in detail within the Operating Analysis as it is used for Year 5 to Year 40.

The only exception to this principle is the Parking Income which is assumed to be lower in Years 5 to 14 and then increases from Year 15 onwards.

7 PRIMARY & SECONDARY SPACES

7.1 Assumptions for Primary and Secondary Spaces

The Primary and Secondary spaces are the main parts of the facility. It is therefore important to evaluate the usage, income and costs separately. There are some changes to the assumptions based on review of 2015 APACA data and review by ex-General Manager of Perth Theatre Trust.

7.2 Program Model

A potential program model was initially prepared as part of the 2012 Feasibility Study, and has since been reviewed with reference to APACA data and consultation with other facilities. The table below provides an outline of the potential program model assumed for the Primary Theatre and Secondary Theatre by Year 5 (2023-24). This indicates that Primary Theatre may be used for 186 days per year, and the Secondary Theatre used for 163 days a year.

Potential Program Model - Year 5	Primary	Secondary	Total	% of Total
Comedy	12	10	22	6%
Theatre	38	39	77	22%
Dance & Ballet	24	11	35	10%
Music	39	23	62	18%
Festivals	16	15	31	9%
Schools	16	11	27	8%
Film	6	19	25	7%
Joondalup Eisteddfod	12	11	23	7%
Special Events	23	24	47	13%
Total	186	163	349	87%

The assumptions above are assumed to be the same for all Scenarios.

The utilisation of 186 days and 163 days is comparable with data from APACA. Utilisation of 186 days per year is a reasonable use of the space when consideration is given to weekends and use of the space during the week. For example, if the spaces were used for the vast majority of Friday and Saturday evenings, as this would be the days that most patrons prefer to go out, this could account for over half (e.g. 100 days) usage per year, with the other 86 days used on other days of the week. The usage of 86 days would equate approximately to an average 2 days per week that the Theatre is used on a Sunday, Monday, Tuesday, Wednesday or Thursday.

7.3 Usage per Year

The events held would either be presented/organised fully by the JPACF themselves, or the events would relate to the hire of a space to either a Commercial body, Community or to the City of Joondalup. The table below summarises the assumptions included in the financial evaluation. It is assumed that 42 events in the Primary Theatre would be organised fully by the JPACF themselves ('presented' events) and the other 144 events would involve hiring the space to Commercial bodies or to Community/City.

The total events for the revised Scenarios are now lower than the previous business case as a result of the changes in the APACA data.

Usage Assumptions (Year 5 onwards)		Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
			Schematic Design		
			Worse Case	Idealistic	Realistic
<u>Primary Theatre</u>					
Presented		43	42	42	42
Commercial Hires	<i>Events & Hires Per Year</i>	77	77	77	77
Community & City		68	67	67	67
Total		188	186	186	186
<u>Secondary</u>					
Presented		21	19	19	19
Commercial Hires	<i>Events & Hires Per Year</i>	54	51	51	51
Community & City		100	93	93	93
Total		175	163	163	163
Utilisation (as % of 330 days)					
Primary		57%	56%	56%	56%
Secondary		53%	49%	49%	49%

7.4 Attendees per Year

It is assumed that the spaces would be 50% occupied on average for all Scenarios. The occupancy % would vary depending on the type/popularity of performance; some events may have 100% occupancy but others less than 50%. An average occupancy of 50% is comparable with data from APACA. The 50% occupancy would mean on average 425 attendees at the 850 capacity primary theatre.

The table below summarises the annual estimated attendees per year at the Primary and Secondary theatres based on the 50% occupancy assumption and based on the number of events per year. It is estimated that there would be annual attendees of 95,350 per year for Scenario 1, 2 and 3 which is slightly less than the previous business case estimate due to the lower assumption for events.

Capacity, Occupancy & Attendees (Year 5 onwards)		Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
			Schematic Design		
			Worse Case	Idealistic	Realistic
Capacity:					
Primary		850	850	850	850
Secondary		200	200	200	200
Occupancy % (Average per Event/Hire)		50%	50%	50%	50%
Attendees Per Year					
Primary		79,900	79,050	79,050	79,050
Secondary		17,500	16,300	16,300	16,300
Total		97,400	95,350	95,350	95,350

7.5 Pricing per Event/Hire

The table below summarises the pricing assumptions for the theatres. The assumptions for pricing and hires were initially based on the 2012 Feasibility Study, refreshed by the City in 2014 and have now been updated in 2016 with more recent assumptions.

- **Presented Events:** The pricing for presented events is based on price per ticket, where the tickets are sold directly by the JPACF to the general public. The prices are average prices per event and would vary according to the popularity of the event, or the costs of booking performers.
- **Commercial Hire:** The price of hiring comprises of a base hire costs (e.g. \$2,890 for Primary Theatre for Scenario 1, 2 and, 3), and then charges for the staff costs. The details of the staff costs are explained further on.
- **Community Hire:** It is now assumed that there should be a 30% discount provided to Community hires - This is based on industry standards but is now a lower discount than the previous business case. Note that the discount only relates to the Hire of the venue and not the staffing costs.
- **COJ Hire:** Fees are based on same assumptions as Community Hire.

Income Assumptions (Year 5 onwards)		Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
			Schematic Design		
			Worse Case	Idealistic	Realistic
<u>Presented Events</u>					
Price per Ticket	Primary	\$40	\$45	\$45	\$45
	Secondary	\$23	\$23	\$23	\$23
<u>Hire of Space: Commercial</u>					
Primary	Base Price	\$2,700	\$2,890	\$2,890	\$2,890
	Staff Costs	\$1,156	\$1,260	\$1,260	\$1,260
	Total	\$3,856	\$4,150	\$4,150	\$4,150
Secondary	Base Price	\$990	\$990	\$990	\$990
	Staff Costs	\$544	\$620	\$620	\$620
	Total	\$1,534	\$1,610	\$1,610	\$1,610
<u>Discount to Community / City</u>					
Discount to Community / City	Primary	35%	30%	30%	30%
	Secondary	35%	30%	30%	30%

The reality of the actual pricing model would be more detailed than the assumptions above as there would be issues such as group pricing, concessions, etc. For the purposes of this financial evaluation and the Business Case the above assumptions are deemed satisfactory at this stage in the project.

7.6 Annual Income Projections

The income estimates in the table below are based on the usage assumptions in the table above multiplied with the pricing assumptions. For example, the Income estimate for Presented Events at the Primary Theatre of \$803,250 has been calculated as follows:

- 42 Presented Events at the Primary Theatre (Section 7.3) multiplied with;
- 425 Attendees per event (this is based on 50% Occupancy of the 850 Capacity (Section 7.4) multiplied with;
- \$45 Price per Ticket (Section 7.5)

The calculations for the Hire Income are also based on the tables above. For example, the Income estimate for Commercial Hires of the Primary Theatre of \$319,550 is based on

- 77 commercial hires (Section 7.3) multiplied with
- \$4,150 Income per Hire (Section 7.5)

All Scenarios have the same income projections.

Income Projections (Year 5 onwards)	Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
		Schematic Design		
		Worse Case	Idealistic	Realistic
<u>Primary Theatre</u>				
Presented	\$731,000	\$803,250	\$803,250	\$803,250
Commercial Hires	\$296,912	\$319,550	\$319,550	\$319,550
Community & City	\$190,332	\$205,489	\$205,489	\$205,489
Total	\$1,218,244	\$1,328,289	\$1,328,289	\$1,328,289
<u>Secondary</u>				
Presented	\$48,300	\$43,700	\$43,700	\$43,700
Commercial Hires	\$82,836	\$82,110	\$82,110	\$82,110
Community & City	\$107,550	\$104,625	\$104,625	\$104,625
Total	\$238,686	\$230,435	\$230,435	\$230,435

7.7 Cost of Sales Assumptions

The table below provides the details of the cost of sales assumptions for each Scenario. The assumptions for Cost of Sales were initially based on the 2012 Feasibility Study, refreshed by the City in 2014 and have now been updated in 2016 with more recent assumptions. Key issues to note:

- Presented Events - the costing for presented events has previously been assumed to be 110% i.e. for each \$1 of income there would \$1.10 of costs. This assumption is retained for Scenario 1. Scenario 2 though considers the impacts of limiting the Program Budget to equal the income and therefore a 100% is applied in the Idealistic Scenario. Scenario 3 assumes 105% so that it is a bit more prudent than Scenario 2.
- Hires – assumptions are prepared for the number of staff, number of hours and pay rates per hour required. A further table is provided underneath to illustrate how the staff cost estimates are prepared.

- Margins – a new item that has been added, based on APACA data and ex-General Manager of Perth Theatre Trust, is the profit margin for staff cost. An allocation for overheads is applied to the charge-out rate for the staff rates used to assists with events; the previous assumption (based on the 2012 Feasibility Study) simply assumed that the income related to the costs.

Cost of Sales Assumptions (Year 5 onwards)		Concept Design	Scenario 1	Scenario 2	Scenario 3
		Business Case (Dec 2015)	Schematic Design		
			Worse Case	Idealistic	Realistic
<u>Presented Events</u>					
Cost of Sales as	Primary	110%	110%	100%	105%
% of Income	Secondary	110%	110%	100%	105%
<u>Primary Theatre:</u>					
Commercial Hires	Staff	8	8	8	8
	Hours	32	32	32	32
	Income	\$1,156	\$1,260	\$1,260	\$1,260
	% Margin		20%	20%	20%
Community & City	Staff	7	7	7	7
	Hours	28	28	28	28
	Income	\$1,044	\$1,044	\$1,044	\$1,044
	% Margin		20%	20%	20%
<u>Secondary Theatre</u>					
Commercial Hires	Staff	4	4	4	4
	Hours	16	16	16	16
	Income	\$544	\$620	\$620	\$620
	% Margin		20%	20%	20%
Community & City	Staff	3	3	3	3
	Hours	12	12	12	12
	Income	\$432	\$432	\$432	\$432
	% Margin		20%	20%	20%

Commercial Hire Staff Costs	Cost per Hour	Staff	Hours	Cost
Primary Theatre				
1 Head Technician	\$45	1	4	\$180
2 Duty Technician	\$45	1	4	\$180
3 General Operators	\$35	1	4	\$140
4 Front of House Man	\$45	1	4	\$180
5 House Assistant	\$40	1	4	\$160
6 Ushers	\$35	3	12	\$420
Total Operational Staff		8	32	\$1,260

Commercial Hire Staff Costs Secondary Theatre	Cost per Hour	Staff	Hours	Cost
2 Duty Technician	\$45	1	4	\$180
5 House Assistant	\$40	1	4	\$160
6 Ushers	\$35	2	8	\$280
Total Operational Staff		8	32	\$620

7.8 Annual Costs of Sales Projections

The Cost of Sales estimates are summarised in the table below. These are based on the usage and assumptions above. The calculations are explained with some examples relating to the previous business case as follows:

- Presented Events at Primary Theatre of \$804,100 are based on 110% (Section 7.7) of the Income Estimate of \$731,000 (Table 7.6)
- Commercial Hires Cost of Sales at Primary Theatre of \$89,012 are based on 77 Commercial Hires (Section 7.3) x \$1,260 Staff Costs less 20% margin (Section 7.7)

The Scenarios vary between each other due to the Cost of Sales assumption with Presented Events.

Cost of Sales Projections (Year 5 onwards)	Concept Design	Scenario 1	Scenario 2	Scenario 3
	Business Case (Dec 2015)	Schematic Design		
		Worse Case	Idealistic	Realistic
<u>Primary Theatre</u>				
Presented	\$804,100	\$883,575	\$803,250	\$843,413
Commercial Hires	\$89,012	\$77,616	\$77,616	\$77,616
<u>Community & City</u> <i>\$ per year</i>	\$70,992	\$55,958	\$55,958	\$55,958
Total	\$964,104	\$1,017,149	\$936,824	\$976,987
<u>Secondary</u>				
Presented	\$53,130	\$48,070	\$43,700	\$45,885
Commercial Hires	\$29,376	\$25,296	\$25,296	\$25,296
<u>Community & City</u> <i>\$ per year</i>	\$43,200	\$32,141	\$32,141	\$32,141
Total	\$125,706	\$105,507	\$101,137	\$103,322
Primary & Secondary Cost of Sales	\$1,089,810	\$1,122,656	\$1,037,961	\$1,080,309

7.9 Annual Surplus/(Deficit) for Primary/Secondary Spaces

The table below summarises the surplus/(Deficit) assumed for each space, type of event and Scenario per year. This table is based on the Income estimates (Section 7.6) above less the Cost of Sales (Section 7.8).

Surplus / (Deficit) Primary & Secondary spaces - Year 5 onwards	Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
		Schematic Design		
		Worse Case	Idealistic	Realistic
<u>Primary Theatre</u>				
Presented	(\$73,100)	(\$80,325)	\$0	(\$40,163)
Commercial Hires	\$207,900	\$241,934	\$241,934	\$241,934
Community & City	\$119,340	\$149,531	\$149,531	\$149,531
Total	\$254,140	\$311,140	\$391,465	\$351,302
<u>Secondary</u>				
Presented	(\$4,830)	(\$4,370)	\$0	(\$2,185)
Commercial Hires	\$53,460	\$56,814	\$56,814	\$56,814
Community & City	\$64,350	\$72,484	\$72,484	\$72,484
Total	\$112,980	\$124,928	\$129,298	\$127,113
Total	\$367,120	\$436,068	\$520,763	\$478,415

8 CONFERENCES, EVENTS, GALLERY & STUDIOS

8.1 Assumptions for Conferences, Events, Gallery and Studio

All of the assumptions in this section are extracted from the separate Pracsys Consultancy report (Financial Evaluation and Review September 2016) (Appendix 11 refers). This report included a detailed review of the potential utilisation and pricing based on the Schematic Design. These assumptions now replace the previous assumptions from the 2012 Feasibility Study which were regarded as weak as they did not have a robust audit trail for utilisation.

The design of the facility has considered in great detail the unique nature of these other spaces and how they may be individually used with flexibility a key consideration. For example, the Community Arts Hub at the North East which is spread over 3 floors has its own access point – this may be useful to allow access just to that area without having the whole facility open. Conferences/Exhibitions can be held at 6 different locations in the facility with numerous layouts e.g. banquet, lecture.

8.2 Area Schedule

The table below summarises the 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		

8.3 Utilisation Assumptions

The table below summarises the utilisation 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

8.4 Financial Projections

The table below summarises the financial projections which are now built in to all 3 Scenarios. The income projection is almost 3 times as much as the previous business case. The net surplus of \$392,000 is \$175,000 higher than the previous surplus \$217,000.

The income per year of \$817,500 is approximately the same amount of income that the City currently receives for hire of its facilities for ALL BUILDINGS in the City. Paxon also reviewed these areas and were more pessimistic in their views compared to Pracsys, for example the JPACF's ability to hold conferences may be restricted somewhat in that it cannot offer overnight accommodation.

Further details can be reviewed in the separate Pracsys report.

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 Revenue	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

9 STAFF COSTS

9.1 Previous Business Case

The governance and management model have not yet been determined. However, for the purposes of preparing initial financial projections, assumptions had been made regarding the positions required. It had previously been estimated that 20 FTE in total would be required to manage, operate and clean the facility on a permanent basis. The assumptions have been made with reference to the *2012 Feasibility Study*, the APACA Benchmark Data 2013 and Other Consultation with Industry. The 20 FTE comprise of:

- 8 Operational Staff (Head Technician, Front of House Manager, 2 Duty Technicians, 1 House Assistant, 2 Ushers and 1 General Operative);
- 9 Management & Administration Staff; and
- 3 Cleaners.

The average FTE (Full Time Equivalent) used by Performing Arts Centres in Australia (that generate income of between \$2m and \$5m) is 19 FTEs (2013 APACA report). Therefore, the estimated 20 FTE for the JPACF appeared reasonable by comparison.

From the review in 2014, several changes were made to the analysis with some salary details updated in line with the APACA averages. Additionally, one more Administration officer has been added which is for a Finance Officer in the JPACF (approximately half of all Arts Centres have at least one dedicated Finance Officer rather than having Finance services supported by the Local Government/State).

9.2 Revised Assumptions

The table below summarises the Indirect Staff Costs assumptions for Scenarios. The assumptions in the previous business case have been used as the starting point for each Scenario with the following differences/changes:

- Salary Costs have been updated for all Scenarios with reference to the APACA 2015 data
- Scenario 1 includes an additional FTE for a Facilities Manager. This is recommended by the ex-General Manager of Perth Theatre Trust, taking account of the size of the facility and the many different rooms in the facility. Scenario 2 though takes this back out as does Scenario 3. Whilst the recommendation is acknowledged this should be subject to further consideration when the management model is being finalised.
- Scenario 2 removes the Finance Officer so that the impacts can be assessed. There is no easy answer with regards the inclusion of a Finance Officer in the staffing model. On one hand an on-site Finance Officer would improve the autonomy of the facility and assist the control and ability to develop programming. However, the other potential is for Finance services to be provided by the City using existing staff. Scenario 3 has included the Finance Officer.

Joondalup Performing Arts and Cultural Facility – Financial and Scenarios Evaluation

Staff Costs (not included within Cost of Sales)	FTEs				Salary Costs per Annum				Load ing	Total Costs incl Loading			
	Dec 2015 Bus Case	(1) Worse Case	(2) Ideal	(3) Realistic	Dec 2015 Bus Case	(1) Worse Case	(2) Ideal	(3) Realistic		Dec 2015 Bus Case	(1) Worse Case	(2) Ideal	(3) Realistic
1 General Manager	1	1	1	1	\$100,000	\$108,130	\$108,130	\$108,130	23%	\$123,000	\$133,000	\$133,000	\$133,000
2 Technical Manager	1	1	1	1	\$70,000	\$80,000	\$80,000	\$80,000	23%	\$86,100	\$98,400	\$98,400	\$98,400
3 Program Manager	1	1	1	1	\$80,927	\$100,927	\$100,927	\$100,927	23%	\$99,540	\$124,140	\$124,140	\$124,140
4 Marketing Co-ordinator	1	1	1	1	\$70,000	\$80,000	\$80,000	\$80,000	23%	\$86,100	\$98,400	\$98,400	\$98,400
5 Operations Manager	1	1	1	1	\$80,927	\$80,927	\$80,927	\$80,927	23%	\$99,540	\$99,540	\$99,540	\$99,540
6 Facility Manager		1				\$80,927	\$80,927	\$80,927	23%		\$99,540		
6 Administration Officer	2	2	1	2	\$56,865	\$60,000	\$60,000	\$60,000	23%	\$139,888	\$147,600	\$73,800	\$147,600
7 Box Office Co-ordinator	1	1	1	1	\$56,865	\$61,865	\$61,865	\$61,865	23%	\$69,944	\$76,094	\$76,094	\$76,094
8 Customer Service Co-ordinator	1	1	1	1	\$56,865	\$60,000	\$60,000	\$60,000	23%	\$69,944	\$73,800	\$73,800	\$73,800
Total Management & Admin Costs	9.0	10	8	9						\$774,056	\$950,515	\$777,174	\$850,974
Unallocated Direct Staff	1	0.5	0.5	0.5						\$109,716	\$49,716	\$49,716	\$49,716
Staff Costs Total	10	10	8	9						\$883,772	\$1,000,231	\$826,890	\$900,690

The positions and salaries listed are in no way intended to be the final profile, and are only the assumptions used for the purposes of the financials at this stage. The staffing profile, and indeed the overall governance/management model will be reviewed at a later stage.

10 BUILDING MAINTENANCE & UTILITIES

10.1 Repair, Maintenance, Cleaning & Security

The table below compares the annual Expenses projections for each Scenario at Year 5. The analysis is initially based on the *2012 Feasibility Study*, and has since been subject to internal review within the City. Paxon Consultancy has provided estimates, which have been used for Scenario 1. The City believes that the assumptions are still on the high side and therefore Scenarios 2 and 3 consider lower values. Once detailed design has been completed, a detailed estimate can be prepared for each space, which would consider the equipment in each space, the planned maintenance jobs and the estimated reactive maintenance. It is too early in the project to prepare 'bottom-up' estimates for each space. These estimates are an area for improvement, but building up a detailed estimate of jobs and costs.

Repair, Maintenance, Cleaning, Security	Concept Design Business Case (Dec 2015)	Scenario 1	Scenario 2	Scenario 3
		Schematic Design		
		Worse Case	Idealistic	Realistic
A) Insurance	\$50,000	\$100,000	\$100,000	\$100,000
Cleaning, Security, Rubbish				
Cleaning	\$18.00	\$16.00	\$16.00	\$16.00
Security	\$1.50	\$1.50	\$1.50	\$1.50
Rubbish	\$1.00	\$1.00	\$1.00	\$1.00
Cost per m2 per Year	\$20.50	\$18.50	\$18.50	\$18.50
m2	11,000	13,000	13,000	13,000
B) Cleaning, Security, Rubbish - Cost per Year	\$225,500	\$240,500	\$240,500	\$240,500
Repair & Maintenance				
Capital Costs, excl Prof Fees & Contingencies	\$74,198,094	\$76,500,000	\$76,500,000	\$76,500,000
% Allowance per Year for R&M	0.4%	0.5%	0.3%	0.4%
C) Annual Budget for Repair & Maintenance	\$292,700	\$400,000	\$250,000	\$335,000
D) Total Repair, Maintenance, Cleaning, Security	\$568,200	\$740,500	\$590,500	\$675,500

10.2 Utilities

The table below compares the annual utility costs for each Scenario. The Energy estimates are based the Paxon report but the other Scenarios consider lower figures.

Utilities	<u>Concept Design</u>	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
	Business Case (Dec 2015)	<u>Schematic Design</u>		
		Worse Case	Idealistic	Realistic
<u>Energy</u>				
Kilowats per Hour / sqm p.a.	39.59	78.19	43.20	66.93
Tariff per Kilowat	\$0.303104	\$0.303104	\$0.303104	\$0.303104
Cost per m2	\$12.00	\$23.70	\$13.09	\$20.29
<u>m2</u>	<u>11,000</u>	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>
A) Energy Annual Cost	\$132,000	\$308,096	\$170,230	\$263,730
B) Water Charges #1	\$13,200	\$29,605	\$29,770	\$29,770
C) Utilities Total	\$145,200	\$337,701	\$200,000	\$293,500

#1 Includes Water Rates & Service Charges

There is a wide disparity between Scenario 1, 2 and 3 and it is worthy of further comment:

- All estimates, including the Paxon estimate, are still high level based on the overall facility. It would be useful at some stage for the projection to be built up space by space, this analysis could consider the power consumption when the space is used and not used and then cash up accordingly. This analysis should be completed as part of the next review of the financials.
- The low estimate of \$200,000 is still higher than the estimate in the 2012 Feasibility Study of \$167,000.
- Mandurah Performing Arts Centre incurs expenditure of approximately \$120,000 per year, but that is not an ideal comparison as it is smaller and older.
- There are no other comparable buildings in the City but it is worth listing the top 5 Buildings for Utility Costs for 2015/16, see below. This demonstrates that Utility costs for buildings can be over \$200,000 and potentially gives support to the estimate in Scenario 1 for the JPACF of \$337,701. the JPACF would have the most up-to-date technology (e.g. LED lighting in most areas) whereas the buildings below would not have the same features as the JPACF.

Utility Costs 2015/16 #1 Top 5	M2	Utility Costs per Year	
		Total	Cost per m2
Craigie Leisure Centre	9,834	\$477,269	\$48.53
Joondalup Administration Centre	7,336	\$272,369	\$37.13
Joondalup Civic Chambers	4,858	\$189,798	\$39.07
Joondalup Library	4,855	\$129,739	\$26.73
Works Operations Centre	1,845	\$51,060	\$27.67

#1 Excludes Water Rates

- PV Cells are not yet assumed in the financials. Paxon have completed analysis of this and indicated that the financial case is not compelling. It may be worth adding in the PV cells into the next review of the financials as there are environmental benefits to consider.

The Water Charges of \$29,605 for Scenario 1, 2 and 3 are made with reference to the Paxon report. The estimates from Paxon have not been used in their entirety because the City would be eligible for a discount on Water Rates which needs to be evaluated.

In summary the Utilities projections are an area that would benefit from more detail in future iterations of the financials.

11 PARKING

11.1 Parking Review

An internal review of the assumptions for parking income and expenses has been completed by the City. This involved the following:

- Utilisation trends in the area now, and in the immediate future.
- Utilisation trends in the long-term, with consideration of the expansion of the Education precinct.
- Review with the City Planning Team who are updating the City Centre Structure Plan
- Review of the expenses of the existing Reid Promenade Multi Storey Car Park and consideration of the operating model for the JPACF Car Park.

The outcomes from the review will be covered in this section.

11.2 Parking Income

The Concept Design for the Arts Box Model assumed space for 400 car parking bays but the Schematic Design has now had to reduce this to 374 bays (Above ground). The key assumptions regarding Parking Income and Utilisation are:

- Evening performances: The utilisation of 186 days per year of the Primary Theatre has been used as the basis of the income assumptions for evening. It is then assumed that for those evenings the parking bays would enjoy 85% utilisation. 85% utilisation is deemed to be full capacity.
- Daytime use: It is not anticipated that in the short term there would be high demand during the day for parking. Therefore 40% Utilisation has been assumed for the first 14 years. From Year 15 onwards there is a higher level of optimism and the utilisation is increased to 50%. The parking income is the only assumption in the operating model which has a different assumption after year 5.

The tables below summarise the usage assumptions for each Scenario.

Car Park Usage	<u>Previous Financials</u>		<u>Sept 2016 Bus Case</u>	
	Dec 2015 (Concept Design)	Jul 2016 (Schematic Design)	Year 5 to Year 14	Year 15 to Year 40
Bays Available	400	374	374	374
Utilisation				
Daytime	50%	50%	40%	50%
Evening	85%	85%	85%	85%
Bays Occupied				
Daytime Short-Stay	50	50	30	30
Daytime All Day	150	137	120	157
Evening (during events)	340	318	318	318
Chargeable Days				
Daytime	250	250	250	250
Evening (during events)	188	188	186	186

The table below summarises the income assumptions per bay and the overall income per year. The income per bay assumptions is as follows:

- Charges are shown in today’s dollars
- \$1.20 per hour is based on current charges at some of the City Centre parking
- Short-Stay income of \$4.80 per day is based on 4 hours’ usage which is based on 2 user’s x 2 hours
- Daytime income of \$6.00 per day is based on the same multiple used in current facilities of five hours’ x hourly rate.
- Evening Rate of \$1.80 is based on 1.5 hours’ usage.

The income per year is based on the usage assumptions above multiplied with the income per bay assumptions. For example, the income for Evenings of \$106,433 is calculated as 186 events x 374 bays x 85% occupancy x \$1.80 per bay.

Note that the income currently earned at P8 (Central Park) would be lost when the facility is built and the loss of this income has been included in the model. The income at P8 is very small, average of just \$4,000 for the past 3 years (which also typifies the current low demand for all day parking in the location of the JPACF).

Car Park Income (Year 6 onwards)	Previous Financials		Sept 2016 Bus Case	
	Dec 2015 (Concept Design)	Jul 2016 (Schematic Design)	Year 5 to Year 14	Year 15 to Year 40
Income per Bay per Chargeable Day				
Current Hourly Rate #1	\$1.20	\$1.20	\$1.20	\$1.20
Daytime Short-Stay	\$4.80	\$4.80	\$4.80	\$4.80
Daytime All Day	\$6.00	\$6.00	\$6.00	\$6.00
Evening (during events)	\$1.80	\$1.80	\$1.80	\$1.80
Income per Year				
Daytime Short-Stay	\$60,000	\$60,000	\$36,000	\$36,000
Daytime All Day	\$225,000	\$205,500	\$179,400	\$235,500
Evening (during events)	\$115,056	\$107,577	\$106,433	\$106,433
Total Income #1	\$400,056	\$373,077	\$321,833	\$377,933

#1 Income estimates are based on today’s dollars (2016). The model will take account of expected fee increases from 2016 onwards

11.3 Parking Cost of Sales

An estimated cost of \$127,000 per year for operating the Parking was previously included in the business case. The City now has experience of operating a Multi Storey Car Park which it did not have during the previous business case. The costs of the Reid Promenade Multi Storey are estimated to be over \$300,000 for 2016-17, and therefore much higher than the \$127,000 estimated for the JPACF Multi Storey. Care has to be taken with this comparison because the Reid Promenade Multi Storey is a standalone building with its own building maintenance, utilities, operation whereas the JPACF Multi Storey is part of a larger facility. The estimated expenses have been increased to \$137,000 per year; this is based on the following key assumptions:

- Existing Parking Operations team should be used to assist with the operation of the facility. The control room at the Reid Prom facility can be enhanced to monitor the JPACF facility.

- Casual Parking staff will still be required during evening performances and an allowance of \$60,000 has been included within the annual expenses for that
- The other \$77,000 is various materials and contracts costs.

11.4 Parking Surplus Summary

The table below summaries the key assumptions explained above and shows the overall parking surpluses. This shows that the previous Business Case estimated surpluses of \$273,065 per year. This is now reduced to \$184,842 but only up to Year 14. From Year 15 onwards the utilisation is expected to improve and rise to \$240,942. In reality utilisation would steadily increase rather than one large increase from Year 14 to year 15, but for the purposes of a 40-year long-term model it is reasonable just to build in one step increase.

In summary the key issue with regards Parking, and one that sets JPACF apart from other known facilities, is that the Parking Operation should generate operating surpluses which can help to mitigate the operating subsidy for the rest of the facility.

Summary	<u>Previous JPACF BC</u>	<u>Sept 2016 Bus Case</u>	
	Dec 2015 (Concept Design)	Year 5 to Year 14	Year 15 to Year 40
<u>Key Assumptions</u>			
Number of Bays	400	374	374
Daytime Utilisation	50%	40%	50%
Evening Utilisation	85%	85%	85%
Staff required to operate	1	Casual	Casual
Income			
Daytime	\$285,000	\$215,400	\$271,500
Evening	\$115,056	\$106,433	\$106,433
Income Total	\$400,056	\$321,833	\$377,933
Expenses			
Employment Costs	(\$60,000)	(\$60,000)	(\$60,000)
Materials & Contracts	(\$66,991)	(\$76,991)	(\$76,991)
Utilities			
Expenses Total	(\$126,991)	(\$136,991)	(\$136,991)
Surplus/(Deficit)	\$273,065	\$184,842	\$240,942
Difference to Dec 2015 Bus Case		(\$88,223)	(\$32,123)

12 OTHER INCOME & EXPENSE ASSUMPTIONS

12.1 Food & Beverage / Restaurant Lease

The table below summarises the key assumptions for the Food and Beverage and the Restaurant Lease. The Food and Beverage would be expected to generate an operating surplus with costs being 66% of income. There are no changes to the assumptions for any of the Scenarios compared to the December 2015 Business Case but as these %ages are based on the program revenue, which is different for each Scenario, then the final impact will vary for each Scenario.

Paxon suggested that the restaurant may not be as active and therefore suggested a reduction to \$3,500 Turnover per Square Metre which has been reflected in Scenario 1. The City has a more optimistic view of the activation of the Restaurant area, particularly in the longer term, so Scenario 2 and 3 have different estimates.

Food, Beverage & Restaurant	<u>Concept Design</u>	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>
	Business Case (Dec 2015)	<u>Schematic Design</u>		
		Worse Case	Idealistic	Realistic
<u>Food & Beverage</u>				
Income: % of Program Revenue	8%	8%	8%	8%
Costs of Sales as % of Income	66%	66%	66%	66%
<u>Restuarant Lease</u>				
Square Metres	180	180	180	180
Turnover per square metre	\$5,000	\$3,500	\$5,000	\$4,250
Rent as % of Income	10%	10%	10%	10%
Lease p.a.	\$90,000	\$63,000	\$90,000	\$76,500

12.2 Marketing and Admin

The table below summarise the operating assumptions for Marketing and other Admin expenses, derived from the 2012 Feasibility Study and with consultation with General Manager of other facility. There are no changes to the assumptions since the previous business case.

Although the % assumptions are the same for each Scenario, the impacts will be different because the expenses and revenue are different for each Scenario.

Additional Cost Assumptions	<u>Concept Design</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
	Business Case (Dec	<u>Schematic Design</u>		
		Worse Case	Idealistic	Realistic
Marketing Costs as % of Expenses	8%	8%	8%	8%
Admin as % of Program Revenue	5%	5%	5%	5%

12.3 Sponsorship

A nominal estimate of \$150,000 per year for sponsorship is included in the projections, however there is no more details of how/who that revenue will be earned.

12.4 Ticket Income

A new income stream has been added which is annual income of \$128,000 per year for booking fees. This was added after review of advice from ex-General Manager of Perth Theatre Trust and review of APACA data. For each ticket sold the City can levy a charge for booking fee. The net income of \$128,000 is based roughly on \$1 per ticket x 128,000 attendances.

13 OPERATING ANALYSIS – SUMMARY

13.1 Operating Income Summary

The table below summarises the annual income projections at Year 5 for each Scenario. This indicates that Scenario 2 is slightly higher than Scenario 1 and 3. All Scenarios are now significantly higher than the previous business case predominately due to the Pracsys assumptions for Conferences, Exhibitions, Gallery and Studios.

Operating Income \$000s (2023-24) excluding escalation	Concept Design	Scenario1	Scenario2	Scenario3
	Business Case (Dec 2015)	Schematic Design (July 2016)		
		Worse Case	Idealistic	Realistic
1 Primary Theatre	\$1,218	\$1,328	\$1,328	\$1,328
2 Secondary Theatre	\$239	\$230	\$230	\$230
3 Conferences, Exhibitions, Gallery, Studios	\$322	\$818	\$818	\$818
4 Parking	\$400	\$318	\$318	\$318
5 Food & Beverage	\$117	\$125	\$125	\$125
6 Leases: Bar/Restaurant	\$90	\$63	\$90	\$77
7 Sponsorship	\$150	\$150	\$150	\$150
8 Ticketing Income		\$128	\$128	\$128
Annual Operating Income	\$2,535	\$3,160	\$3,187	\$3,173

13.2 Operating Expenses Summary

The table below summaries the annual expenses projections at Year 5 for each Scenario. All Scenarios are higher than the previous business case due to Line 3 again. The other differences between the Scenarios are due to the different assumptions explained earlier regarding Staff Costs, Utilities, and Repair, Maintenance, Cleaning, Security.

Operating Expenses excl. Interest \$000s (2023-24) excluding escalation	Concept Design	Scenario1	Scenario2	Scenario3
	Business Case (Dec 2015)	Schematic Design (July 2016)		
		Worse Case	Idealistic	Realistic
1 Primary Theatre	(\$964)	(\$1,017)	(\$937)	(\$977)
2 Secondary Theatre	(\$126)	(\$106)	(\$101)	(\$103)
3 Conferences, Exhibitions, Gallery, Studios	(\$105)	(\$426)	(\$426)	(\$426)
4 Parking	(\$127)	(\$137)	(\$137)	(\$137)
5 Food & Beverage	(\$77)	(\$82)	(\$82)	(\$82)
6 Staff Costs	(\$884)	(\$1,000)	(\$827)	(\$901)
7 Marketing	(\$268)	(\$345)	(\$297)	(\$323)
8 Admin & General	(\$89)	(\$119)	(\$119)	(\$119)
9 Repair, Maintenance, Cleaning, Security	(\$568)	(\$741)	(\$591)	(\$676)
10 Utilities	(\$145)	(\$338)	(\$200)	(\$294)
Annual Operating Expenses excl. Interest	(\$3,353)	(\$4,309)	(\$3,716)	(\$4,037)

The expenses above exclude interest and depreciation; these will be subject to comment later on.

13.3 Operating Subsidy Summary

The table below summaries the Surplus/(Deficit) for each item in the Income/Expense analysis. This table is the difference between the income and expenses shown above. This shows the wide variation that can arise with the Scenarios, ranging from just over \$0.5m per year to over \$1.1m per year. Scenario 3 results in a subsidy similar to previously reported between the range of \$800k to \$900k per year.

Subsidy Analysis \$000s Year 5 - 2023-24 excluding escalation)	Concept Design	Scenario1	Scenario2	Scenario3
	Business Case (Dec 2015)	Schematic Design (July 2016)		
		Worse Case	Idealistic	Realistic
1 Primary Theatre	\$254	\$311	\$391	\$351
2 Secondary Theatre	\$113	\$125	\$129	\$127
3 Conferences & Exhibitions	\$217	\$392	\$392	\$392
4 Parking	\$273	\$181	\$181	\$181
5 Food & Beverage	\$40	\$42	\$42	\$42
6 Leases: Restaurant	\$90	\$63	\$90	\$77
7 Sponsorship	\$150	\$150	\$150	\$150
8 Staffing, Marketing, Admin	(\$1,241)	(\$1,464)	(\$1,243)	(\$1,342)
9 Building Costs & Utilities	(\$713)	(\$1,078)	(\$791)	(\$969)
10 Ticketing Income		\$128	\$128	\$128
Annual Subsidy (excluding Interest)	(\$818)	(\$1,150)	(\$529)	(\$863)
Subsidy as % of Expenses	24%	27%	14%	21%

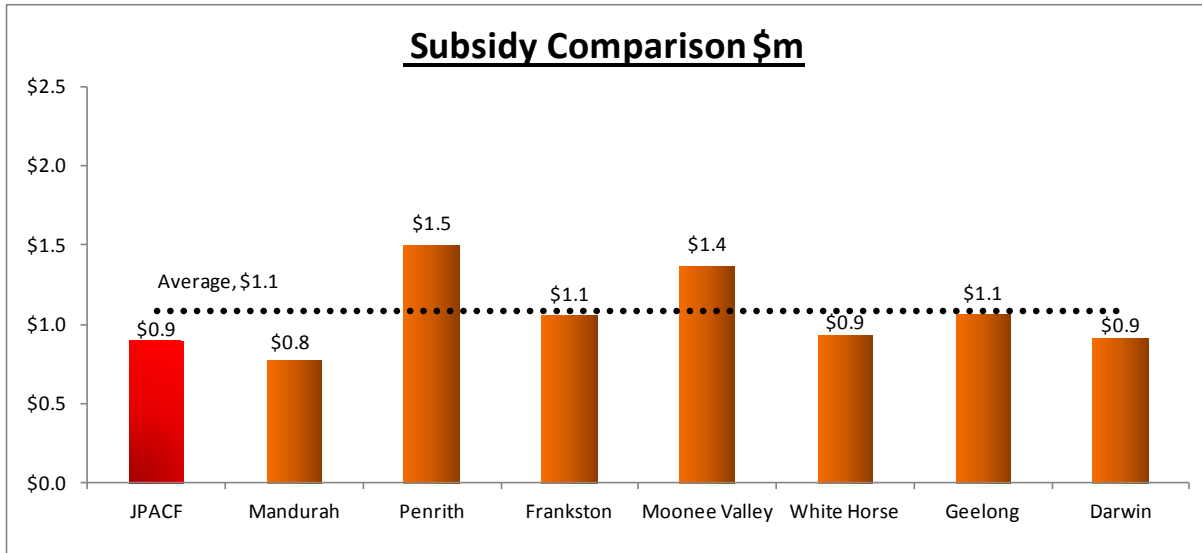
The summary above excludes interest and depreciation which are covered separately later.

13.4 Management Model / How Would the Subsidy Be Paid?

Whilst the City accepts that it will have to fund the operating subsidy, the exact method of how the subsidy would be paid to the JPACF will be resolved later, as this will depend on the management model. For example, if there was an arms-length governance model, then a fixed contribution may be agreed in advance each year and then paid in equal instalments during the year. Alternatively, if the facility was fully integrated within the City then the subsidy required would simply operate in the same way as other business units in the City, drawing down on the City’s bank account in line with authorised budget. Irrespective of how the actual governance model will work in practice, from a financial perspective the annual impact will be similar in that general funds (i.e. Rates) would be required to pay for the facility on an annual basis.

13.5 Comparison to Other Facilities

As many Arts Facilities are owned by Local Government, or other public bodies, the operating results are often publicly available. Data has been obtained for eight other facilities that are similar in their size and catchment area, with results summarised in graph below. The graph indicates that the projected deficit for the JPACF of (\$0.9m) is with a reasonable tolerance of the average of other facilities.



The data for other facilities has been obtained from desk top research using publicly available data. There may be other costs and income that are not fully reflected in the published accounts (e.g. Services provided by Local Government such as building maintenance that may not be charged to the facility). The JPACF subsidy of \$0.9m appears optimistic when compared to the other facilities; however the JPACF projections include profits from parking which are not included in the other facilities.

13.6 Operating Surplus Ratio

The table below summarises the overall operating expenses (including interest and depreciation) and the impact on the operating surplus ratio.

The Operating Surplus Ratio is the primary measure for long-term financial sustainability and compares the overall Operating Surplus/(Deficit) versus Operating Income. The table below indicates that the JPACF by itself will have a considerable impact on the Operating Surplus, depressing the ratio by 2.8% for Scenario 3 for example, although the interest costs will only be relevant for the term of the borrowings.

Operating Impacts and Impact on Operating Surplus Ratio	Concept Design Business Case (Dec 2015)	Scenario1 Worse Case	Scenario2 Idealistic	Scenario3 Realistic
	<u>Cash</u>			
1 Annual Cash Subsidy, excluding interest	(\$818)	(\$1,150)	(\$529)	(\$863)
2 Interest Costs Average p.a. (Yrs 1 to 15 only)	(\$1,450)	(\$1,506)	(\$1,506)	(\$1,506)
3 Annual Cash Subsidy, including interest	(\$2,267)	(\$2,656)	(\$2,036)	(\$2,370)
<u>Operating Expenditure Total</u>				
4 Depreciation	(\$1,471)	(\$1,527)	(\$1,527)	(\$1,527)
5 Operating Expenditure, incl Deprn	(\$3,738)	(\$4,183)	(\$3,563)	(\$3,896)
6 Operating Surplus Ratio %	2.8%	-3.0%	-2.5%	-2.8%

Note that the impacts above exclude the repayment of the principal (as these do not form part of the operating surplus calculations) and therefore do not show the total cash outlay for the project in years 1 to 15 – this is summarised later on.

14 OPERATING ANALYSIS – YEARS 0 TO 4

14.1 Start Up Expenses (2018-19)

It would be necessary to incur operational expenses prior to the opening of the facility. This will be necessary to ensure that the team are in place for opening and the program model has been built up. It is assumed that each Scenario would require operating costs of \$872k in the year before opening for:

- Staff Costs;
- Marketing; and
- Administration (legal and contractual work to establish governance model).
- Website development

These estimates are preliminary only at this stage and would require more detailed evaluation as part of subsequent financial reviews.

14.2 Year 1 to 4 Utilisation

The Operating Analysis has focused on Year 5, as it is assumed this is the basis of 'steady state' and used for each year thereafter. The operating assumptions for Year 1 to Year 4 have assumed that there would be a steady progression to the steady state. This is illustrated in the table below with the Primary Theatre utilisation of 188 days:

	Year	Utilisation Days p.a.	Comments
1	2019-20	93	50% of Steady State
2	2020-21	116	Previous year plus 23 days
3	2021-22	139	Previous year plus 23 days
4	2022-23	162	Previous year plus 23 days
5	2023-24	186	Steady State

The majority of the income and expense items are based on the same assumptions as above. In reality the facility may enjoy an initial 'honeymoon' period where Year 1 and Year 2 have higher use than above.

14.3 Building Maintenance

Year 1 should have a low cost as covered by defects and a minor cost of \$251k is included. Likewise, in Years 2 to 4 it is reasonable to assume that there should be fewer repairs than in future years, and therefore lower building maintenance costs have been assumed until steady state.

14.4 Subsidy Years 0 to Year 4

The table below summarises the total operating subsidy estimated for each Scenario from the year before opening up to year 4. Also shown is the average subsidy per year. It is expected that the costs would be less than Steady State as there would be some costs (e.g. Repair, Maintenance, Cleaning, Security) would be less than Steady State).

Subsidy Years 0 to Years 4		<u>Concept Design</u>	<u>Scenario1</u>	<u>Scenario2</u>	<u>Scenario3</u>
		Business Case (Dec 2015)	Worse Case	Idealistic	Realistic
Total Operating Subsidy (excl. interest & depreciation)	\$000s	(\$3,518)	(\$5,203)	(\$2,934)	(\$4,146)
Average Subsidy per year	\$000s	(\$704)	(\$1,041)	(\$587)	(\$829)

TOTAL IMPACTS

15 CAPITAL RENEWAL

15.1 Basis of Assumptions

The assumptions still used for all Scenarios is the same as the previous Business Case, which are internal City estimates with reference to the City’s Building Asset Management Plan. Paxon have provided alternative information regarding replacement cycles. The Paxon information indicates that capital should be replaced much earlier than indicated in the assumptions below, and that a total of \$276m should be included in the 40 year cashflows for capital replacement. At present the City has included \$79m in the estimates so the Paxon estimates would increase the cash flows by \$196m.

The City has chosen not to use the Paxon replacement profile because it does not agree with the earlier life cycle and there is insufficient information or examples to support the proposal. For example, it was suggested that \$8.5m should be planned every 7 years for fitments. It is recognised that capital replacement is important but it was deemed unlikely that the facility would require \$8.5m every 7 years.

These issues require further investigation.

15.2 Components

For the purposes of capital renewal planning, construction costs are broken down into 6 different components, this analysis was based on the City’s Building Asset Management Plan.

Structure	72%
Roof	8%
Fixtures & Fittings	3%
Services(1) - Long Life	13%
Services(2) - Short Life	2%
Equipment	3%
Total	100%

15.3 Renewal Life

The table below summarises the estimated renewal life of each component. The first column shows the maximum life that each component could have. An assessment is then based on whether the component would be renewed at Condition 5 (full maximum life) or whether there would be a “Condition Intervention”). The Condition Ratings (from 1 to 5) are based on standard Asset Management practice (reference International Infrastructure Manual). For building assets it is assumed that Fixtures & Fittings, Services-short life and Equipment would be replaced before they deteriorate to Condition 5, and before they reach their maximum useful life.

	Maximum Life	Condition that asset maintained to	Renewal Life based on condition
Structure	80	Condition 5	80
Roof	80	Condition 5	80
Fixtures & Fittings	40	Condition 3	24
Services(1) - Long Life	40	Condition 5	40
Services(2) - Short Life	20	Condition 4	16
Equipment	20	Condition 4	16

15.4 Renewal Projections

Based on the split of Capital Cost of Component and the Renewal Life above, a 100-year renewal plan has been prepared. Within the financial evaluation included within this report (up to 2058-59), which includes 40 years of operation a total of \$24m (excluding escalation) has been included, this is split in 4 lumps only (2034-35, 2042-43, 2050-51, 2058-59).

15.5 Sinking Fund not Recommended

Some external consultants (Paxon and AEG Ogden) have suggested that a sinking fund i.e. Reserve is used to set aside cash each year for future capital replacement, rather than have large lumps of expenditure in future years. This is not recommended because it is better from a Treasury management perspective for the City to plan for the cash as it is required rather than set aside each year. No examples could be provided to the City of other facilities who have a sinking fund.

The other argument for setting up a sinking fund is that it gives the City a better overall view of the annual financial costs of the facility by setting aside an annual cash budget for future replacement, rather than intermittent lumps. Whilst there is some merit in this, the true operating performance for the facility will be the operating results which would include Depreciation. As long as Depreciation is based on current costs and based on real consumption of the asset then the operating results will be a reliable gauge for the bottom line of the facility.

15.6 Depreciation Factors

The component lives in Section 15.2 are the lives that would be used for the basis of Depreciation charges and have been used to calculate the annual Depreciation charge of \$1.5m per year. The \$1.5m works out at overall life of 67 years.

16 TOTAL CASH FLOWS TO 2058-59

16.1 Total Cash flows 2014-15 to 2058-59

The whole-of-life cash flows have been projected up to 2058-59, including escalation. This covers the period of construction and 40 years of operation. By evaluating over such a long period ensures that the long-term impacts including capital renewals can be evaluated. The table below summarises the overall cash flow impacts, this table includes all of the cash flows in the previous sections (Capital Costs, Funding, Capital Renewals, Operating assumptions, Escalation).

The Total Cash Flows have been split into 2 tables as follows:

- Table 1 – Incremental cash flows only that arise directly as a result of the construction and operation of the JPACF
- Table 2 – Funding: Reserves, Borrowings and Tamala Park Proceeds. Net Impact to the City which takes account of the funding.

Each of the 16 lines are explained underneath the tables.

The range of outcomes for the scenarios is influenced by the different operating subsidy assumptions. Scenario 1 with an operating subsidy of over \$1.1m per year would result in an overall Cash flow of \$198.3244.9m, whereas Scenario 2 with an operating deficit of just over \$0.5m would be \$137.984.6m. Meanwhile Scenario 3 with an operating subsidy of \$863k has an overall cash flow of \$170.8217.5. Scenario 3 is \$29.417.3m lower higher than the December 2015 previous business case, caused mostly be the inclusion of the post-construction Tamala Park proceeds. The range of differences between the scenarios is considered to be reasonable at this stage of a \$100m project.

Table 1 Incremental Cash Flows		Concept	Scenario1	Scenario2	Scenario3
		Design Business Case (Dec 2015)	Worse Case	Idealistic	Realistic
Establishment Costs					
1)	Capital & Other One-Off Costs	\$ms	(\$103.0)	(\$105.3)	(\$105.3)
2)	Grants	\$ms	\$10.0	\$10.0	\$10.0
3)	Net Establishment Costs	\$ms	(\$93.0)	(\$95.3)	(\$95.3)
Operating Impacts					
4)	Operating Expenses	\$ms	(\$311.6)	(\$404.1)	(\$377.9)
5)	Operating Income	\$ms	\$260.4	\$319.0	\$320.2
6)	Operating Deficit	\$ms	(\$51.2)	(\$24.8)	(\$57.7)
7)	Asset Replacement	\$ms	(\$79.4)	(\$79.4)	(\$79.4)
8)	Incremental Cash Impact of JPACF	\$ms	(\$223.6)	(\$199.5)	(\$232.4)

Table 2 - Funding Reserves, Borrowings and Tamala Park Proceeds			Concept Design Business Case (Dec 2015)	Scenario1 Worse Case	Scenario2 Idealistic	Scenario3 Realistic
Pre-Construction						
9)	Reserves pre-construction	\$ms	\$45.2	\$37.5	\$37.5	\$37.5
10)	Borrowings	\$ms	\$47.8	\$57.8	\$57.8	\$57.8
11)	Pre-Construction	\$ms	\$93.0	\$95.3	\$95.3	\$95.3
Post-Construction						
12)	Repayments	\$ms	(\$47.8)	(\$57.8)	(\$57.8)	(\$57.8)
13)	Interest payments	\$ms	(\$21.7)	(\$22.6)	(\$22.6)	(\$22.6)
14)	Tamala Park Proceeds post-construction	\$ms	\$0.0	\$46.7	\$46.7	\$46.7
15)	Post-Construction	\$ms	(\$69.5)	(\$33.7)	(\$33.7)	(\$33.7)
16)	Net Impact	Line 8+11+14 \$ms	(\$200.2)	(\$198.3)	(\$137.9)	(\$170.8)

Each of the 16 lines is explained in more detail below for Scenario 3

Table 1

- 1) Capital & Other One-Off Costs – (\$105.3m) relates to the overall one-off costs of (\$99.7m) with estimated escalation included.
- 2) Grants. \$10m relates to the assumption that the City can secure State or Federal funding.
- 3) Net Establishment Costs. This is the net impact of lines 1 and 2, and indicates that the net costs to establish the facility are estimated to be (\$95.3m). The City has to fund (\$95.3m) which is explained in Table 2
- 4) Operating Expenses (\$377.9m). This is the 40-year impact of the annual operating expenses of (\$4.0m), including escalation.
- 5) Operating Income \$320.2m. This is the total 40-year impact of the annual operating income of \$3.2m, including escalation
- 6) Operating Deficit (\$57.7m). Difference between lines 4 and 5, and indicates that the overall 40-year impact of the operational subsidy of (\$863,000) including escalation is (\$57.7m).
- 7) Asset Replacement. (\$79.4m) Capital Replacement costs are escalated. This is based on the estimate of (\$23.8m), plus escalation.
- 8) Incremental Cash Effect of the JPACF. (\$232.4m). This is the sum of Lines 3 (\$95.3m), Line 6 (\$57.7m) and Line 7 (\$79.4m). The (\$232.4m) represents the incremental cash impacts that arise directly from the JPACF and excludes the benefits of reserves and costs of borrowings.

Table 2:

- 9) Reserves pre-construction. \$37.5m is estimated to be available during construction. This comprises of \$22m currently available (June 2016) and a further \$15.5m proceeds available in next 2 years from Tamala Park land sales and other asset sales by the City.
- 10) Borrowings - \$57.8m borrowings required to establish the facility. This is based on Line 3 (\$95.3m) less Line 9 (\$37.5m Reserves).
- 11) Pre-Construction \$95.3m is the sum of Lines 9 and 10 and matches Line 3. This confirms that the costs to establish the facility are being raised.
- 12) Repayments (\$57.8). This is the repayment of the borrowings (Principal) from Line 10.
- 13) Interest Payments (\$22.6m) this is the cost of interest of the (\$57.8m) borrowings.
- 14) Tamala Park Proceeds post-construction \$46.7m. From 2019-20 to 2027-28, it is projected that the City will receive a further \$46.7m in proceeds from land sales. These would contribute to the repayment of the borrowings.

15) Post-Construction impact is (\$33.7m). This is the difference between the repayment of the borrowings (Line 12 and 13) less the contribution from future Tamala Park proceeds of \$46.7m

16) Net Impact of (\$170.8m) is the sum of all cashflows. This is calculated as Line 8 plus Line 11 plus Line 15. The (\$170.8m) represents the bottom-line impact to the City taking account of the costs of borrowing and contribution from reserves.

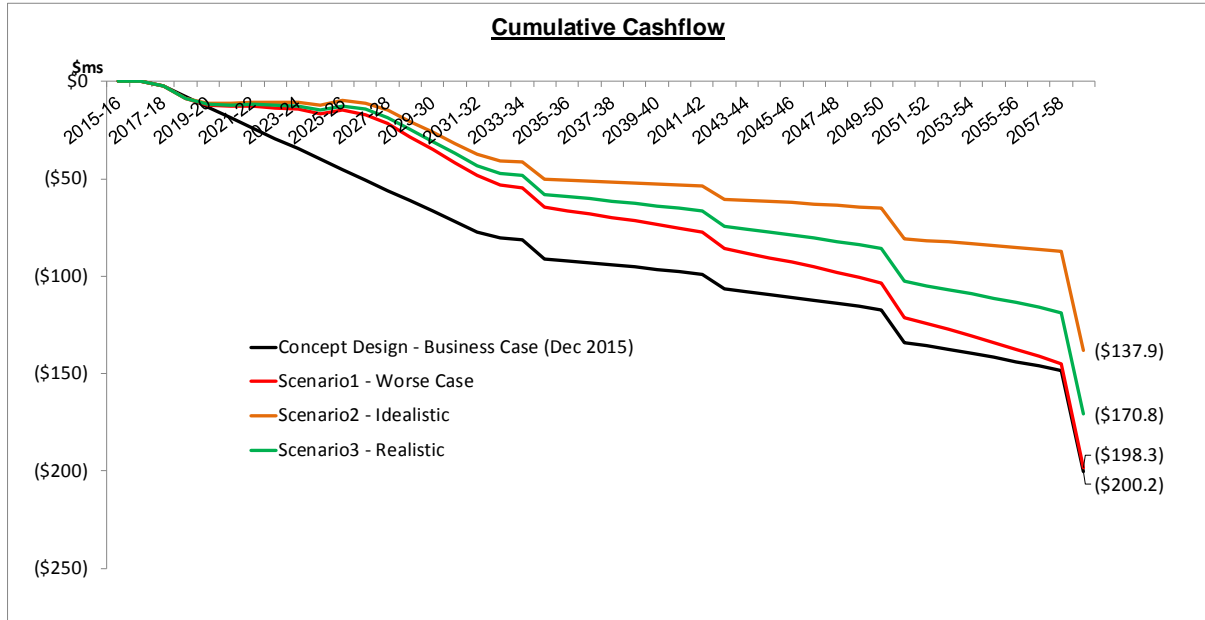
~~17)–~~

~~The Net Present Cost is the sum of all the cashflows discounted back to today's values.~~

~~The difference between each of the Scenarios follows the same trend as the overall Project Cash flows.–~~

16.2 Cumulative Cash Flows

The graph below shows the cash flows on a cumulative basis. The cash flows for the first 15 years include the cost of loan repayments and therefore the reductions are steeper than later years. The trend in costs for each Scenario is similar to the previous business case. The spikes in 2034-35, 2042-43, 2050-51 and 2058-59 are due to the capital renewal costs.



16.3 Costs per Rateable Property

It is useful to illustrate how the net costs of (\$170.8m) equate per rateable property. The first step in this calculation is the table below which shows the breakdown of costs into different time periods, this is necessary because there are different impacts in different time periods. The first column relates to the 4 years of planning/construction (from 2015-16 to 2018-19), each column thereafter is 5 years and the total number of years is 44 years. The cash impacts are shown in \$ms, and are summarised in 7 lines in the similar format as the breakdown in section 16.1

Total Cash Impacts \$m	During Construction	Operational								Total
		Years 1-5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	Years 31-35	Years 36-40	
<i>Number of Years</i>	4	5	5	5	5	5	5	5	5	44
1) Net Establishment Costs	(\$95.3)									(\$95.3)
2) Operating Subsidy	(\$0.9)	(\$4.0)	(\$4.5)	(\$5.3)	(\$5.6)	(\$6.8)	(\$8.3)	(\$10.0)	(\$12.2)	(\$57.7)
3) Capital Replacement					(\$8.6)	(\$6.2)		(\$15.0)	(\$49.5)	(\$79.4)
4) Incremental Cash Impact of JPACF	(\$96.2)	(\$4.0)	(\$4.5)	(\$5.3)	(\$14.2)	(\$13.0)	(\$8.3)	(\$25.0)	(\$61.8)	(\$232.4)
5) Funding: Pre-Construction	\$95.3									\$95.3
6) Funding: Post-Construction	(\$7.9)	\$0.2	(\$7.5)	(\$18.6)						(\$33.7)
7) Net Impact	(\$8.8)	(\$3.8)	(\$12.0)	(\$23.8)	(\$14.2)	(\$13.0)	(\$8.3)	(\$25.0)	(\$61.8)	(\$170.8)

The 7 lines are explained as follows:

- Line 1 is the Net Establishment Costs of (\$95.3m) which occurs only in the first 4 years
- Line 2 is the annual Operating Subsidy. This relates to the (\$863,000) annual subsidy plus increases for escalation.
- Line 3 is the Capital Replacement costs, which are estimated to occur in 4 time periods only. Note that there is a large cost estimated in Year 40 of (\$49.5m) which is much higher than the other years

- Line 4 is the sum of Lines 1 to 3
- Line 5 shows the Net Establishment Costs of \$95.3m being funded. This relates to the reserves available at point of construction and borrowings.
- Line 6 is the funding costs post-construction. This relates to the repayment of the borrowings (Principal + Interest) less the contribution from future sales of Tamala Park. This shows that there is a net inflow of \$0.2m in Years 1 to 5 as the contribution from Tamala Park proceeds is slightly higher than the costs of repayment, but in Years 6 to 10 there is a cost of (\$7.5m). In Years 11 to 15 when there are no more Tamala Park proceeds, there is a cost of (\$18.6m), which are the final repayment of borrowings.
- Line 7 is the Net Impact of Lines 4, 5 and 6. This shows the fluctuating costs in the early years due to the repayment of borrowings, and then there are fluctuations in later years due to capital replacement costs.

The table below then uses the information above to calculate an average cost per rateable property per year. The key features to note are:

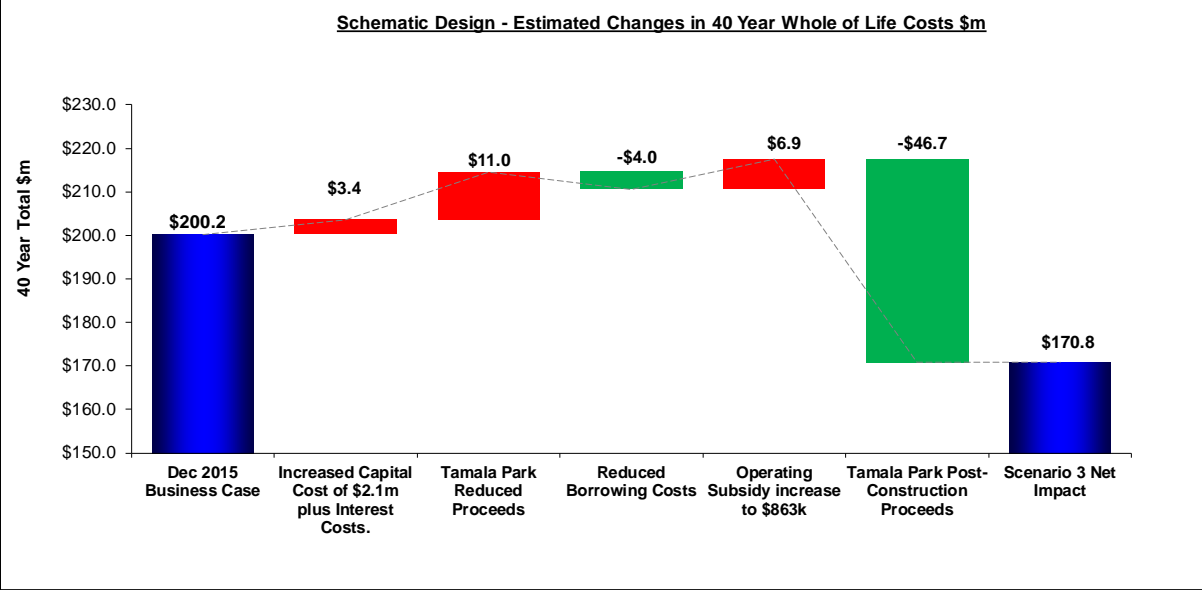
- Rateable properties relate to both Residential and Commercial. The increases are based on the increases within the Local Housing Strategy and Economic Development Strategy are consistent with the assumptions in the 20 Year Strategic Financial Plan.
- Costs per Ratepayer for each line are calculated as the total costs shown in the table above divided by the number of years divided by the rateable properties. For example, the cost of (\$380.05) for the Establishment cost is calculated as (\$95.3m) divided by 4 years divided by 62,689.
- Total Column shows the annual average cost per year as an average over the 44 years. This shows that the net impact per rateable property per year is an average of (\$55.27). This is calculated by dividing the net cost of (\$170.8m) divided by 44 years divided by an average number of rateable properties of 70,238.

Average annual cost per Rateable Property	During Construction	Operational									Total
		Years 1 - 5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	Years 31-35	Years 36-40		
<i>Rateable Properties</i>	62,689	65,373	67,432	68,848	70,290	71,758	73,252	74,747	76,241	70,238	
<u>Cost per Ratepayer per Year</u>											
1) Establishment Cost	-\$380.05									-\$30.84	
2) Operating Subsidy	-\$3.59	-\$12.24	-\$13.35	-\$15.40	-\$15.93	-\$18.95	-\$22.66	-\$26.76	-\$32.00	-\$18.67	
3) Capital Replacement					-\$24.47	-\$17.28		-\$40.14	-\$129.85	-\$25.69	
4) Incremental Cash Impact of JPACF	-\$383.64	-\$12.24	-\$13.35	-\$15.40	-\$40.40	-\$36.23	-\$22.66	-\$66.89	-\$161.86	-\$75.20	
5) Funding: Pre-Construction	\$380.05									\$30.84	
6) Funding: Post-Construction	-\$31.50	\$0.61	-\$22.24	-\$54.03						-\$10.90	
7) Net Impact	-\$35.09	-\$11.63	-\$35.59	-\$69.43	-\$40.40	-\$36.23	-\$22.66	-\$66.89	-\$161.86	-\$55.27	

16.4 Comparison of Cashflows to Previous Business Case

The chart below summarises the changes in the revised estimates (Scenario 3) compared to the **Concept Design assumptions in the previous business case**. This shows that the **net impact has reduced by project costs have increased by approx \$29.418m**, and this is broken down into 5 main causes:

- (\$3.4m) for Increased capital costs, including the cost of interest
- (\$11.0m) for reduced Tamala Park proceeds, including the cost of interest
- \$4.0m benefit for the reduced costs of borrowing (lower interest rate)
- (\$6.9m) due to the higher operating subsidy of \$863,000 per year
- \$46.7m proceeds from Tamala Park received after construction are now included in the business case. The previous business case mentioned these proceeds but did not include them in the overall net impacts.



SCENARIO EVALUATION

17 SCENARIO EVALUATION

17.1 Value for Money Concepts

The investment costs are significant, for example they are approximately equivalent to one year's worth of rates income. It is therefore crucial to consider whether the scope of the Arts Box and the size of the investment provide value for money.

The design team have extensive experience in the interrogation of conventional construction methods, combined with new modelling technologies to deliver world-class venues with tight budgets. Recent examples include the Melbourne Theatre Company Southbank Theatre, Melbourne Recital Centre and Hamer Hall redevelopment.

The JPACF has gone through value management processes to ensure that both the best design criteria and budget are met. Value management is an attitude within the design team to continually question whether emerging design solutions really represent the best value for money for the project. This process relies on both innovation (for example, consolidating unexpected areas of program) and strategy (for example, not spreading scarce budget out over large areas of the project, but concentrating it into areas where there is a real and perceived benefit).

The design team are committed to the innovative use of ordinary building materials and methods – using known technologies in creative and unusual ways. The Design Team strive for maximum impact without maximum cost. The advantage of this philosophy has benefits to the long term maintenance and life-cycle costs of the facility.

17.2 Value for Money Examples in the Design

Some examples of how value management has been employed in the concept design of the JPACF include:

- Locating the car park above ground instead of in basement levels. This saves the project approximately \$6m in capital cost. The car parking levels also assist in the scaling up of the building to help in generating a critical civic mass, particularly in the context of the Lakeside Joondalup Shopping Centre. The car park is able to be naturally ventilated and the rest of the building is freed from the constraints of mechanical ventilation from a basement car park. The car park is also directly connected to the building at ground level, and the surrounding gardens, for ease of access and security.
- Combining the community and conference areas. It made sense to cluster together the studios for crafts and visual arts, with some of the lesser-utilised spaces such as ancillary rehearsal rooms and conference rooms, allowing them to be flexibly programmed for anything from dance classes to community meetings, and to share amenities.
- Providing a diverse mix of spaces which can be zoned for multiple event use, catering for a large pool of events. This ensures the building is utilised as fully as possible, and also saves on operating costs as areas of the building are able to be used independently – for example, the car parking and community studios can be used during the day while the theatres and main foyer are closed. The building aims to be activated 12 hours a day, 7 days a week.

The cost rates used are benchmark rates based on a combination of other projects, recently priced Bills of Quantities, pricing books and supplier prices where appropriate. The rates therefore reflect, as far as practically possible at this stage, the current market pricing for each component of work. The rates will evolve over time as the design and engineering develops.

17.3 Cost per Seat Comparison to Other Facilities

The design team also sense-check the different budgets for various functional areas against other projects. It is very difficult to ascertain a true comparison as each performing arts venue is unique, and therefore will have different overall function area allocations – for example, the inclusion of other functions additional to the actual auditorium space. The table below provides a comparison of the JPACF construction cost to other facilities, the issues to note are:

- Arts Facilities will tend to cost at least \$60m. The only exception to this in the table below is a regional facility with just 478 seats, which is not a useful comparison
- JPACF cost per seat is estimated at \$93,178, which is lower than 3 other facilities. Taking account of the other features of the JPACF (374 car park, gallery, conference rooms), this cost provides good value for money by comparison.

Facility	Details	Cost #1 \$m	Seats #2	Cost per Seat
JPACF	Theatre, black box, community/conference, gallery, 374 bay car park,	\$99.7	1,050	\$94,952
State Theatre Centre of WA	Lyric Theatre, black box, courtyard, 2xRehersal rooms	\$99.4	809	\$122,833
Albany Entertainment Complex	Lyric theatre, studio, function facilities, 135 bay car park	\$78.4	820	\$95,610
Regional Performing Arts Centre (Confidential)	Not available	\$31.0	478	\$64,854
Melbourne Theatre Company - Southbank Theatre	Single-rake theatre, black box/rehersal room	\$61.6	650	\$94,742
Melbourne Recital Centre	Concert hall, salon.	\$88.6	1,130	\$78,373

#1 Capital Costs are based on 2016 dollars

#2 Seats relate to the total of the Primary Theatre and Secondary Theatre

17.5 Non-Financial Evaluation

The table below provides some comments as to how each Scenario achieves the non-financial objectives of the project.

Ref	Issue	Details
1	Imagination & Creativity	<ul style="list-style-type: none"> ○ Arts Box Model has a wider scope than a Traditional Performing Arts Centre and will encourage greater imagination and creativity. ○ There are more attendees per year with Arts Box Model
2	Inclusive Environment	<ul style="list-style-type: none"> ○ Arts Box model has the ability to be open 7 days a week, 12 hours per day. Meanwhile a Traditional Performing Arts Centre may only be open for performances and is far less inclusive. ○ Arts Box Model will have multipurpose spaces which can cater for a variety of different uses
3	Viability & Attraction	<ul style="list-style-type: none"> ○ The design for Arts Box would be much more attractive than the design for a Traditional Performing Arts Centre. It is clear that the design would be an iconic landmark within the City.

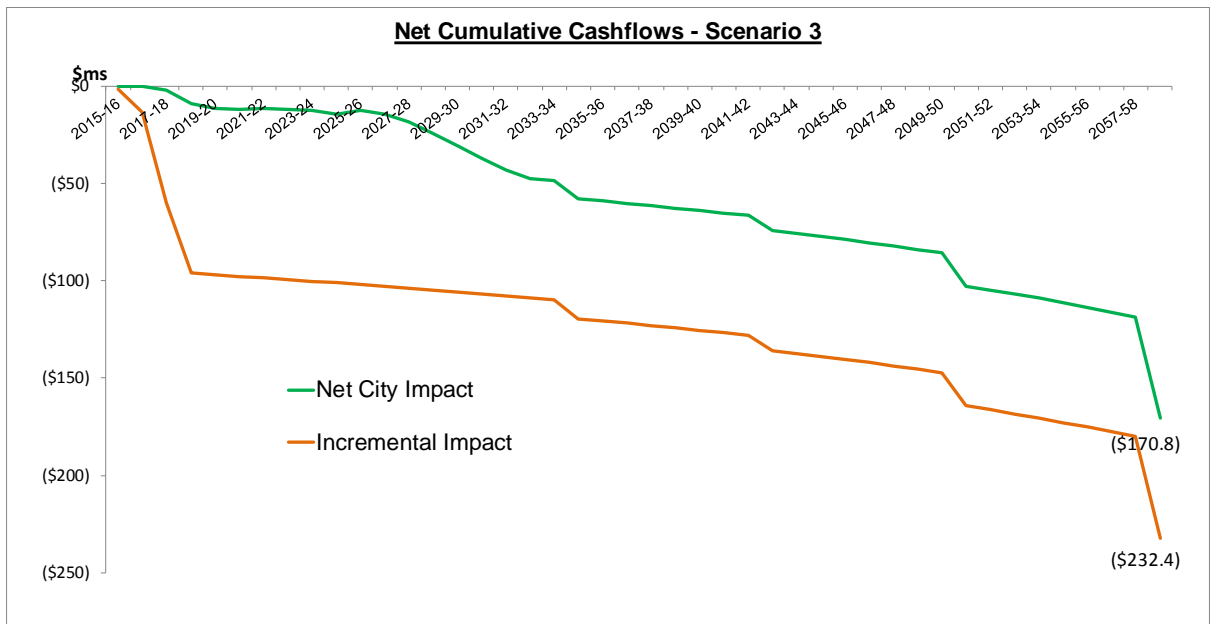
SUMMARY

18 IMPACTS FOR CITY OF JOONDALUP

18.1 Financial Summary of Scenario 3

Scenario 3 is used as the basis of the Business Case and would require the following commitment by the City:

- Investment of \$99.7m (excluding escalation)
 - \$1.9m Sunk Cost
 - \$97.8m is a future investment
- Grant assumption of \$10m from National Stronger Regions Fund
- Borrowings estimated of \$57.8m, which would result in an interest expense of \$22.6m
- Additional Depreciation of \$1.5m
- Operating Subsidy of (\$0.9m) per year
- Incremental impact of the JPACF after 40 years is estimated at \$232.4m
- Net impact to the City including the benefit of reserve funding and borrowings is \$170.8m
- Average annual cost per rateable property is \$55.27 per year over the 40 year life of the project .



However it should be noted that the City expects to receive additional proceeds from sale of Tamala Park Reserve of \$47m, an average of \$3m per year over the same timeframe.

18.2 Budgeting for the JPACF

The City budgets for projects using the following:

1. Annual Budget
2. Mid-Year Review
3. 5 Year Capital Works Program
4. 20 Year Strategic Financial Plan

Each of the plans is updated annually and the JPACF project will continue to be updated in the City's budgeting tools.

The 20 Year Strategic Financial Plan was recently (June 2016) adopted by Council. This included assumptions for the JPACF based on the December 2015 Business Case:

- \$97.6m Establishment Cost
- Operating Subsidy of \$818k per year

The recommended Scenario now has additional establishment costs of \$2.1m and higher operating subsidy of \$45k per year. These changes would not affect the projected achievement of ratios within the Adopted 20 Plan. The 20 Year plan is updated annually with the next update commencing in February 2017, the most up-to-date JPACF assumptions will be included then.

18.3 Guiding Principles / Key Ratios

At the heart of the City's *20 Year Strategic Financial Plan* are a set of guiding principles, which include 5 key ratios that the City uses to evaluate financial sustainability in the long term. The Adopted 20 Year Strategic Financial Plan provides detailed commentary on each of the ratios, which can be separately referred to. The plan also includes comments regarding the JPACF project as it has significant impacts on the projections.

The City has undertaken a "Shadow Credit Assessment" ~~informal discussions~~ with West Australia Treasury Corporation regarding the capacity of the City to borrow funds for the JPACF in 2017-18 and 2018-19, especially as the proposed borrowings would be much higher than any previous borrowings by the City. A "Shadow Credit Assessment" is an informal evaluation of the City's projected borrowings using the same criteria that would be used with a formal loan application. The assessment confirmed that the City would have capacity. The evaluation was initially based on the same assumptions as the Adopted 20 Year Strategic Financial Plan which includes Rates Increases in the next few years of 4% to 5%. The City has recently (2016-17) implemented a 2.5% rate increase and if the increases for one or more of the next few years were less than 4% this may present a risk of the City's capacity to borrow for the JPACF.

19 RISKS, OPPORTUNITIES AND SENSITIVITY ANALYSIS

19.1 Risk & Opportunities - Overview

This business case does not contend that the projections will come to pass exactly as stated above. **The project will not cost \$170.8 217.5m, which is only an estimate, it will either cost more or it will cost less.** The business case includes assumptions which may be different for any number of reasons. It is therefore vital to evaluate the risks and opportunities with the business case, so that actions can be considered to mitigate the risk and alternative opportunities considered.

There is a higher probability of the overall project costs increasing than decreasing. There is a lot more certainty that the costs will come to pass as expected, but there is a lot more uncertainty that the income or funding will come to pass as projected.

The comments on specific risks and opportunities will be analysed separately for each set of cash flows:

1. Capital Costs/Funding.
2. Operating Analysis.

Financial impacts will follow the same convention as used throughout the report i.e. Risks (adverse impacts) are negative and Opportunities are positive. The risk has also been assessed using the City's Risk Management Framework with the risk consequence, impact and level subject to comment within the analysis.

The sensitivity analysis and risks are as important as the projections in the rest of the paper so that the full potential impacts can be considered.

19.2 How the Project Costs have changed over time and the Confidence of the Estimates

The Establishment Costs of the project have increased a number of times during the project, but the increases have become lower as the accuracy and detail are refined. The table below summarises the movement in capital costs since 2009. At 2009 the project costs were crudely estimated at \$35m and included in the 20 Year Strategic Financial Plan – there was no detailed audit trail for the \$35m, the costs were merely a marker for inclusion in the 20 Year Strategic Financial Plan. Meanwhile in 2012 the costs were increased to \$50.6m but again without any detailed QS Costings – the other key issue regarding the \$50.6m is that it was based on a Traditional Performing Arts Centre as opposed to an Arts Box which has a much wider scope. The estimate for an Arts Box was first considered in 2013 following the Pracsys Feasibility Study and since then the estimates have become more refined.

The table below also includes a scale to indicate the confidence of the assumption. This shows that the estimates in 2009 and 2012 had no or little confidence. The confidence steadily improves over the past few years, although even at this stage the estimates cannot yet be determined as being 100% accurate, these uncertainties will only be resolved after Detailed Design and tender.

	Stage	\$m #1		Confidence of Estimate #2
1	2009 Adopted SFP	\$35.0	1	High Level estimate only, no detailed basis for the estimate i.e. no concept design
2	2012 Adopted SFP (Nov 2012)	\$50.6	1	High level estimate only of a Traditional Performing Arts Centre, as opposed to an "Art Box"
3	Pracsys Feasibility Study (March 2013)	\$79.5	2	Council resolved to increase scope of the facility to "Art Box" rather than a traditional Arts Centre. Costings were based on Rough Order of Magnitude only and not a detailed QS
4	Concept Design (April 2014)	\$90.7	3	Based on ARM Concept Design from the Architectural Design Competition (2013). Costings included a QS Elemental Breakdown but were Concept Design only
5	2014 Adopted SFP (Jun 2014)	\$94.2	3	Costs were increased to include Jinan Gardens and escalation since the 2013 Design Competition
6	2015 Adopted SFP (Dec 2015)	\$97.6	3	Increase to take account of Traffic Treatment, External Works and escalation
7	Schematic Design (July 2016)	\$99.7	4	Confidence of estimates has improved, although there is still some risk in the estimated rates.
8	Detailed Design		5	Detailed Design / Tender will provide certainty on the costs

#1 Excludes escalation

#2 Confidence of estimate is based on a scale of 1 to 5, where 1 has no confidence at all and 5 is very confident

19.3 Establishment Costs - Capital Costs and Funding - Risk & Opportunities

The table below lists various risks and opportunities and their potential impact on the capital costs or funding. The total best case is that the Establishment Costs may be \$4m lower, but the Worse Case is a total worsening cash flow of (\$37m). In summary, there is much more probability that the establishment costs will worsen than they will improve.

<u>Risk / Opportunity</u>		<u>Cash flow Impact \$m</u>			<u>Risk Classification and Actions</u>
Subject	Details	Worse Case	Mid	Best Case	
1	<p>Capital Costs higher than estimated</p> <p>The costs at Schematic Design are not final; the Detailed Design stage will provide further refinement whilst the tender/procurement stage will also provide changes. Therefore the Capital Costs of \$99.7m must be recognised as an estimate based on a set of assumptions – the final outcome will NOT be \$99.7m, it will be higher or it will be lower.</p> <p>ARM has provided an evaluation of the range of probabilities for some of the most expensive capital items. This indicates a high level of confidence in the volume assumptions but a lower level of confidence in the rates. The evaluation has been used to prepare the overall worse case increase that could arise or the best case reduction in costs. This indicates the following:</p> <ul style="list-style-type: none"> - Best case is that the costs may be \$95.7m instead of \$99.7m, a reduction of \$4m - Worse Case is that the costs could be \$113.7m, an increase of \$14m. It must be emphasised that this is an extreme worse case. 	(\$14m)	(\$5m)	\$4m	<ul style="list-style-type: none"> o This likelihood is POSSIBLE, the consequence is medium and therefore the overall risk score is LOW. o The risks of the capital costs increasing can be managed as follows <ul style="list-style-type: none"> - All future specification changes are evaluated individually with a Cost/Benefit Analysis taking account of operational implications - Capital Costs remain as they are in the business case and the project needs to find ways to manage the cost increase. This could be achieved by reviewing other design issues, or managing the procurement process to ensure that the overall costs remain within budget. - Contingency already included in the Capital Cost estimates and may be sufficient to cover the costs of these additional items - Tender has the opportunity (particularly in the current market place) to provide cost reductions which cover the risks of unforeseen costs.

Joondalup Performing Arts and Cultural Facility – Financial and Scenarios Evaluation

		<p>Some examples of where costs may increase are:</p> <ul style="list-style-type: none"> - Easement access with TAFE. If easement access is not provided, then mechanical ventilation would have to be provided at the Car Park (additional \$0.6m) - PV Cells (\$0.5m) 				
2	Reserve Funds not available	<p>The funding assumes that \$37m is provided in total from Reserves to contribute to the construction of the facility. At present (June 2016) there is \$20m within designated reserves, so a further \$17m is projected in the next couple of years. The majority of this relates to further proceeds from Tamala Park.</p> <p>The proceeds from Tamala Park can no longer be classed as guaranteed due to a range of economic factors at local, state, federal and global level.</p>	(\$4.0)	(\$3.0)	\$0.0	<ul style="list-style-type: none"> o The likelihood of not receiving some of the \$27m is possible, and the consequence is medium, the overall risk is MODERATE. o The City should continue to research other opportunities to dispose of land (or indeed buildings) that have minimal usage.
3	Borrowings not within Capacity	<p>Proposed borrowings not approved by WATC.</p> <p>Informal discussions have taken place with WATC to review the borrowing impacts, the capacity of the City to borrow and the impacts on the Adopted <i>20 Year Strategic Financial Plan</i>.</p> <p>These discussions confirmed that the City would have capacity based on the projections within the 20 year SFP.</p>	(\$5.0)	(\$3.0)	\$0.0	<ul style="list-style-type: none"> o It is now classed as possible that the City would implement Rates increases within the next few years which are less than 4% or 5%. This would present a material risk to the projections in the 20 year SFP and the capacity for the City to borrow. o The consequence is major, and the overall risk is therefore MODERATE. o The City should continue to have informal discussions with WATC
4	Grant of \$10m not approved	<p>The projections include an assumption that the City will be successful with an application to the National Stronger Regions Fund (NSRF). A 'Round 2'</p>	(\$14m)	(\$7m)	(\$0m)	<ul style="list-style-type: none"> o The likelihood is likely, the impact is medium, and the overall risk is moderate. o The City should continue to review potential sources of funding e.g. State.

application was made in July 2015 and failed, so it is possible that the 'Round 3' application made in March 2016 will not succeed either. secure \$10m external grant

The total impact (Worse case) would be \$14m as additional borrowings would be required to bridge the gap which would attract interest costs of \$4m.

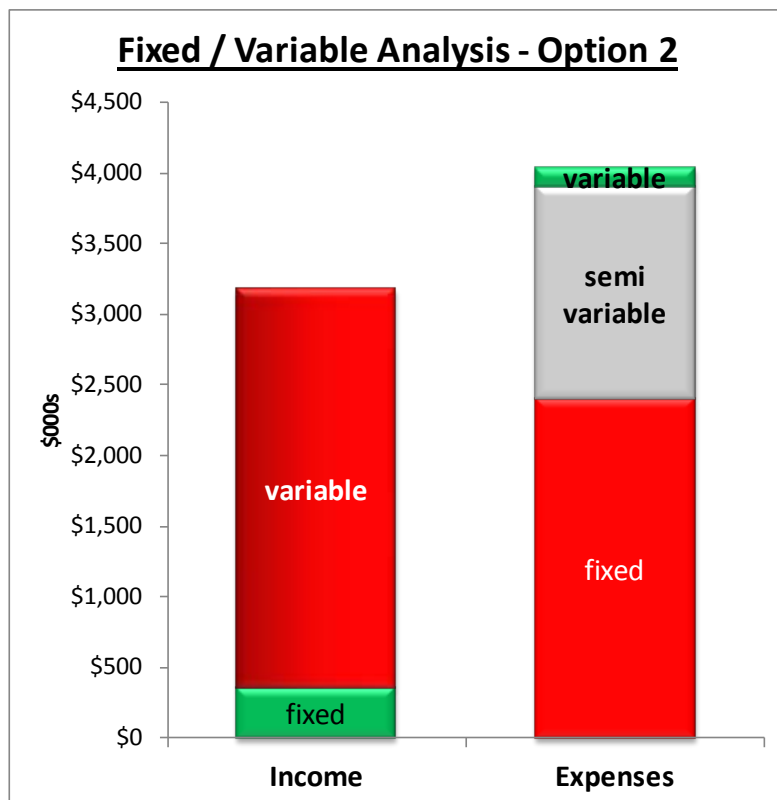
19.4 Potential Opportunity – Cap the Establishment Costs at \$97.6m

The previous Business Case (December 2015) indicated an overall cost to establish the project of \$97.6m. The \$97.6m estimate was used to update the recently adopted 20 Year Strategic Financial Plan. The revised estimates for the favoured Scenario 2 are \$2.1m higher, with a total revised cost of \$99.7m. It may be worth capping the capital costs at \$97.6m and reducing some parts of the specification.

19.5 Operating Analysis - Risk & Opportunities

It is impossible to predict exactly what the subsidy will be each year; there are a vast number of assumptions, internal factors, external factors and unknown variables that will impact on the subsidy each year. Before evaluating the possible changes, the key issue to consider is the nature of the income and costs, whether they are fixed (i.e. certain to occur) or variable (uncertain). Each of the income/expense items have been separately categorised as fixed, variable or semi-variable, so that the un/certainty can be summarised. The graph below for Scenario 3 financials at Year 5 summaries the outcomes of this analysis, the key issues are:

- Vast majority of the income is variable i.e. there is no guarantee that just by opening the facility that people will buy tickets, people will hire the spaces, eat there or park there.
- Majority of the Expenses are fixed (e.g. staffing), in that the expense will occur whether or not there are hires or ticketed events.



In summary the analysis informs us that the JPACF operating model provides a significant level of risk that the subsidy could be higher than (\$0.9m) because there is uncertainty with most of the income but high certainty of most of the costs.

The table below evaluates some of the financial risks and opportunities of the annual Operating Subsidy.

	<u>Risk / Opportunity</u>		<u>Subsidy Impact \$m</u>			<u>Risk – How to Mitigate /</u>
	<u>Subject</u>	<u>Details</u>	<u>Worse Case</u>	<u>Mid</u>	<u>Best Case</u>	<u>Opportunity – How to Exploit</u>
1	Audience Activation	<p>By year 5, the program and audience need to be well developed to achieve industry standard utilisation and a subsidy of (\$0.9m) per year. There will need to be significant effort in Years 1 to 4 to help develop the program/audience.</p> <p>There is a risk that the subsidy will be higher than (\$0.9m), comparison to other facilities confirms this whilst the nature of the cash flows (uncertainty of income but certainty of costs) is another key factor.</p> <p>Therefore the worse case is that the subsidy could be (\$1.0m) higher i.e. a total subsidy of (\$1.9m) per year</p>	(\$1.0)	(\$0.5)	\$0.0	<ul style="list-style-type: none"> o This likelihood is possible, the consequence is major and therefore the overall risk score is MODERATE. o Full consideration of how to activate the facility is crucial so that the Year 5 Financial Targets can be achieved, e.g. <ul style="list-style-type: none"> - High profile company to activate Restaurant space in its own right - Encourage (large discount?) a company to become resident in the space for the first couple of years (at least) to help build a name for the facility - Program built up 1 to 2 years before facility opens
2	Conferences, Exhibitions, Studios, Gallery	There is now much higher income included in the projections than previous estimates.	(\$0.2)	(\$0.1)	\$0.0	<ul style="list-style-type: none"> o This likelihood is possible and the consequence is minor and therefore the overall risk score is LOW. o Continue to review the utilisation assumptions.
3	Finance Officer	The projections now assume a full-time Finance officer within the JPACF. There is an opportunity for the financial support to be provided by the COJ Finance team.	\$0.1	\$0.1	\$0.1	<ul style="list-style-type: none"> o Cost benefit Analysis will be required to justify all staff that the JPACF intends to use, that could otherwise be supported by the City
4	Occupancy / Catchment Area / Social Economic Profile	<p>Catchment area in the revised projections is much larger than other Regional Arts Facilities. It is possible that the opportunities for utilisation and occupancy are higher than projected.</p> <p>The demographics of the catchment area indicate a higher level of education and appetite for arts participation/attendance than average.</p>	\$0.1	\$0.2	\$0.3	<ul style="list-style-type: none"> o The marketing of the facility should consider the full catchment area ensuring the facility becomes recognised as a regional facility and not just a City of Joondalup facility

Joondalup Performing Arts and Cultural Facility – Financial and Scenarios Evaluation

		The City should bear in mind that WA is isolated and it can often be difficult to attract artists to the area.				
5	Operating Grants	MPAC receive funding from Federal body to help subsidise some performances (e.g. with travel costs), but this may be discontinued in future as no longer classed as Regional. The Department of Culture Arts have a range of grants available to help support activities but it is deemed unlikely that these could be accessed and mitigate the subsidy	\$0.0	\$0.0	\$0.0	<ul style="list-style-type: none"> Further consultation with the Department of Culture & Arts.
6	Building Maintenance and Utilities	The revised projections have now increased the Utility and Building maintenance costs based on consultancy advice.	\$0.0	\$0.1	\$0.2	Continue to review the projections for the Building Maintenance and Repair costs. Bottom up analysis (i.e. space by space) required.
7	Volunteers	Many Arts Facilities use Volunteers, people who have an interest in supporting the facility	Tbc	Tbc	Tbc	Set up a Volunteer program as early as possible. Analysis of volunteers used by other centres and identification of the possible savings.
8	Buy a Seat	Is there an opportunity for patrons to purchase a seat, which provides them with the opportunity of discounted tickets	\$0.1	\$0.1	\$0.2	This could provide the JPACF with additional income, for example \$500 per seat x 400 seats. To be investigated
9	Parking Utilisation	The projections from Year 15 assume 50% utilisation of the parking bays during the day. This could be higher or lower due to a range of factors e.g. development in immediate area.	(\$0.2)	(\$0.05)	\$0.2	Continue to review and update utilisation assumptions.
10	Parking Cost of Sales	It is now assumed that the existing parking team should be used to assist with operating the parking at the JPACF. The City could consider at a later point in time that it would prefer dedicated staff during the day	(\$0.1)	(\$0.05)	\$0.0	Continue to review the operating model for the Parking Facility in conjunction with the Parking Services Team.

19.6 Sensitivity Analysis

The table below summarises the sensitivity of the overall cash flows for Scenario 3 i.e. how much higher or lower than the \$170.8217.5 million the outcome may be by 2058-59. The parameters used for the analysis are:

- Capital Costs being higher or lower than the \$99.7m currently estimated. It is more likely that the capital costs could be higher than the \$99.7m than lower, and therefore the analysis evaluates the impacts of a 30% increase to capital costs but only considers a reduction of 10%. These are evaluated in steps of 5%.
- Operating Subsidy being \$400,000 less than the \$863,000 estimated or \$400,000 more. These are evaluated in steps of \$100,000.

	-10%	-5%	0%	5%	10%	15%	20%	25%	30%	
Operating Subsidy per year	(\$463)	(\$118.5)	(\$126.0)	(\$133.6)	(\$141.2)	(\$148.7)	(\$156.3)	(\$163.8)	(\$171.4)	(\$197.0)
	(\$563)	(\$127.8)	(\$135.3)	(\$142.9)	(\$150.4)	(\$158.0)	(\$165.6)	(\$173.1)	(\$180.7)	(\$206.3)
	(\$663)	(\$137.1)	(\$144.6)	(\$152.2)	(\$159.7)	(\$167.3)	(\$174.9)	(\$182.4)	(\$190.0)	(\$215.6)
	(\$763)	(\$146.3)	(\$153.9)	(\$161.5)	(\$169.0)	(\$176.6)	(\$184.1)	(\$191.7)	(\$199.3)	(\$224.9)
	(\$863)	(\$155.6)	(\$163.2)	(\$170.8)	(\$178.3)	(\$185.9)	(\$193.4)	(\$201.0)	(\$208.5)	(\$234.2)
	(\$963)	(\$164.9)	(\$172.5)	(\$180.0)	(\$187.6)	(\$195.2)	(\$202.7)	(\$210.3)	(\$217.8)	(\$243.5)
	(\$1,063)	(\$174.2)	(\$181.8)	(\$189.3)	(\$196.9)	(\$204.4)	(\$212.0)	(\$219.6)	(\$227.1)	(\$252.7)
	(\$1,163)	(\$183.5)	(\$191.1)	(\$198.6)	(\$206.2)	(\$213.7)	(\$221.3)	(\$228.9)	(\$236.4)	(\$262.0)
	(\$1,263)	(\$192.8)	(\$200.3)	(\$207.9)	(\$215.5)	(\$223.0)	(\$230.6)	(\$238.1)	(\$245.7)	(\$271.3)

The results of the sensitivity analysis indicate that the overall cost by 2058-59:

- Best case could be \$118.5 million which would arise if the capital costs were 10% lower and the Operating Subsidy was \$400,000 less
- Worst Case could be \$271.3 million which would arise if capital costs were 30% higher and the Operating Subsidy was \$400,000 more.

19.7 Further Reviews of the Financial Projections

The financial projections are based on a set of assumptions. It is not expected that the projections will come to pass exactly as shown. The financials have been, and will continue to be, constantly reviewed, so that the risk and sensitivity of the project can be managed and the forward projections updated in the annual budget, 5-year Capital Works and future updates of the *20 Year Strategic Financial Plan*. Below are some of the key improvements required to the financial projections:

- Utilities – detailed review of each space in the JPACF, the potential usage, power required and detailed Utility forecast. At present the forecast is still high level.
- Building Maintenance & Utility Costs built up bottom up.
- Capital Replacement – detailed review of each capital element (QS Breakdown) and consideration of the likely life cycle benchmarking of other Arts Centres in Australia that are at least 20 years old.
- Commercial returns of each area. It would be a useful exercise to allocate the income and all costs to each individual space, and compare to the capital costs. This would give an indication of the commercial return/loss of each space.

19.8 Reviews undertaken of the Financial Modelling

The analysis used within the financial evaluation does not contend to be precise. The analysis is deemed reasonable taking account of the assumptions by the project and provides robust supporting information to the Business Case and to assist decision makers with evaluating the project. In support of the Financial Analysis it is worth noting that there have been threetwo external reviews of the Financial Analysis and Financial Modelling:

- November 2015 – external review of financial projections
- June 2016 (Deloitte) – Integrity Review of Financial Model used for JPACF project
- November 2016 (Deloitte)– Review of the Financial Assumptions and Business Case.

The review of the financial model confirmed that it was rigorous. The recent review by Deloitte confirmed that the City had undertaken an extensive process in developing the business case and developed a detailed financial model. Both reviews provide the City with a high level of assurance regarding the techniques and financial models used in the evaluation.

APPENDICES

APPENDIX 1 – CONSTRUCTION COSTS SUMMARY

Element	2015 Estimate	July 2016	Difference	
	\$m	\$m	\$m	%
1 SUBSTRUCTURE	\$1.8	\$3.6	\$1.8	101%
2 COLUMNS	\$1.4	\$1.8	\$0.4	28%
3 UPPER FLOORS	\$8.1	\$10.3	\$2.2	26%
4 STAIRS	\$0.9	\$1.0	\$0.1	14%
5 ROOFS	\$6.3	\$6.9	\$0.6	10%
6 EXTERNAL WALLS	\$7.6	\$7.3	-\$0.3	-4%
7 WINDOWS AND EXTERNAL DOORS				
8 INTERNAL WALLS	\$5.6	\$6.4	\$0.8	15%
9 INTERNAL SCREENS	\$0.2	\$0.6	\$0.4	244%
10 INTERNAL DOORS	\$0.7	\$0.6	-\$0.1	-12%
11 WALL FINISHES	\$1.3	\$1.1	-\$0.2	-12%
12 FLOOR FINISHES	\$2.6	\$2.1	-\$0.5	-20%
13 CEILING FINISHES	\$1.3	\$1.7	\$0.3	25%
14 FITTINGS AND EQUIPMENT	\$2.6	\$4.3	\$1.7	64%
15 SPECIAL EQUIPMENT	\$1.0		-\$1.0	-100%
16 SANITARY FIXTURES	\$0.3	\$0.4	\$0.1	48%
17 SANITARY PLUMBING	\$0.5	\$0.9	\$0.4	95%
18 WATER SUPPLY	\$0.4	\$0.7	\$0.4	97%
19 GAS SERVICE	\$0.0	\$0.0	-\$0.0	-2%
20 VENTILATION	\$0.9	\$0.8	-\$0.0	0%
21 AIR CONDITIONING	\$7.2	\$7.3	\$0.1	1%
22 FIRE PROTECTION	\$3.0	\$3.0	-\$0.0	0%
23 LIGHT AND POWER	\$5.4	\$3.8	-\$1.6	-29%
24 COMMUNICATIONS	\$1.2	\$1.3	\$0.1	12%
25 LIFT INSTALLATION	\$1.3	\$1.6	\$0.3	25%
26 SPECIAL SERVICES	\$0.8	\$0.7	-\$0.0	-2%
27 Replanning Saving		-\$1.8	-\$1.8	
A TOTAL BUILDING WORKS	\$62.2	\$66.5	\$4.4	7%
27 EXTERNAL WORKS	\$1.7	\$2.6	\$0.9	53%
28 EXTERNAL SERVICES	\$1.4	\$1.2	-\$0.2	-15%
29 MAIN CONTRACTOR PRELIMS	\$8.9	\$9.3	\$0.4	5%
B CURRENT DAY BUILD COSTS	\$74.1	\$79.5	\$5.4	7%
30 DESIGN CONTINGENCY	\$3.7	\$3.2	-\$0.5	-14%
31 CONSTRUCTION CONTINGENCY	\$2.9	\$2.1	-\$0.8	-28%
32 FURNITURE, FITMENTS AND EQUIP.	\$0.7	\$0.8	\$0.0	5%
33 THEATRE TECHNICAL EQUIP.	\$2.6	\$3.5	\$0.9	37%
34 PROFESSIONAL FEES	\$8.8	\$7.5	-\$1.3	-15%
C ESTIMATED TOTAL COSTS	\$92.7	\$96.5	\$3.8	4%
35 TRAFFIC TREATMENT & EXTERNAL WORK	\$1.7		-\$1.7	-100%
36 JINAN GARDENS & CITY PROJECT COSTS	\$3.2	\$3.2		
D TOTAL PROJECT COSTS	\$97.6	\$99.7	\$2.1	2%

APPENDIX 2 – ESCALATION ASSUMPTIONS APPLIED

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	and every year until	2058-59
CPI	% 2.5%	2.5%	2.5%	2.5%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%		3.5%
Employment Costs	% 3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%		3.5%
Utilities	% 3.3%	3.3%	3.3%	3.3%	3.8%	4.3%	4.3%	4.3%	4.3%	4.3%		4.3%
Parking Fees	% 20.0%	16.7%	14.3%	12.5%	5.6%	5.3%	5.0%	5.0%	5.0%	3.5%		3.5%

Joondalup Performing Arts and Cultural Facility – Financial and Scenarios Evaluation

APPENDIX 3 – TAMALA PARK PROCEEDS (POST CONSTRUCTION) VS. LOAN REPAYMENTS

\$000s		Total	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Loan Repayments	Principal	(\$57,770)	(\$1,291)	(\$2,967)	(\$3,081)	(\$3,199)	(\$3,321)	(\$3,449)	(\$3,581)	(\$3,718)	(\$3,860)	(\$4,008)	(\$4,162)	(\$4,322)	(\$4,487)	(\$4,659)	(\$4,838)	(\$2,826)
Loan Repayments	Interest	(\$22,597)	(\$1,078)	(\$2,554)	(\$2,420)	(\$2,280)	(\$2,134)	(\$1,983)	(\$1,827)	(\$1,664)	(\$1,495)	(\$1,319)	(\$1,137)	(\$948)	(\$751)	(\$547)	(\$336)	(\$123)
Loan Repayments	Total	(\$80,367)	(\$2,369)	(\$5,522)	(\$5,501)	(\$5,479)	(\$5,456)	(\$5,432)	(\$5,407)	(\$5,382)	(\$5,355)	(\$5,328)	(\$5,299)	(\$5,270)	(\$5,239)	(\$5,207)	(\$5,173)	(\$2,949)
Tamala Park Proceeds - Post Construction		\$46,676			\$3,500	\$6,000	\$6,500	\$5,667	\$5,833	\$4,167	\$8,500	\$4,333	\$2,176					
Proceeds vs Loan Repayment	By Year	(\$33,691)	(\$2,369)	(\$5,522)	(\$2,001)	\$521	\$1,044	\$235	\$426	(\$1,215)	\$3,145	(\$995)	(\$3,123)	(\$5,270)	(\$5,239)	(\$5,207)	(\$5,173)	(\$2,949)
Proceeds vs Loan Repayment	Cumulative		(\$2,369)	(\$7,890)	(\$9,891)	(\$9,369)	(\$8,325)	(\$8,090)	(\$7,665)	(\$8,880)	(\$5,735)	(\$6,730)	(\$9,853)	(\$15,122)	(\$20,361)	(\$25,568)	(\$30,741)	(\$33,691)

