A Review of the Joondalup Performing Arts Centre Facility's Financial and Options Evaluation

EXECUTIVE SUMMARY

The City of Joondalup through its Officers and consultants have undertaken a thorough and comprehensive investigation of the economic and social benefits for proceeding with the Joondalup Performing Arts Centre Facility (JPACF).

It was recognised that while considerable evaluation of the project from concept through to schematic design was undertaken there was a need to review the operating structure (management model) and test the validity of the operating income and expenditure assumptions used in preparation of the JPACF Business Case.

Having read the Business Case and Appendices as presented, I am satisfied that with respect to the basic assumptions used, a conservative approach has been applied, given that if approved, the project will come to fruition in approximately 3 years and that the financial projections have been determined a further 5 years out.

The following issues have been identified and commented on in this report:

- Consideration should be given to reviewing the presentation of income from the theatres.
- Consideration should be given to highlighting the $ value of benefits provided to the community.
- A decision on the Facility Management Model requires to be confirmed if the project proceeds.
- There is potentially a further $250,000 in income which could be generated. If this was realised, then the estimated subsidy could be reduced in the range between $100,000 and $150,000 after allowing for proportionate cost escalations.
- Permanent staff resourcing requires consideration with the engagement of a fulltime Facilities Manager.
- The selection and purchase of technical equipment is critical to the operation of the theatres and attractiveness to potential hirers. A detailed breakdown of the Elemental Costs of Technical equipment is required and assessed with budget estimates.
- An effective communications strategy is required to address negative publicity, and objections from competing business (café's, reception centres, etc.) and to articulate the benefits of the Facility.
- Suggested Management and Governance model for the Joondalup Performing Arts Centre Facility.

The development of JPACF is a bold step which requires a significant capital investment by the City of Joondalup. Given the depth of research, financial analysis and risk assessment by independent consultants, the City's Financial Analyst and City Projects team, I believe that a more thorough assessment could not be undertaken by another State or Municipal Authority as the JPACF team have.

The success or failure of such an undertaking does not solely lie with one person or group, instead it lies with the community as a whole and their ability to recognise the benefits both social and financial, in the long term. The challenge for the City is the ability to effectively communicate the advantages of having a facility such as JPACF in the community.

BACKGROUND

Following a meeting with officers of the City of Joondalup, the author was consulted to review the Business Case and supplementary information provided in support of a proposal to build a multi-purpose Performing Arts Centre consisting of two auditoria, rehearsal rooms, exhibition galleries, conferencing and exhibition spaces, bar and catering facilities, curatorial storage, management offices, multi storey car-park and Chinese Cultural Garden.

The City has undertaken a substantial body of research with consultative work engaging specialist architects and planners, economic and market analysts, performing arts industry bodies and arts practitioners. Additionally, the City has used its own internal resources to prepare its financial modelling on the construction and operating costs of the Joondalup Performing Arts Centre Facility (JPACF).

IN SCOPE

This review covers the Financial and Options Evaluation (Appendix 4) as it applies to the auditoria, rehearsal rooms, management offices including the management, income generators and operating costs (pre-opening and operating) and additional comments as observations, and as they relate to the functioning of the JPACF as a fully integrated destination venue servicing a diverse constituency.

OUT OF SCOPE

The following items were reviewed in the course of this assignment however the author cannot verify the accuracy and the assumptions made by the consultants on whose reports the City has prepared the Business Case:

- Economic and Social Impact Assessments
- Project costs
- Capital Funding
- Parking Income
- Appendices 1-3 and 5-9

PRELIMINARIES

A meeting was held with Mr Blignault Olivier, Manager, City Projects, Mr Scott Collins, Senior Project Officer and Mr Alan Ellingham, Senior Financial Analyst from the City of Joondalup in order to receive an overview of the project via a visual presentation and a document which summarised the project including schematic drawings, economic analysis and costings.

REVIEW:

Assumptions:

- This review is based on the modelling prepared using Option 2 (Revised Costings July 2016) with respect to operating income and expenditure for the period Year 5 (2023-24) in the life-cycle of the JPACF.
- The operating income and expenditure has been based on forecasts as at 2023-24 and should be reviewed in line with market rates and conditions which will exist at the time of proceeding with the project.

Operating Analysis:

An independent evaluation of the assumptions detailed in the JPACF Business Case, was undertaken to assess if:

- the validity of the assumptions relating to the income and expenditure were reasonable.
- adequate provision was made for pre-opening expenditure.
- the program model, including attendances, JPACF presentations, commercial and community hires was achievable.
- there were additional sources of revenue not identified in the Business Case.
- additional expenditure was required to successfully operate the facility.
- the value to the community was quantified in $ terms.
- the estimated subsidy of $871k was achievable, all other assumptions being unchanged.

<u>Pre-opening Expenditure</u>

The majority of pre-opening budget of $672k in 2018-19 represents staff costs, which prima facie appears reasonable, however it appears that the marketing budget of $33k is lower than one would expect for the commissioning of a major facility such as JPACF – unless the marketing resources of the City are being utilised.

Notwithstanding the marketing support from the City, provision has to be made for brand development, web design and implementation marketing collateral, etc. This could conservatively cost up to $150k. It is conceivable that this sum has been budgeted in the project costs. if not, the budgeted sum of $672k requires a review and offset from savings extracted from Staff and Administration costs or the cost of brand development, etc. could amortised across the first five years of the life-cycle of the JPACF.

<u>Program Model</u>

Critical analysis was undertaken to determine if the assumptions for the utilisation of the **Primary Theatre** was reasonable as this venue represents a major source of income. The same principles could be adopted for the Secondary Theatre.

Rationale:

Using data from the State Theatre Centre of WA *(Refer JPACF Comparative Analysis)* events/performances across several entertainment genres currently stands at 260. There is no reason that a similar result cannot be attained at JPACF as there are insufficient venues in Perth to accommodate a commercial producer's requirement. The newly refurbished **Regal Theatre** is currently booked solidly, **His Majesty's Theatre** cannot provide dates for commercial productions because of significant commitments to the WA Opera and Ballet companies, **The Astor Theatre** appeals to a contemporary music audience with some comedy for single events but without much appeal to interstate and international production companies who require 'seasons' consisting of more than one performance.

To assess the 'reasonableness' of the number of events which could be presented at the Primary Theatre, a schedule of potential hirers and entertainment genre was prepared *(Refer JPACF Comparative Analysis)* and compared with the Program Model (ref table page 307 JPACF Business Case) as per comparison below:

Primary Theatre	Presented events	Commercial	Community	TOTAL
JPAC Business Case	43	77	68	188
Reviewed - R Gracias	61	114	68	243

Projected Income – Primary Theatre

Notwithstanding that the review identified 55 potentially additional events, for the purpose of this exercise, the number of events identified in the Business Case has been used, with the following modifications:

- Gross rental income has been separated from wage recoveries to differentiate rental income from 'cost recoveries'.
- A 20% administration overhead recovery has been applied to wage recoveries as this is a 'real cost' which was not taken into account in the Business Model.
- Community and City hiring's have been charged at 'full rates' and discounts shown separately so as to quantify the $ value to these groups.
- Presented Events have a net ticketing price of $45 instead of $40. This is because empirical evidence of current ticketing prices to the type of events presented at similar sized venues attract a net ticket price between $55 and $70. The effect of this revised pricing strategy will result in an additional $91k ($822k minus $731k).
- Commercial Hires have been increased by 3. This will result in gross rental income of $215.5k

As a consequence of the above assumptions, a revised Annual Income projection is summarised below which compares with the table on Page 310 of the Business Case (Item 7.6 Annual Income Projections)

	JPACF TOTAL	REVISED MODELLING				
		Ticket sales	Rental	Recoveries	Discounts	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Presented	731.0	822.4				822.4
Commercial	296.9		215.5	110.7	NA	326.4
Community	190.3		183.6	94.3	(103.4)	174.5
Total	**1,218.2**	**822.4**	**399.1**	**205.0**	**(103.4)**	**1,323.1**

Assessment:

1. The JPACF assumptions are conservative and should not be changed. However, the methodology for expressing the income should be considered because:
    a. The pricing at ''full value' to Community and City enables the **value** to the community to be clearly identified - in the above illustration is **$103.4k**.
    b. The income from base rentals should be identified separately from 'cost recoveries' so as to assess whether or not full cost recoveries are being made from individual events.

2. There remains a potential for increased income through the partial recovery of Administration Overhead which is industry practice.

3. One would need to consider the 'value' of JPACF presentations if, the cost of presenting 43 events and earning $822.4 (or $731k) is going to incur a Cost of Sales of 110% or $82.2 and $73.1k respectively. Venue activation could be one possible justification; however, JPACF Management would need careful consideration of the practicalities and cost/benefit of such an initiative measured against attaining bookings from commercial producers/hirers.

<u>Recommendation</u>

1. Recast the Table as illustrated on Page 310 of the Business Plan to identify the separate components of income.
2. Ensure that the community benefits are quantified in the Business Plan.

Secondary Theatre

The principles used in determining the revised model for calculating income from the Primary Theatre can be used for the Secondary Theatre.

As a comparator model for the Secondary Theatre is the State Theatre Centre's data *(Refer JPACF Comparative Analysis).* The estimates provided in the JPACF Business case are reasonable, however the model should be re-cast in a similar manner as used for the Primary Theatre as this would illustrate the community benefit in $ terms, conservatively estimated to be $125,000 for both theatres.

OTHER INCOME

<u>Ticketing</u>

The facility is expected to generate a considerable number of patrons and much of the visitations will require ticketed events. Ticketing is a major income source of PAC's and this income stream appears to have been omitted from the Business Plan.

Every ticket sold comprises of a base price (which the promoter receives) and a 'inside charge' or ticketing fee retained by the venue solely or shared with a third part ticketing agency. The purchaser purchases a ticket which has a combined cost (base price and ticketing fee). There may be additional charges for delivery, credit card, etc.

Ticketing fees (inside charges vary depending on the negotiation with a presenter, base ticket price etc.) varies between $1.50 and $4.50. Naturally, if the JPACF elect to manage ticketing themselves, there are costs such royalty payments to ticketing software providers, staff, etc. associated with such income, however a net return of $1.00 per ticket can be assumed.

Generally, centre's such as the proposed JPACF either use third party ticketing agencies or operate the ticketing 'in-house', as this represents incremental revenue for the facility.

Using the estimated attendances in the Business Case, it would be fair to assume a potential gross income of $158.2k from Ticketing represented by the following table:

Attendances	Tickets	@each	
Theatres	97,400	$1.25	$121,750
Conferences & Exhibitions	36,480	$1.00	$36,480
		TOTAL	**$158,230**
	Less staff costs		$30,000
		Net Income	**$128,000**

Interest Received

A facility such a JPACF will be generating a significant cash flow through the sale of tickets, deposits for venue hire, and various other income streams. Much of these funds would be retained by the facility until events have been presented providing the facility with a substantial cash flow, much of it held in trust accounts until the time for acquittal occurs.

It was noted that there is no assessment for interest earned by the facility from the funds held in trust.

Empirical evidence, which is dependent on turnover, is that there is a potential of between $15,000 to $25,000 in interest earnings which could be factored in the financial projections.

EXPENDITURE

Staff and maintenance cost represent a significant portion of the operating budget and unless carefully budgeted and monitored these expenditures can distort the budgeted net operating subsidy with disastrous results.

Whether through coincidence or not, the projected net subsidy of $871k is about the same amount as the estimated Staff Costs excluding Cost of Sales (page 321 of the JPACF Business Plan).

While an amount of administration overhead is recoverable from hirers (and this should also apply for all theatre, conference and exhibition bookings) where there is a recharge for labour, there is no allowance for the engagement of a fulltime Facility Manager.

A building the size of JPACF requires a dedicated fulltime professional Facility Manager. This cost has been overlooked and will alter the financial dynamics and expenditure projections. It would be fair to say that this cost could be ameliorated either by increasing the cost recovery of wages or via an increased Administration Overhead percentage.

FACILITY MANAGEMENT

A key element to the successful operation of a facility the size of the JPACF is the selection of a management team to ensure that the owner's objectives and the strategic plans of JPAC are being met.

Reference in the PRACSYS report has suggested four possible management options. In my opinion the least preferred in an outsourced model as the Facility has very little opportunity for generating profits from its operations and little incentive for a commercial venue manager. Similarly operating the JPACF as a division of the City of Joondalup is equally disadvantageous to the City for a number of reasons, aside from 'arm's length' management and decision making. An incorporated body such as used for the Bunbury Regional Entertainment Centre should be considered.

http://www.bunburyentertainment.com/view/brec/org-structure-visible

An Incorporated Body, distinct from the City would enable greater sponsorship opportunities and recourse to external sources for funding from State based organisations such as Lotteries Commission and Healthway for Community Performing Arts Programs.

There are a number of national theatre companies funded by a national body (Australia Council for the Arts http://www.australiacouncil.gov.au/) to tour across Australia. These companies often by-pass Perth because of a lack of venue availability or support.

The recommended composition of the Incorporated Body would be three (3) Councillors, the CEO City of Joondalup, one (1) representative from the combined TAFE, ECU and Police Academy, two (2) Community Group representatives. The Incorporated Body (or Trust) could be chaired by a leading business leader from within the City jurisdiction or eminent person with prior corporate and governance experience.

In concluding this review, I concur with the statement made by Pracsys that, quote *"as demonstrated by experience of benchmark performing arts facilities…… there is a potential risk of over-investing in a single cash flow negative cultural and arts facility, with long term ramifications for the City's future budget"* unquote, however, the City's administrators could never be accused for failing due diligence in embarking on a significant and iconic facility for the local and wider community.

Thank you for giving me the opportunity to comment on the proposed Joondalup Performing Arts Facility.

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