



Ordinary Council Meeting

28 August 2019

LATE ITEM

REPORT & ATTACHMENT

ITEM NO

SUBJECT

11.1.2

MARGARET RIVER HEART VENUE MANAGEMENT

ATTACHMENT

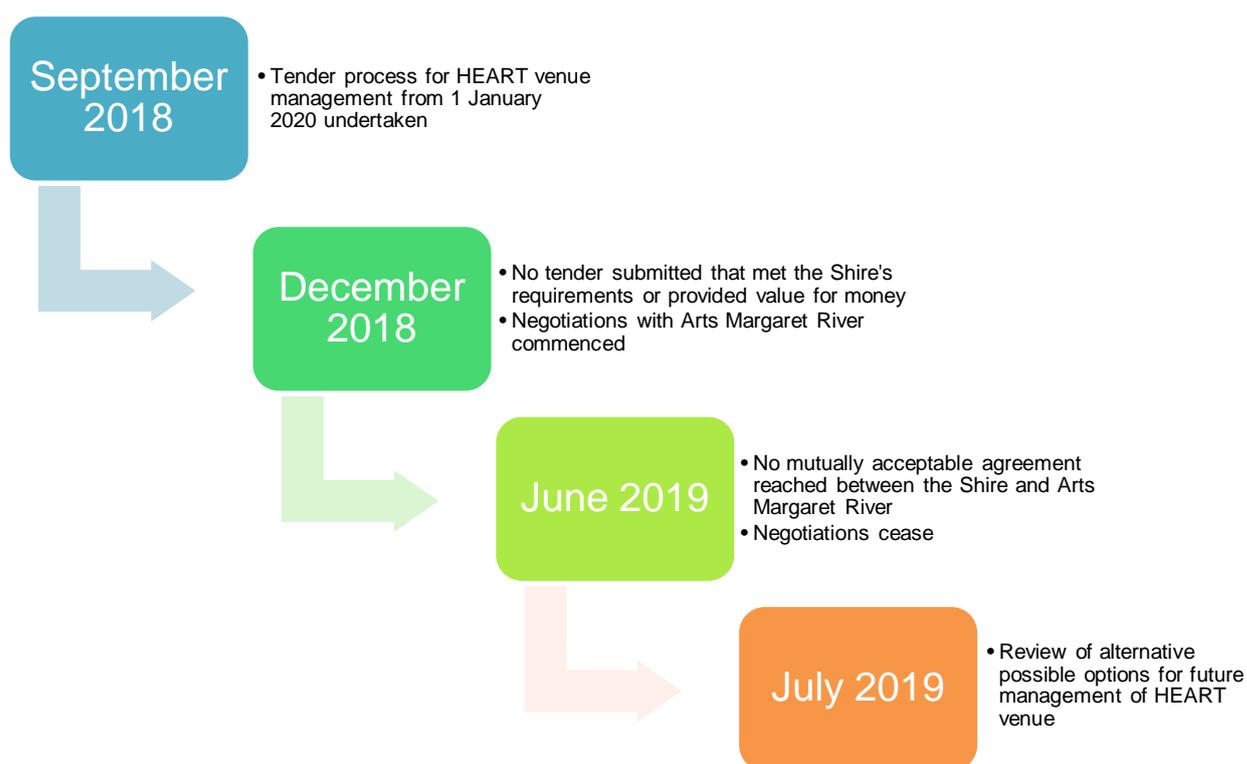
1. Margaret River HEART Venue Management – the way forward

11.1.2 MARGARET RIVER HEART VENUE MANAGEMENT

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	N/A
FILE REFERENCE	CPT/76
REPORT AUTHOR	Stephanie Addison-Brown, Chief Executive Officer
AUTHORISING OFFICER	Stephanie Addison-Brown, Chief Executive Officer

IN BRIEF

- The Shire of Augusta Margaret River (Shire) has a long history in supporting the arts, as formalised through its Community Strategic Plan and community development initiatives. With the imminent expiry of the current management agreement with Arts Margaret River, and in conformance with the *Local Government Act 1995* and Regulations the Shire are legally required to comply with, the Shire went out to tender for the ongoing management of the HEART venue.
- Following its difficulty in finding a suitable party to manage the new HEART venue through this process and subsequent negotiations, the Shire then undertook to review the relevance and adequacy of its current governance and management model.



- As part of this review, the Shire looked at the vision and key outcomes expected from the operation of the venue, and investigated various governance and management models to support achievement of these outcomes, particularly in relation to:
 - Increasing community access and participation
 - Improvement of the venue's financial viability in order to reduce reliance on ratepayer funding
 - Gaining presence in the Business Tourism (Meetings Incentives Conventions Exhibitions - MICE) market to provide flow-on benefits to the local economy

- Ability to reinvest profits generated back into the HEART to ensure operating and maintenance cost can be met i.e. profits returned directly to the venue not a third party.
- Three models were compared under the scope of this review:
 1. Shire managed venue, supported by an annual Community Culture and Arts Development Fund to support a range of cultural and arts events within the HEART. This program will be available to individuals, schools and community groups for events in the HEART thus ensuring an open, equitable and accessible opportunity to culture and arts funding from the Shire. Funding would be made available to support annual programs, a calendar of events and one-off, ad hoc event applications.
 2. Shire managed venue, with the Shire entering into a contract with a single service provider to deliver an annual culture and arts program for a fixed fee.
 3. Fully outsourced venue management model, with the venue manager being responsible for the full operations (including all operating and utilities costs) and therefore taking revenue from the entire spectrum of HEART activities for a fixed fee.
- Strengths and weaknesses of each model were evaluated, and high level, indicative budgets were prepared for each model.
- The Business Case, which underpinned grant applications for funds to redevelop the Cultural Centre, outlined the vision for the Margaret River HEART. The vision for the Margaret River HEART as stated is as follows:
To create a vibrant **Hub** for **Entertainment, Arts and Regional Tourism (HEART)** that will enrich the quality of community life and strengthen and diversify the Margaret River Region's economy.

RECOMMENDATION

That Council:

1. Notes the presentation of this report;
2. Endorses the overall vision and key outcomes as outlined in this report;
3. Endorses, and authorises the CEO to implement the Governance and Management Model 1. a Shire managed venue including: adoption of a Community Culture and Arts Development Fund, the formation of a HEART Reference Group and employment of required staffing;
4. Allocates appropriate funds in the 2019-20 annual budget and Long Term Financial Plan to implement the new Governance and Management Model;
5. Notes that 2019-20 is a transitional year and requests the CEO to prepare a report on the operation of the HEART venue for presentation to Council in June 2020 and June 2021;
6. Thanks Arts Margaret River for the commitment to the delivery of their cultural and arts program throughout the course of their contracted term, and especially during the construction period; and
7. Authorises the CEO to negotiate any transitional arrangements, including a possible financial contribution to Arts Margaret River to subsidise their ongoing operating costs as well as offering in-kind office accommodation within the collaborative workspace of the HEART facility.

LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

See Attachment 1

CONSULTATION AND ADVICE

External Consultation

B2 Consulting: an external firm to assist in exploring options available with regards to the operation of the Margaret River HEART

Internal Consultation

- Acting Director of Corporate and Community Services

- Project and Procurement Officer
- Margaret River HEART Project Manager
- Margaret River HEART Marketing and Projects Officer

DISCUSSION / OFFICER COMMENTS

See Attachment 1

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Local Government Act 1995

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 2: Welcoming, inclusive and healthy communities

Objective: Strong communities are welcoming, safe and enjoy quality lifestyles that celebrate their local identities, diversities, cultures and histories. The Shire fosters community resilience, connection and wellbeing through its social planning, recreation, safety, education, preventative health and social justice strategies.

Key Result Area 4: Vibrant and diverse economy

Objective: The local community is resilient and independent, based on self-sufficiency in food, energy and services. The Shire's economic development framework is built on natural environment, tourism, viticulture, agriculture, retail, knowledge and creative sectors that provide a sustainable range of business and job opportunities.

Key Result Area 5: Effective leadership and governance

Objective: Council leadership is visionary, effective, transparent and trustworthy. The local government actively engages and consults the community to understand their aspirations for the future, drives positive change and diversity, and adds measurable value.

PLANNING FRAMEWORK

The proposal is consistent with the Civic, Cultural and Recreational Planning for the precinct and is zoned appropriately.

FINANCIAL IMPLICATIONS

See Attachment 1

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

A range of social and community development benefits are expected to be derived from the introduction of the new HEART venue, and these details have been published in previous Council reports and in the attached report.

Economic

A range of economic modelling has been undertaken by independent consultancy firms for the Shire with regards to the HEART Project, and these details have been published in previous Council reports.

The following outcomes also apply to the HEART's economic aims and objectives:

- Improve the venue's financial viability in order to reduce reliance on ratepayer funding;
- Gaining presence in the Business Tourism Meetings Incentives Conventions Exhibitions (MICE) market to provide flow-on benefits to the local economy;
- Ability to reinvest profits generated back into the HEART to ensure operating and maintenance costs are met.

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That Council:

1. Notes the presentation of this report;
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4. Allocates appropriate funds in the 2019-20 annual budget and Long Term Financial Plan to implement the new Governance and Management Model;
5. Notes that 2019-20 is a transitional year and requests the CEO to prepare a report on the operation of the HEART venue for presentation to Council in June 2020 and June 2021;
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7. Authorises the CEO to negotiate any transitional arrangements, including a possible financial contribution to Arts Margaret River to subsidise their ongoing operating costs as well as offering in-kind office accommodation within the collaborative workspace of the HEART facility.

ADVICE TO APPLICANT / PROPONENT

Nil

ATTACHMENTS

1. Margaret River HEART venue management – The way forward



Margaret River HEART venue management

The way forward



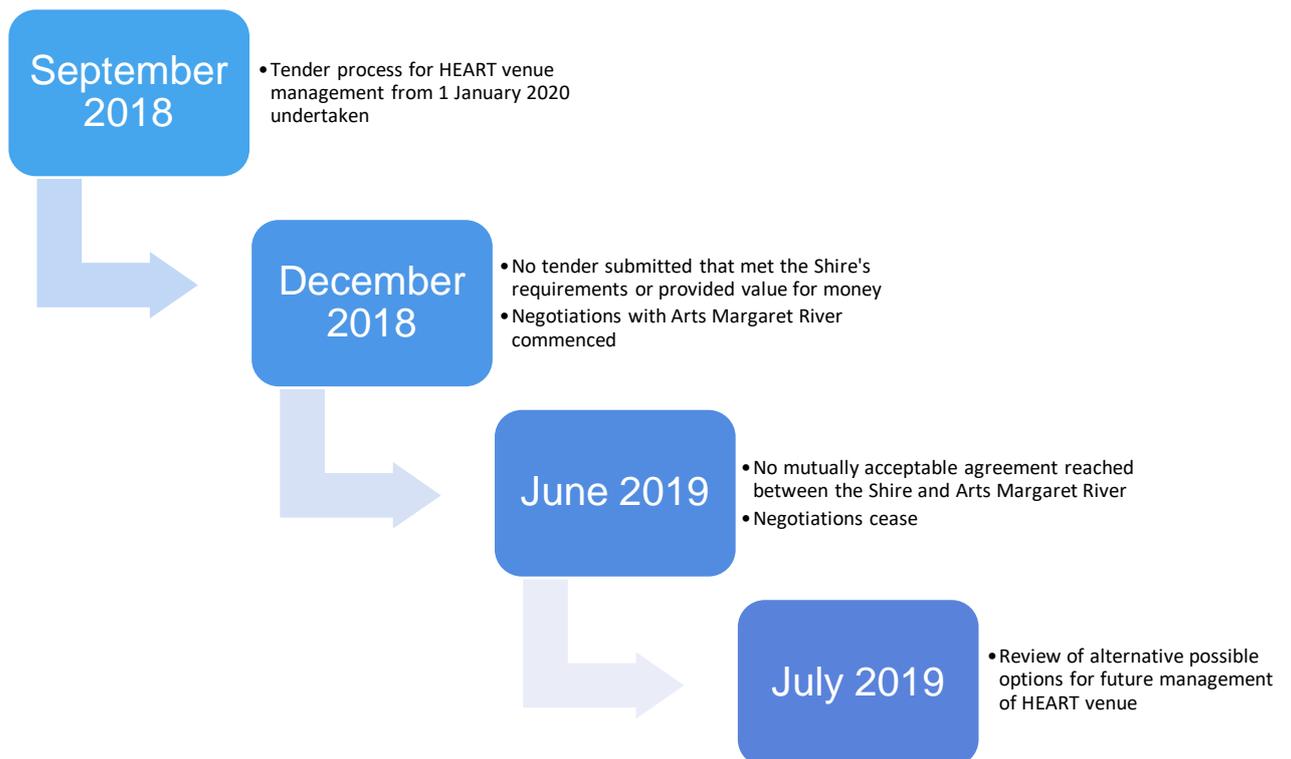
Contents

1. Executive Summary	3
2. Background	5
2.1 Purpose of Report	5
2.2 Expansion of Margaret River HEART (formerly Margaret River Cultural Centre)	5
3. Current position	7
3.1 Current licence agreement	7
3.2 Tender process	8
3.3 Post-tender negotiations	9
3.4 Review of Business Case	9
4. Strategic Context	11
4.1 Strategic Alignment	11
4.2 Legislative Context	12
4.3 Other Frameworks / Policies	13
5 The value of Culture and Arts to our communities	15
5.1 Government involvement in the performing arts sector	15
5.2 Business model going forward	17
6 Organisational Structures	19
6.1 Governance and Management Model 1: Shire Managed - Community Culture and Arts Development Fund	19
6.2 Governance and management model 2 – Shire Managed - Service Level Agreement	27
6.3 Governance and management model 3 – Fully outsourced venue management	33
7 Indicative Financial Estimates	39
7.1 Governance and management model 1 – Shire Managed - Community Culture and Arts Development Fund	39
7.2 Governance and management model 2 – Shire Managed - Service Level Agreement	41
7.3 Comparison of governance and management models	42
8 Comparison of models	44
9 Recommended model	45
10 References	46

1. Executive Summary

The Shire of Augusta Margaret River (Shire) has a long history in supporting the arts, as formalised through its Community Strategic Plan and community development initiatives. With the imminent expiry of the current management agreement with Arts Margaret River, and in conformance with the Local Government Act and Regulations the Shire are legally required to comply with, the Shire went out to tender for the ongoing management of the HEART venue.

Following its difficulty in finding a suitable party to manage the new HEART venue through this process and subsequent negotiations, the Shire then undertook to review the relevance and adequacy of its current governance and management model.



As part of this review, the Shire looked at the vision and key outcomes expected from the operation of the venue, and investigated various governance and management models to support achievement of these outcomes, particularly in relation to:

- Increasing community access and participation
- Improvement of the venue's financial viability in order to reduce reliance on ratepayer funding
- Gaining presence in the Business Tourism (Meetings Incentives Conventions Exhibitions - MICE) market to provide flow-on benefits to the local economy
- Ability to reinvest profits generated back into the HEART to ensure operating and maintenance cost can be met i.e. profits returned directly to the venue not a third party.

Three models were compared under the scope of this review, as follows:

1. **Model 1. Shire managed venue, supported by an annual Community Culture and Arts Development Fund** to support a range of cultural and arts events within the HEART. This program will be available to individuals, schools and community groups for events in the HEART thus ensuring an open, equitable and accessible opportunity to culture and arts funding from the Shire. Funding would be made available to support annual programs, a calendar of events and one-off, ad hoc event applications.
2. **Model 2. Shire managed venue, with the Shire entering into a contract with a single service provider to deliver an annual culture and arts program for a fixed fee.**

3. **Model 3. Fully outsourced venue management model**, with the venue manager being responsible for the full operations (including all operating and utilities costs) and therefore taking revenue from the entire spectrum of HEART activities for a fixed fee.

Strengths and weaknesses of each model were evaluated for each model, and high level, indicative budgets were prepared for each model.

Recommendation to Council

That Council:

1. Notes the presentation of this report;
2. Endorses the overall vision and key outcomes as outlined in this report;
3. Endorses, and authorises the CEO to implement the Governance and Management Model 1. a Shire managed venue including: adoption of a Community Culture and Arts Development Fund, the formation of a HEART Reference Group and employment of required staffing;
4. Allocates appropriate funds in the 2019-20 annual budget and Long Term Financial Plan to implement the new Governance and Management Model;
5. Notes that 2019-20 is a transitional year and requests the CEO to prepare a report on the operation of the HEART venue for presentation to Council in June 2020 and June 2021;
6. Thanks Arts Margaret River for the commitment to the delivery of their cultural and arts program throughout the course of their contracted term, and especially during the construction period; and
7. Authorises the CEO to negotiate any transitional arrangements, including a possible financial contribution to Arts Margaret River to subsidise their ongoing operating costs as well as offering in-kind office accommodation within the collaborative workspace of the HEART facility.

2. Background

2.1 Purpose of Report

Construction works on the redeveloped Cultural Centre (Margaret River HEART) are approaching completion, leaving the building ready for commissioning and occupancy in the near future. In addition, the current management agreement with Arts Margaret River is due to expire on 31 December 2019.

The Shire of Augusta Margaret River (Shire) has a long history in supporting the arts, as formalised through its Community Strategic Plan and community development initiatives. With the imminent expiry of the current management agreement with Arts Margaret River, and as part of its commitment to continuous improvement and value for money, the Shire now has the opportunity to review the relevance and adequacy of its current governance structure and business model to identify any improvements required in order for the venue to achieve its vision.

2.2 Expansion of Margaret River HEART (formerly Margaret River Cultural Centre)

The Margaret River Cultural Centre (Cultural Centre) was first opened in 1983 by Premier Ray O'Connor, and has been the Shire's primary venue for the performing arts and community events since that time.

In 2013, a report was commissioned to fully review the adequacy of the Cultural Centre, and a number of major deficiencies were highlighted in this report, including:

- Asbestos OSH issues in the Cultural Centre and squash courts
- Unacceptable disability access arrangements
- Inadequate bar, kitchen, catering facilities, office accommodation and storage
- Outdated general ambience and presentation
- Outdated toilet and washroom facilities
- Lack of climate control.

As a result of this report, the Shire made plans to undertake a major refurbishment of the 33 year old Cultural Centre and 37 year old squash court facilities to transform them into a **Hub for Entertainment, Arts and Regional Tourism (HEART)**.

The HEART venue is strategically located in the center of Margaret River, adjacent to the architecturally award winning Civic Centre and completing the important Civic, Cultural and Recreational precinct of the town site. The HEART venue is expected to revitalise the central business district of Margaret River, which is the State's premier regional tourist destination for intrastate, interstate and international visitors. The HEART venue will also support the state's \$65 million investment in the Busselton-Margaret River Regional Airport and the growing interest in interstate and international business tourism events within the South West Region. This will allow us to collaborate with other regional conference facilities and providers that may be developed in the future.

The Shire identified the redevelopment of the Cultural Centre as a high priority transformational project under the SuperTowns program and other strategic and tourism development planning processes, as a project which would result in the increased use of the venue for cultural, business, community and tourism events and conferences as well as significant broader local economic benefit. This is reflected in the funding agreements where there is an expectation that the venue will increase its capacity to "pay its way" by diversifying the mix of income generating events. During the consultation process the Margaret River Chamber of Commerce and Industry's (MRCCI) requested for the Shire to become more involved in the provision of a convention centre to host conferences and MICE activities.

The Shire actively sourced funding for a major redevelopment of the Cultural Centre, adjoining squash court and basketball facilities, and was successful in securing a \$9.46m funding package consisting of grant funding, developer contributions, Shire reserves, municipal funds and loan funding.

A Business Case which underpinned the grant application for funds to redevelop the Cultural Centre was developed, which outlined the proposed vision, strategies and governance/management model for the Margaret River HEART.

The vision for the Margaret River HEART as stated in the Business Case is as follows:

To create a vibrant **H**ub for **E**ntertainment, **A**rts and **R**egional **T**ourism (HEART) that will enrich the quality of community life and strengthen and diversify the Margaret River Region's economy.

Construction works are nearing completion, with the entire HEART venue due to be ready for full use later in the year.

3. Current position

3.1 Current licence agreement

Arts Margaret River have been involved in the former Margaret River Cultural Centre operations for a number of years, firstly as the primary user of the venue and more recently under a Licence Agreement (Licence) for the exclusive management and operation of the former Margaret River Culture Centre.

Under the Licence, Arts Margaret River receive a fixed 'Management Fee' for services provided.

Shire contributions to Arts Margaret River from 2013-2019 (YE 30/12/2019) totalled over \$1.6 million dollars and include:

- Venue Management fees
- Relocation expenses to Arts Margaret River office space at Margaret River Community Resource Centre
- Rent paid for Arts Margaret River office space at MR Community Resource Centre;
- Technical services
- Readers and Writers Festival Grants
- Sponsorships and contributions
- Donations and reimbursements
- Programming grant
- Venue hire fees paid to Arts Margaret River (for Shire booked events at HEART).

Over the period from 2013-2019 a profit sharing arrangement has been in place however, this has not resulted in any revenue being returned to the Shire over the six (6) year term.

Under the current Licence Agreement, Arts Margaret River are entitled to also receive all income derived from the venue facility including:

- Cinema ticket sales
- Commercial event ticket sales
- Venue hire income (including personnel, furniture and equipment and technology add on charges)
- Bar and kiosk income
- Commission on visual arts income.

The Licence allowed for an initial term of 3 years from 1 January 2014 to 31 December 2016, with a further possible term of three years, ending 31 December 2019, and outlined how income and expenses would be managed over the Licence term.

On 13 July 2016 Council resolved:

PRIMARY MOTION / COUNCIL DECISION

CR TOWNSHEND, CR LANE OM2016/135

That Council:

1. Congratulates Arts Margaret River Incorporated on their excellent management of the Margaret River Cultural Centre over the past two and a half years under the Licence Agreement;
2. Grants Arts Margaret River Inc a further extension of three years commencing on 1 January, 2017 and expiring on 31 December, 2019; and
3. Updates the Licence Agreement to include a further provision for an extension of three years from 1 January 2020 to 31 December 2022 subject to compliance with the tender regulations included in the Local Government (Functions and General) Regulations 1996.

**CARRIED 6/1
CR HASTIE VOTED AGAINST**

With regard to Council's third point of the resolution, further advice was provided to the Shire's Chief Executive Officer after the making of the resolution, both from internal and external parties. The conclusions drawn from the advice provided was that the further three year extension to 31 December 2022 should not proceed because:

- The Shire could not definitively say that Arts Margaret River would be the sole supplier capable of providing venue management services in 3 years' time, and in order to err on the side of caution and be prudent, the market would need to be reviewed and retested nearer to that time through a competitive process
- The Cultural Centre redevelopment would be such that it significantly changes the scope of work for the management of the centre and the licensed area. Essentially this would mean a change to the scope of the contract which is not permitted under the Regulations
- The existing contract does not provide for this extension or have an intention to extend beyond 2019.

As a result of this further advice, Council made the following resolution on 27 July 2016:

RECOMMENDATION / COUNCIL DECISION

CR TOWNSHEND, CR LANE OM2016/163

That Council:

1. Notes the advice provided by Jam Creative confirming that Arts Margaret River Inc are currently the only likely supplier of management services for the Margaret River Cultural Centre;
2. Reaffirms its decision of 13 July (OM2016/135 part 2) to grant Arts Margaret River Inc a further extension of three years commencing on 1 January, 2017 and expiring on 31 December, 2019;
3. Resolves not to proceed with the updating of the current license agreement to include a further provision for an extension of three years from 1 January 2020 to 31 December 2022 (OM2016/135 part 3) due to the possibility of a new supplier entering the market in three years particularly following the scheduled major redevelopment of the Cultural Centre which is planned to be undertaken over the next two years, and
4. Resolves to call for public tenders for the management of the Cultural Centre before 31 December 2018 or prior to one year before the estimated completion time of the redevelopment of the Cultural Centre whichever is sooner for a contract period of five years with provision for a five year extension and to advise Arts Margaret River accordingly.

CARRIED 7/0

As such, in late 2018 Shire officers commenced the process of putting a tender together for the venue management of the Margaret River HEART from 1 January 2020, following the expiry of the Arts Margaret River Licence.

3.2 Tender process

On 29 September 2018, the Shire advertised the public open tender for venue management of the Margaret River HEART in line with the requirements of the *Local Government Act 1996 (Act)* and associated Regulations (Regulations).

The tender invited suitably experienced parties to apply to manage the entire Margaret River HEART venue, for an initial term of five years from 1 January 2020 through to 31 December 2024, with a possible extension period of five years ending 31 December 2029.

Functions to be undertaken by the successful tenderer in the expanded HEART venue included, but were not limited to:

- Cultural events, performing arts and festivals
- Visual art displays and exhibitions
- Cinema screenings and premieres
- Business meetings, incentives, conferencing and exhibitions (MICE)
- Satellite events in conjunction with major iconic events for the region
- Indigenous, multicultural and historical events and exhibitions
- Community gatherings, events, celebrations and meetings
- Support services when required to be used as an emergency evacuation centre for the Margaret River town site catchment.

In particular, the Meetings Incentive Conventions Exhibitions (MICE) category of events was a significant addition to the scope of services to be offered by the future manager of the HEART venue. This is a category of service which had not previously been offered at the old Cultural Centre.

Due to the ability of MICE events to significantly and positively impact the Shire's economy, it was highlighted as a core venue function in the Business Case underpinning the funding agreements, and formed part of the key deliverables in the redevelopment of the HEART venue.

The successful tenderer was therefore expected to demonstrate its ability and capacity to successfully establish, attract and manage the MICE market, whilst undertaking an expanded cultural and events program in line with community expectations of a state-of-the-art venue.

A single tender submission was received as a result of the tender process. This tender was evaluated by a panel of Shire representatives in line with the requirements of the Act, Regulations and Shire's internal procedures and it was determined that the tender submission did not meet the full requirements or provide value for money for the Shire. The tender process did not result in the appointment of a suitable organisation to be the venue manager.

As a result, at the ordinary council meeting on 12 December 2018 Council made the following resolution:

RECOMMENDATION / COUNCIL DECISION

CR MELDRUM, CR MCLEOD OM2018/339

That Council:

1. Rejects all tenders for RFT 06-19 Margaret River HEART Venue Management on the basis that no tenders received represent value for money for the Shire.
2. Delegates authority to the Chief Executive Officer to:
 - a) Utilise the exemption from calling public tenders contained within regulation 11(2)(c)(i) of the Local Government (Functions and General) Regulations 1996 in order to negotiate with Arts Margaret River – and any other suitable party – to try and form an acceptable and value for money solution to the venue management contract for presentation to Council.
3. Notes that a further report on the future venue management for Margaret River HEART, including outcomes negotiated with Arts Margaret River, will be presented to Council.

CARRIED BY ABSOLUTE MAJORITY 7/0

3.3 Post-tender negotiations

Negotiations between the Shire and Arts Margaret River commenced following Council resolution on 12 December 2018.

A number of key aspects of the tender were negotiated over a period of six months. However, as negotiations with Arts Margaret River progressed it became apparent that an outcome acceptable to both parties would not be reached. As a result, such negotiations were formally terminated in June 2019 after the maximum timeframe allowed was reached under *Local Governments (Functions and General) Regulations 1996*.

3.4 Review of Business Case

The Shire decided to engage an external firm to assist in exploring options available with regards to the operation of the Margaret River HEART.

B2 Consulting were contracted for this purpose, having had high level involvement in project managing some of Western Australia's largest and most complex public projects including Elizabeth Quay, the Perth Convention and Exhibition Centre and Perth Arena.

Under the guidance of B2 Consulting, Councillors and Shire Officers reviewed the relevance of the overarching vision of the Margaret River HEART, as stated in the Business Case:

“To create a vibrant **H**ub for **E**ntertainment, **A**rts and **R**egional **T**ourism (HEART) that will enrich the quality of community life and strengthen and diversify the Margaret River Region's economy”.

The original HEART Business Case underpinned the projects funding and anticipated outcomes. On conclusion, it was determined that the vision for the HEART still remained relevant and represents the overall goal of the venue.

In order for the Shire to meet its commitment towards HEART's future financial sustainability alongside the community's public values it was evident that a review of future governance and management options should be undertaken to provide a clear path to achieving these goals.

The remainder of this report details the options investigated for HEART's future governance and management.

4. Strategic Context

4.1 Strategic Alignment

The Shire's Community Strategic Plan 2036 identifies the role of the performing arts in growing the economy sustainably, increasing social cohesion and creating distinctive, liveable places.

Cultural and performing arts fit in with Council's Key Result Area 2: "Welcoming, inclusive and healthy communities", the objective being:

- "Strong communities are welcoming, safe and enjoy quality lifestyles that celebrate their local identities, diversities, cultures and histories".
- The Shire fosters community resilience, connection and wellbeing through its social planning, recreation, safety, education, preventative health and social justice strategies.

There is an expectation by the Shire and its funding bodies with the introduction of business events and conferencing activities to be offered at HEART, the venue will meet Council's Key Result Area 4: "Vibrant and diverse economy", the objective being:

- "The local community is resilient and independent, based on self-sufficiency in food, energy and services. The Shire's economic development framework is built on natural environment, tourism, viticulture, agriculture, retail, knowledge and creative sectors that provide a sustainable range of business and job opportunities."



Figure 1: Overlap of Shire's Vision at a strategic, overall creative and HEART level

In addition to the Shire's Community Strategic Plan, in 2014 Council adopted the complementary Shire's 'Creative Blueprint 2014-18', a four-year cultural planning framework designed to:

- Reinforce the Shire's commitment to fostering creativity and artistic activity
- Guide the future delivery of the Shire's art and cultural programs, services and activities
- Assist with the planning, development and resourcing of cultural facilities
- Support organisations and groups to provide arts, cultural and heritage services
- Better position the Shire to access funds for local arts, cultural and heritage activities.

The Creative Blueprints Goals are:

Goal 1: Enhance cultural participation and vibrancy

- Outcome 1.1** Cultural events and activities are supported to increase opportunities for positive social interaction
- Outcome 1.2** Grant assistance stimulates arts and cultural endeavours
- Outcome 1.3** There is a sense of local ownership and the community are consulted on art and cultural initiatives
- Outcome 1.4** Local artisans are well known to each other as well as to those seeking their services

Goal 2: Provide sustainable cultural infrastructure

- Outcome 2.1** Priority cultural infrastructure is well maintained, accessible and offered at affordable prices to maximise community use
- Outcome 2.2** Infrastructure projects are linked to art opportunities in highly frequented and iconic places

Goal 3: Develop a Cultural Economy

- Outcome 3.1** Opportunities are provided for up-skilling and development in the creative industries sector so that professionalism and independence are maintained
- Outcome 3.2** Cutting edge technologies are utilised within the creative industries to build innovation and point of difference
- Outcome 3.3** Cultural tourism opportunities are developed and supported

Goal 4: Showcase local history and values

- Outcome 4.1** Showcase the history of Multi-cultural settlement is recognised understood and where appropriate, celebrated.
- Outcome 4.2** The cultural diversity within the community is recognised, respected and valued

4.2 Legislative Context

The *Local Government Act 1995* (the Act) provides the foundation for Council's services.

The Act directs that 'in carrying out its functions, a local government is to use its best endeavours to meet the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity'.

4.3 Other Frameworks / Policies

The purpose and expectations of the HEART venue were further explored in the context of various other State and Federal frameworks and objectives, as part of the Business Case prepared by the Shire to support its applications for funding to complete the redevelopment of the HEART venue.

Framework	Objective	Impact
Royalties for Regions	Build capacity in regional communities	<ul style="list-style-type: none"> Improve tourist infrastructure and improved capacity to host a wide variety of events including community meetings, business and association conferences, performances and movies
	Retain benefits in regional communities	<ul style="list-style-type: none"> Attract additional visitors and retain tourism benefits for the region
	Improve services to regional communities	<ul style="list-style-type: none"> Attract and host a wide range of events and productions, enriching community life of the residents Act as a high class premium cultural and business events venue
	Attaining sustainability	<ul style="list-style-type: none"> Extend the life of existing facilities Achieve financial sustainability through community and commercial participation in the management of the HEART venue and setting aside funds from commercial lease and hire fees
	Expanding opportunity	<ul style="list-style-type: none"> Substantially increase business and community opportunities in the commercial, tourism, arts and creative industries

	Growing prosperity	<ul style="list-style-type: none"> Increased domestic and international visitation, generating additional economic activity within the region and creating jobs
South West Development Corporation (SWDC) Investment Blueprint	<p>Increase number of high quality international events, improve quality of visitor experiences, create vibrancy and activation, improve quality of iconic attractions</p>	<ul style="list-style-type: none"> Build convention facilities to incorporate into an international convention marketing strategy
	<p>Position Margaret River as a regional centre for expanded premium wine production and tourism</p>	<ul style="list-style-type: none"> Build a multipurpose cultural events and conference facility venue to support South West international conference visitation
	<p>Exploit the opportunity of high value digital animation, media, publishing, film, art and music in the region, and develop and promote a unique SW aboriginal art industry</p>	<ul style="list-style-type: none"> Build a creative business hub in the region
WA Planning Commission SW Planning and Infrastructure Framework	<p>Redevelop Cultural Centre to provide a multipurpose facility for cultural events, gallery, display, community support and large conferences</p>	<ul style="list-style-type: none"> Margaret River HEART will meet this objective
WA Regional Development Trust	<p>Regional land and food strategy and planning</p>	<ul style="list-style-type: none"> HEART will be able to host regional wine and tourism events, trade fairs, conferences and seminars relating to regional land and food strategy
	<p>Investment in regional strategic corridors</p>	<ul style="list-style-type: none"> HEART will be an attractive venue for hosting business events for outside business tourism
	<p>Regional business and industry innovation and support</p>	<ul style="list-style-type: none"> HEART was developed in response to the Margaret River Chamber of Commerce and Industry's (MRCCI) request for the Shire to become more involved in the provision of a convention centre to host conferences and MICE activities Perth Convention Bureau, Margaret River Busselton Tourism Association MRCCI, Margaret River Wine Industry Association, major accommodation providers and the Shire will assist in attracting business to the venue

5 The value of Culture and Arts to our communities

Western Australians value arts and culture. According to The Department of Local Government, Sport and Cultural Industries 'Arts and Culture 2018 Factsheet', in 2018, "*Western Australians continue to report high levels of attendance at arts and cultural activities... in the three months prior to the survey, 65 per cent attended arts and cultural activities*".

Public attitudes

The 2018 survey highlights positive levels of support towards arts and culture in the community.



Figure 2. Arts and Culture in Western Australia 2018 'Fact Sheet'; Department of Local Government, Sport and Cultural Industries

5.1 Government involvement in the performing arts sector

Local governments are seeking a closer alignment between their investment in performing arts and the community's visions and priorities. It is recognised that modern venues such as the Margaret River HEART have capacity not only to meet the cultural visions and priorities of the community, but also to take advantage of complimentary activities with the potential to be economically self-sustaining and/or provide flow-on benefits to the wider local economy.

The way in which local government has been involved in the operations of performing arts venues has varied with local government typically utilising one of a number of governance structures and business models. Performing arts facilities are increasingly owned and directly managed by local government, highlighting local government's continued evolution to play an increasingly significant role in engaging with community to plan for the future.

Western Australian LGA owned and operated performing arts venues include:

- Broome Civic Centre
- Carnarvon Civic Centre
- Queens Park Theatre Geraldton
- Red Earth Arts Precinct Karratha
- Moora Performing Arts Centre
- Cummins Theatre Merredin
- Esperance Civic Centre
- Vancouver Arts Centre
- Harvey Recreation and Cultural Centre.

Local Government owned with an independent operator include:

- Beverley Station Arts
- Ravensthorpe Regional Arts Council
- Bunbury Regional Entertainment Centre
- Mandurah Performing Arts Centre
- Arts Narrogin.

Other:

- Matt Dann Theatre and Cinema Port Hedland (Owned by Dept. of Education and operated by Local Government)
- Goldfields Arts Centre (State Government owned and Local Government operated)
- Albany Entertainment Centre (State Government owned and operated with a Local Government subsidy).

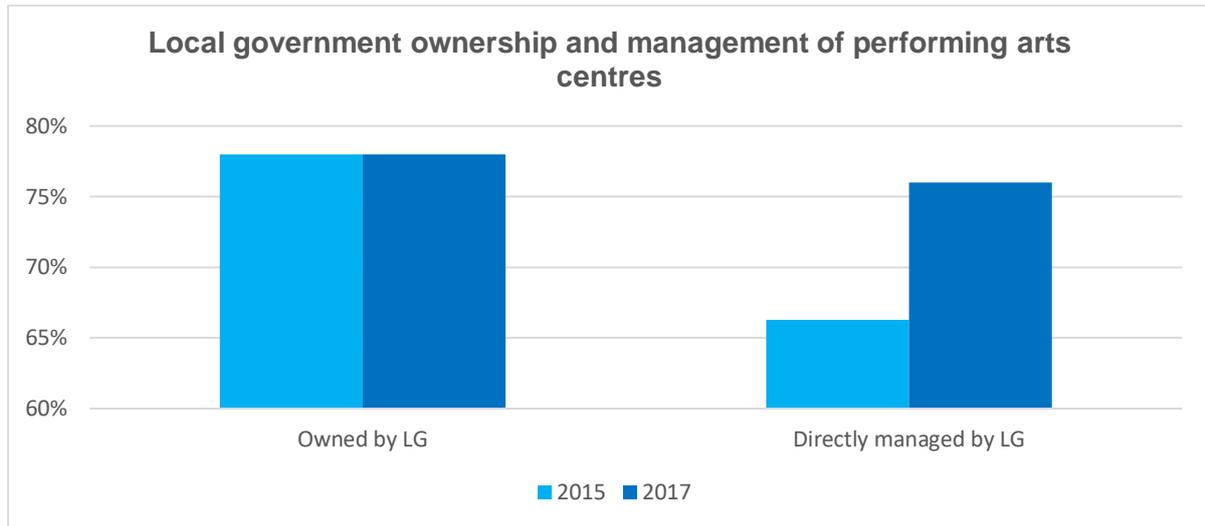


Figure 3: Results from Performing Arts Connections Australia Economic Activity Reports 2015 and 2017

Government funding is a significant contribution to the performing arts sector, with an average of 31% of a performing arts venues, income derived from Government subsidies. Of these Government subsidies:

- 52% comes from local government
- 47% comes from State/Territory government
- 1% comes from Federal government.

The way in which local government has been involved in the operations of performing arts venues, however, is varied, with local government typically utilising one of a number of governance structures / business models.

Over the past decade, the Shire has participated in the operation of the Cultural Centre through:

- Providing an annual fixed fee under a Licence Agreement for the exclusive operation and management of the Cultural Centre, whereby the Licensee is responsible for all arts and cultural programming, venue hire, cinema screenings and other activities and takes all revenue from the venue's operations
- Providing capital assets and funding all capital works required to maintain and improve the assets of the Cultural Centre
- Under the terms of the Licence the Shire is also responsible for a major portion of the venue's operating costs including maintenance and utilities after completion of the HEART redevelopment.

5.2 Business model going forward

The Shire has an obligation to balance ‘business’ and ‘arts’ to ensure financial viability for the HEART while delivering on the vision and relevant community outcomes.

Vision

“To create a vibrant **H**ub for **E**ntertainment, **A**rts and **R**egional **T**ourism (HEART) that will enrich the quality of community life and strengthen and diversify the Margaret River Region’s economy”.

Key Outcomes and Deliverables for HEART

Community Outcomes

- ✓ Improved access for individuals, schools and community groups via the Shire’s Community Culture and Arts Development Funding opportunities
- ✓ Delivery of a diverse program of events representing various community and cultural segments
- ✓ Provision of equitable and affordable access for the community to the venue
- ✓ Increased civic pride, shared community identity and active citizenship
- ✓ Increased venue utilization
- ✓ Increased attendance at events

Social Capacity Outcomes

- ✓ Provision of training and employment opportunities
- ✓ Provision of volunteer opportunities and development programs
- ✓ Provision of opportunities which inspire creativity in a diverse number of community groups
- ✓ Enhanced community cohesion through the provision of a collaborative workspace

Economic Outcomes

- ✓ Increase income streams to reduce reliance on rates funding
- ✓ Revenue returned to the HEART to offset operational and maintenance costs
- ✓ Local job opportunities, traineeships and internships
- ✓ Increased ability for the Shire to attract external grants opportunities
- ✓ Facilitate sustainable local economic development and population retention

In order to meet the outcomes of HEART, meet the needs and expectations of residents and support our local economy, the new Margaret River HEART must evolve.

One of the critical factors to the success of the venue and delivery of outcomes is the governance model underpinning the operations of the venue. The remainder of this review explores Governance and Management options for HEART. Three different organisational structures have been modelled:

- Model 1. Shire managed venue, supported by an annual Community Culture and Arts Development Fund to support a range of cultural and arts events within the HEART. This program will be available to individuals, schools and community groups for events in the HEART thus ensuring an open, equitable and accessible opportunity to culture and arts funding from the Shire. Funding would be made available to support annual programs, a calendar of events and one-off, ad hoc event applications.
- Model 2: Shire managed venue, with the Shire entering into a contract with a single service provider to deliver an annual culture and arts program for a fixed fee;

- Model 3: Fully outsourced venue management model, with the venue manager being responsible for the full operations (including all operating and utilities costs) and therefore taking revenue from the entire spectrum of HEART activities for a fixed fee.

6 Organisational Structures

6.1 Governance and Management Model 1: Shire Managed - Community Culture and Arts Development Fund

6.1.1 Overview of model

The first model would involve the Shire being the overall manager of the Margaret River HEART venue. The Shire would allocate funding towards a Community Culture and Arts Development Fund on an annual basis for events within HEART. The grant program will be available to individuals, schools and community groups for events in HEART thus ensuring an open, equitable opportunity to access culture and arts funding from the Shire. Funding would be made available to support annual programs, a calendar of events or one-off, ad hoc events. This would ensure a diverse mix of activities and events to activate the venue and ensure broad community access.

The Community Culture and Arts Development Fund priorities would be to support local events, projects or programs that:

- Increase the number and variety of arts and cultural activities available at HEART
- Positively contribute to the well-being of the artistic and cultural nature of the community
- Support the development of arts and cultural groups within the Shire of Augusta Margaret River
- Enhance the cultural fabric of the Shire of Augusta Margaret River.

Under this model the Margaret River HEART would maintain a strong association with the many local theatre, musical, dance and other community not-for-profit and special interest groups that are flourishing in the Shire. These groups are important in garnering local ownership of the Margaret River HEART and ensuring a recognition and familiarity with the venue.

The types of activities and events that would be supported under the Community Culture and Arts Development Fund program include:

- Concerts
- Digital media
- Theatre productions
- Dance productions
- Seniors events
- Youth performances
- Visual art displays and exhibitions
- Festivals and events e.g.; Emergence, Cabin Fever, Margaret River Readers & Writers Festival
- Indigenous, multicultural and historical events and exhibitions
- Community gatherings, events and celebrations e.g.; carols by candlelight, community fundraisers.

For example, under this model culture and arts organisations or event organisers such as the Margaret River Theatre Group, Creative Corner and Arts Margaret River could apply for funding to deliver regular or annual commercial events, whilst smaller groups, individuals or schools could apply for funding for one-off performances, fundraising activities, workshops and events that support community engagement in grassroots culture and arts activities.

Funding would be made available to support:

- Annual programs,
- A calendar of events
- One-off or ad hoc event applications.

The Community Culture and Arts Development Fund would provide for creative development, engage administrative support, and purchase small capital items for arts and cultural activity or commission professional artists to present or develop a new work. The Community Culture and Arts Development Fund would also allow for the application of venue fees waivers (in-kind support) to be applied in conjunction with venue.

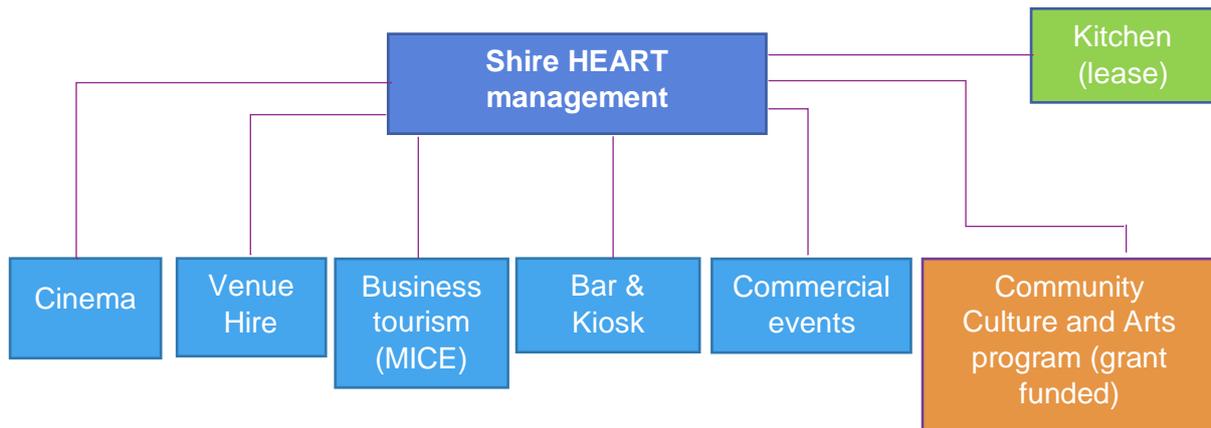
6.1.1.1 Governance Structure



The Shire would manage the venue under the strategic governance of Council, supported by a HEART Reference Group, comprising a number of skilled and experienced community members from diverse backgrounds to reflect the broad range of focus areas for the HEART. The Reference Group would be consulted on strategic issues including the development of a strategic plan for the HEART.

6.1.1.2 Revenue Streams and Service Levels

This model would see a Shire managed venue, supported by an annual Community Culture and Arts Grant funding program to support a range of cultural and arts events within the HEART. The Shire would invite individuals and community groups to apply for funding to undertake culture and arts events, but would otherwise be responsible for the delivery of all other venue functions including cinema, venue hire, commercial ticketed events program, business tourism (MICE market) and other commercial activities.



6.1.1.3 Workforce Planning

Under this model, the Shire would staff the venue using a combination of full-time, part-time and casual employees, including:

- HEART Coordinator – 1.0 FTE (new position)
- Technical and Production Supervisor – 1.0 FTE (new position)
- Marketing & Communications Officer – 1.0 FTE (2019-20 budgeted position)
- Cleaner – 1.0 FTE (2019-20 budgeted position).

The staffing of the HEART would be supported by additional casual pools for box office, technical support, front of house and back of house providing new local employment opportunities for the local community.

The Shire would also build further social capacity through the establishment of a range of volunteering opportunities, traineeships, youth bursaries and partnerships with organisations such as TAFE and other educational institutions.

6.1.2 Process for implementing model

The Licence Agreement with the current venue manager expires on 31 December 2019.

Should Council resolve to implement this model, in the interim, between Council's decision and the expiry of the Licence:

- Venue hire fees and charges could be determined immediately
- Shire could commence taking bookings with confidence for the coming year
- The Shire would establish the HEART Reference Group.
- The Shire would prioritise the development of a HEART volunteer program

6.1.3 Operation of model

Programming

HEART's Culture and Arts programming would be developed via two streams;

1. *Community Led.* Shire would establish an annual Community Culture and Arts Development Fund whereby it would allocate a certain amount of grant funding to support community-led cultural and arts events within HEART. Open round grant funding will be made available throughout the year and would offer a mix of cash and in kind – by way of venue hire fee waiver, support service waivers and cash support.
2. *Shire Led.* The Shire would also source performances, business tourism and events of a commercial nature.

Community Benefits

Community benefits of this model include:

- Reduced community venue hire fees to ensure community access and affordability
- Coordinated programming to reduce the risk of community events being bumped or knocked back due to conflicting bookings
- Shire can offer community fundraising opportunities (such as bar and kiosk)
- Community has access to a free collaborative workspace who are utilising HEART for an upcoming performance or event
- Internships – build experience and skills
- Traineeships – build experience and skills
- Volunteering opportunities

Revenue streams

Venue Income

Under the Shire managed model Community Culture and Arts Development Fund, the Shire would manage HEART's operating processes and therefore revenue streams. The model would enable the Shire to develop structured and considered growth strategies around the venue's activities, product extensions and diversification, thereby reducing reliance on ratepayer funding as revenue streams increase.

Revenue would directly offset the venue's annual operational costs, asset maintenance and renewal programs. Identified revenue streams include:

- Cinema ticket sales

- Commercial event ticket sales (and commission based)
- Venue hire income
- Business tourism (MICE events) venue, food and beverage packages income
- Licenced bar
- Kiosk sales
- Kitchen lease income
- Merchandise sales
- Membership sales

State / Federal Funding Opportunities

Under this model, the Shire would be the venue owner and manager, providing greater eligibility and access to Federal and State Culture and Arts investment and grant funding programs, community service and development and strategic development grants, including but not limited to:

- Regional Arts and Culture Investment Program (RACIP) \$20 million available through a range of categories in 2019-2023. [Read the press release here:](#)
- The Department Primary Industry Regional Development Regional and Remote Touring Fund, grants up to \$200K
- Regional Economic Development Grants (RED) program, grants up to \$250K
- Department of Culture and the Arts (Arts Organisation Investment Program)
- Lotterywest and Healthway grants (various funding amounts)

Funding streams provide for connected cultural experiences, senior's programs, venue activation, venue employment, community inclusion and participation, regional and remote festivals, youth culture engagement and partnership funding to develop strategic regional MICE and creative and culture plans and activities.

Other Income

In addition to revenue derived through operations and from State and Federal grant opportunities, the Shire would investigate other income opportunities, sponsorships, donors and patrons.

Cost structure

Under this model the Shire would be responsible for all operating costs:
These costs will be offset by revenue streams:

- Building operation, maintenance and cleaning costs
- Utilities costs
- Cost of running commercial and business tourism events
- Venue staffing
- Asset Renewal and Maintenance program for future works (e.g. Replacement of seating, floor sanding and resurfacing, equipment repair and maintenance)
- Capital works

The HEART venue is a new facility with no previous cost data attached to it. Whilst the Shire has been able to produce reasonable estimates of the costs of running the venue, taking on management of the venue would allow the Shire to take time to understand costs and operational requirements of the new venue whilst minimising fixed costs.

Marketing & communication

Brand

Council has previously endorsed and invested in the development of the Margaret River HEART brand name and noted the considerable value of brand equity acquired in the name to date. The Shire owns all intellectual property rights to the Margaret River HEART name and logo under Trade mark number: 1958508 Classes 41:43. **Margaret River HEART®**.



Under this model the Shire will implement a strong and consistent HEART brand to support the marketing and promotion of the new venue to local, intrastate, interstate and international markets. Managed correctly and with consistency, the HEART brand would become a valuable community asset as it becomes increasingly recognisable.

Implementing the new HEART brand provides the opportunity to reshape the way our community thinks and feel about their centre for culture and arts.

Brand Assets

A brand asset is characterised by such things as a name, logo, name, slogan or tagline, other visual characteristics such as font, colour palette etc. Considerable time and investment has been made into creating and building HEART's unique brand assets to launch alongside the new facility. The following assets are in place;

Style Guide: [HEART style guide](#)

Website: <https://www.margaretriverheart.com.au/> (staging site)

Social Pages:

- <https://www.instagram.com/margaretriverheart/>
- <https://www.facebook.com/margaretriverheart>

Social Media Handles:

- [@margaretriverheart](#)
- [#margaretriverheart](#)
- [Google Maps](#)

The key to successfully launching the new HEART brand is to replace any previous branding or co-branding that existed in relation to the venue, thereby creating clear and consistent messaging.

Technology

Under this model the Shire would continue implementing appropriate technology systems that meet the community expectations of the new state of the art facility:

- Purpose built website; intuitive design, informative, educational and built to convert ticket sales
 - Online ticketing supporting paperless ticketing transactions options
 - Self-serve ticketing kiosks
 - Patron SMS and geo-fencing notification systems (opt in / out)
 - Free Wi-Fi at HEART
 - Online community grants portal
-

- Online support via Facebook, email systems
- Customer Relationship Management System
- Venue Ops Management Software that incorporates and manages not only the HEART venue, but also the greater Gloucester Park precinct booking schedule
- People counter.

Data

Under this model the Shire would undertake and capture data, enabling it to greater understand and provide insight of various community market segments, accurate reporting information, monitor the venues performance and better inform programming schedules that are responsive to community needs.

Community Capacity Building

The Shire recognises the importance of volunteers and the opportunities that HEART can provide in developing capacity, building skills, and further strengthening the ties of community via volunteering positions.

In addition, HEART has the opportunity to provide traineeships, internships and other educational expansion programs that target youth, seniors, isolated and at risk sections of the community.

As a priority, the Shire would develop and implement a HEART volunteering program and explore options around traineeships and training programs for the venue.

Identified volunteering opportunities could include:

- Exhibitions: curators and tours guides
- Cinema: ushers, box office support, kiosk support
- Events: front of house, back of house, technical assistance, parking assistance etc.

Critical Success Factors

- Develop and approve strategic plan
 - Develop and communicate culture and arts grant program to community
 - Form the HEART reference group with a diverse mix of experienced community members
 - Develop and implement effective audience development, marketing and community engagement plans
 - Form strong connections with industry representatives
 - Source high quality, appropriate and experienced staffing
 - Focus on achievement of key outcomes through setting of appropriate and measurable Key Performance Indicators
 - Apply for and obtain available Federal and State grant funding opportunities
 - Need to ensure ratepayers can clearly see how their money is being spent
 - Develop and have endorsed appropriate operating procedures and policies
-

6.1.4 SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Fair and equitable access for entire community to the grant funding pool • A fair and equitable balance of community and commercial programming is achieved • Can quickly respond to flux in market climate • Reference Group would bring a broad range of skills and experience • Having an Reference Group would reduce the risk of HEART being represented by any particular group with a singular focus • Strong and consistent brand identity • HEART activities legitimised through Council processes • Can align and adapt strategies to align with evolving Council and community goals and visions • Provide consistent, transparent policies, procedures and processes across venue hire usage, venue hire fees, booking procedures and invoicing/ payment procedures • Ability to utilise Council communications and networks • Shire has oversight on correct staffing levels to meet community access needs • Risk effectively managed by ensuring compliance and safety standards are met across building and staff working conditions • Integrates seamlessly with Shire's existing framework for staff recruitment, inductions, procurement process, OH&S, account systems and internal communication systems 	<ul style="list-style-type: none"> • Shire currently has limited experience in cultural programming so will initially need to hire appropriately skilled people as per workforce proposal
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Access to revenue from operations to offset costs of running venue, flow-on benefit to ratepayers • Greater access to Federal and State funding to offset cost under this model including Regional Arts and Culture Investment Program (RACIP) + Regional Economic Development Grants (RED Grants) programs • Entire business model can be implemented immediately • Ability to capitalise on HEART brand identification, providing clear and consistent messaging 	<ul style="list-style-type: none"> • Possible limitations on what can be promoted and sponsored (conflicts of interest, governance concerns) • Professional performing arts programming may be considered a discretionary and will be subject to an annual budget prioritisation

- Ability to partner with other areas of local government and access their resources e.g. community development, youth, health etc.
 - Increased potential to generate community support facilitated through Councillors
 - Empowers the Shire to meet HEART's funding partners Key Performance Indicators
 - Empowers the Shire to meet Public Value Outcomes
 - Empowers the Shire to meet HEART's expected Economic Outcomes
 - Empowers the Shire to meet the HEART's Operational Cost
 - Can initiate culture and arts program (including cinema) for 2020 calendar year immediately
 - Allows Shire to focus on taking a strategic role in opportunities for traineeships and volunteering
 - Opportunities to partner with local schools and TAFE for work experience
-

6.2 Governance and management model 2 – Shire Managed - Service Level Agreement

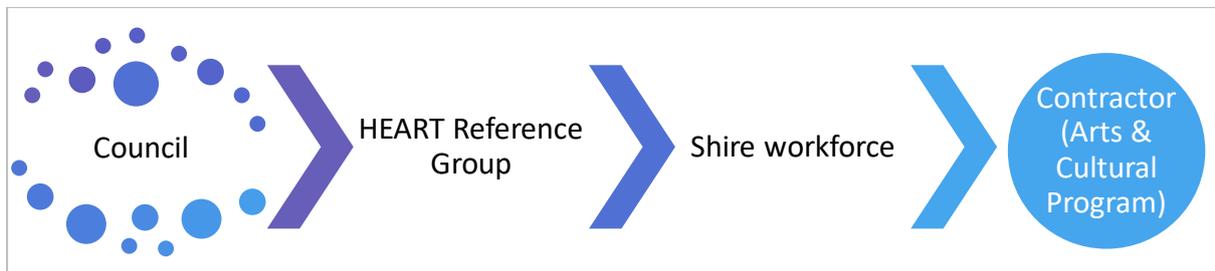
6.2.1 Overview of model

The second model would involve the Shire being the overall manager of the Margaret River HEART venue. The Shire would enter into a contract with a single service provider to deliver a culture and arts program for a fixed fee, but the Shire would otherwise be responsible for all functions of the HEART.

The key differences between this model and the first model proposed in section 6.1 are:

- The outsourcing of the culture and arts program to an external party for a fixed annual fee, rather than individuals, schools and community groups being able to apply for and benefit from the Shire Community Culture and Arts Development Fund
- Revenue streams are reduced to the Shire due to the service level provider retaining significant revenue from the operations of the contracted program of culture and arts

6.2.1.1 Governance Structure



The Shire would manage the venue under the strategic governance of Council, supported by a HEART Reference Group, comprised of a number of skilled and experienced community members from diverse backgrounds to reflect the broad range of focus areas for the HEART. The Reference Group can be consulted on strategic issues.

THE HEART would have its own team of staff employed directly by the Shire. These staff would be responsible for management of the contract with the external organisation contracted to undertake the culture and arts programming, as well as all other functions of the HEART.

6.2.1.2 Revenue Streams and Service Levels

The second model considered would see the Shire as overall manager of the HEART venue. The Shire would engage an external organisation to develop and operate an arts and cultural events program.

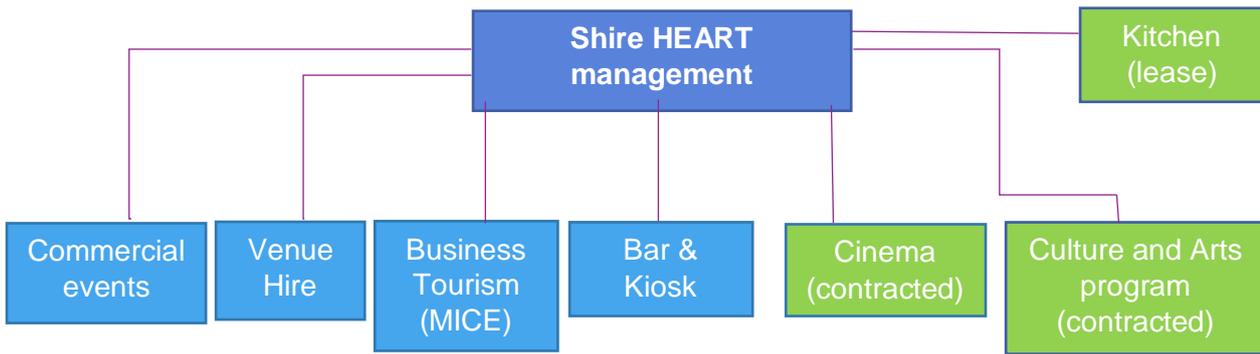
The Shire would have two options for the delivery of a cinema program under this option:

- Outsource the delivery of a cinema program along with the culture and arts programming, which would make the service level agreement more attractive to potential providers, but which would mean the Shire cannot use this significant revenue stream to offset the venues costs; or
- Outsource the culture and arts program but run the cinema delivery program itself, maintaining the ability to generate cinema revenue

In this section, we assume the first option, being the outsourcing of the culture and arts program including cinema.

Whilst the retention of cinema by the Shire would increase income stream, and provide control over cinema programming, it is recognised that in practice external organisations would be unlikely to want to enter into a contract without the ability to benefit from the cinema's revenue stream.

Under this model, the Shire would be responsible for the delivery of other activities: venue hire, bar and kiosk, other commercial ticketed events, business tourism (MICE market) and other commercial activities including leasing of the commercial kitchen.



6.2.1.3 Workforce Planning

Staffing levels required are identical to that for the first model proposed in section 6.1. Shire staff will perform similar responsibilities and tasks as model 1.

The service provider will utilise the Shire’s technical, marketing and operational resources to carry out its contracted services in culture and arts programs.

Shire staff would manage the contract with the service provider to ensure key deliverables are met, and approve the culture and arts program to ensure it meets the needs of the Shire and community, based on the strategic direction and policies set by Council.

6.2.2 Process for implementing business model

The Licence Agreement with the current venue manager expires on 31 December 2019.

It is worth noting that if this model is implemented, until such time that a successful service provider is appointed, no culture and arts program would be programmed for the initial months during the 2020 years, pending the appointment of a suitable tenderer and agreement on the terms of contract.

In the interim, between Council’s decision and the expiry of the Licence Agreement the following tasks would need to be undertaken.

- In line with legislative requirements, a tender process would need to be undertaken, with the Shire inviting suitably qualified and experienced organisations to apply to be considered for the arts and cultural programming services contract through a public State-wide advertised tender process
- A scope for the tender will need to be prepared
- Venue hire fees and charges could be determined immediately
- The Shire would establish the HEART Reference Group
- The Shire would prioritise the development of a HEART volunteer program

There is significant time lag between the decision to form a tender, and the formation of a contract with the successful tenderer, should one exist.

Under this model, with regards to the culture and arts program, it would be preferable – for continuity of service for the community as well as stability for the service provider – that the Shire enter into a contract for a set number of years, with the option to extend by a further period if required.

Considerable work would be required in the formation of the tender to determine how the arts and cultural programming contractor would work in with the Shire’s venue management and ticketing systems, marketing platforms and internal procedures to achieve key outcomes.

6.2.3 Operation of model

Programming

HEART's Culture and Arts Programming would be developed via two streams:

1. *Service Provider Led.* Shire would engage a suitably experienced organisation to deliver an annual culture and arts program for a fixed annual fee. This fee would cover a negotiated number of events and outcomes.
2. *Shire Led.* The Shire would also source performances, business tourism (MICE) and events of a commercial nature.

Community Benefits

Community benefits of this model include:

- Reduced community venue hire fees to ensure community access and affordability
- Coordinated programming to reduce the risk of community events being bumped or knocked back due to conflicting bookings
- Shire can offer community fundraising opportunities (such as bar and kiosk)
- The community would have access to a free collaborative workspace who are utilising HEART for an upcoming performance or event but under this model less space would be provided.
- Internships by negotiation
- Traineeships by negotiation
- Volunteering opportunities by negotiations, through both the Shire and the organisation running the culture and arts program

Revenue Streams

Venue Income

The Shire would, under this model, not be entitled to the income from any culture and arts performances or events provided by the service provider under the service level agreement. The significant revenue stream from cinema would flow to the service provider, as would ticketing for any of their performances and events. The service provider may provide food and beverage services for their programmed events, the detail of which would need to be factored into any agreement between the Shire and the service provider.

The service provider would have no obligation to pass any revenue on to the Shire to offset the operating costs associated with the venue, and the Shire would have no control over whether the income is spent within the Shire or the HEART itself.

Under this model, Key Performance Indicators need to be set and met around audience development / community outcomes with the service level provider.

Under the Shire managed model - Service Level Agreement the Shire partially manages programming and therefore receives limited revenue streams from the venue's operations. The Shire's revenue would include ticketing sales from all commercial events (excluding those provided in the service level agreement), commercial venue hire, income from business tourism (MICE) events, and food and beverage income.

State / Federal Funding Opportunities

Under this model, the Shire would be the venue owner, but not the sole operator of the culture and arts program. As such the Shire and the service provider could potentially be competing for the same funding pool.

Culture and arts program-related grant funding opportunities would be accessed by the service provider rather than the Shire.

Other Income

In addition to revenue derived through operations, the Shire would investigate other income opportunities, sponsorships, donors and patrons.

The success of these other income streams would likely be hindered, however, by the outsourcing of the culture and arts program, with donors and patrons in particular being more likely to direct their funds to the culture and arts program service provider.

Cost Structure

Under this model, the Shire would pay the service provider a fixed annual fee for the delivery of the culture and arts program. The amount payable will be subject to negotiation following a tender process.

The Shire would be also pay for the majority of costs relating to the venue including, but not limited to:

- Building operation, maintenance and cleaning costs
- Utilities costs
- Cost of running commercial and business tourism events
- Venue staffing (with the exception of any staffing employed by the service provider, which would be paid by the service provider and covered as part of the their annual fee)
- Asset Renewal and Maintenance program for future works (eg. Replacement of seating, floor sanding and resurfacing, equipment repair and maintenance)
- Capitol works

The service provider would be responsible for the payment of costs relating to their program, however these costs would be offset by:

- Cinema revenue
- Fixed service fee (paid by the Shire)
- External grant funding they may be able to attract.

Marketing and communications

Council has previously endorsed the Margaret River HEART brand name and noted the considerable value of brand equity acquired in the name to date. The Shire owns all intellectual property rights to the Margaret River HEART name and logo under Trade mark number: 1958508 Classes 41:43. **Margaret River HEART®**.



In addition, it has already invested in brand assets including a website, social media pages and social media handles, and technology such as venue management software.

Implementing the new HEART brand provides the opportunity to reshape the way our community thinks and feel about their centre for culture and arts and the key to successfully launching the new HEART brand is to replace any previous branding or co-branding that existed in relation to the venue, thereby creating clear and consistent messaging.

Whilst not impossible to do, this model would present the most substantial marketing management challenges of the three, which would need to be addressed as part of any service contract offered, to ensure clear messaging to the community.

The Shire would be required to set clear obligations, expected outcomes and Key Performance Indicators around the marketing and promotion of events at HEART to the service provider including:

- Integration and use of HEART website
- Integration and use of HEART social media pages and social handles
- Integration and use of HEART venue management system
- Integration and use of HEART ticketing systems
- Consistent use of HEART style guide
- Rights and restrictions around HEART co-branding / use of IP
- Introduction of targeted digital marketing campaigns
- Expansion of marketing efforts to intrastate, intrastate and international markets
- Digital data-capture and sharing agreement
- Key Performance Indicators
 - attendance numbers – linked to programming
 - audience development – linked to programming
- Sponsorships
- HEART Membership program

Community Capacity Building

The Shire recognises the importance of volunteers and the opportunities that HEART can provide in developing capacity, skills and further strengthening the ties of community via volunteering positions. At the same time, HEART has the opportunity to provide traineeships and other educational expansion programs that target youth, isolated and at risk sections of the community.

Under this model, the Shire would need to successfully negotiate the development and implementation of a HEART volunteering program and explore options around traineeships and training programs for the venue with the service level provider.

Critical Success Factors

- Clear definition of services involved
 - Clear roles and responsibilities
 - Ability to partner to provide a seamless service to the community
 - Focus on achievement of key outcomes through setting of appropriate and measurable Key Performance Indicators
 - Encourage collaboration and communication
 - Strategic fit and alignment
 - Need to ensure ratepayers can clearly see how their money is being spent
 - Determine how risk is allocated between the parties
-

6.2.4 SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • May deliver a strong culture and arts program of events if successful provider has a proven track record in performing arts programs • Shire have clear understanding of the costs involved in providing a culture and arts program, since such cost would be a fixed annual amount under contract 	<ul style="list-style-type: none"> • Shire maintains no revenue from culture and arts programming to offset operating costs, meaning higher cost to ratepayers • Additional revenue raising capability limited • Potential misalignment between Shires and service provider’s vision • May reduce accountability and transparency
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Potentially strong service level in delivery of cultural and arts program, at least in the short term , due to service provider having previous experience in performing arts programs 	<ul style="list-style-type: none"> • Procurement requirements means model cannot be implemented immediately • Tender and contract formation process will take time, may not be completed by end of current Licence term • Tender process resulting in no service level provider being appointed and venue sitting inactive • Failure to attract suitable service level provider • Shire cannot use all venue income streams to offset the venue’s annual operational costs, assets maintenance and renewal programs • Risk that customer service levels are not met with community expectations e.g.: booking issues, communications issues (response times/ delays) • Clashes in programming – need to develop an access priority arrangement around business events (MICE) bookings • Shire will lose control of the HEART brand • Potential competition for same funding pools

6.3 Governance and management model 3 – Fully outsourced venue management

6.3.1 Overview of model

The third model is a fully outsourced venue management model, with the venue manager being responsible for the full operations of the venue, and therefore taking revenue from the entire spectrum of HEART activities.

This means the Shire would pay the venue manager an annual venue management fee and all revenue would remain with the venue manager. The venue manager would be responsible for all aspects of facility management and the scope of the contract could include:

- Curation of all arts and cultural programming
- Cinema
- Venue hire community
- Venue hire commercial
- Bar and Kiosk services
- Commercial ticketing
- Business tourism (MICE) attraction and event management
- Commercial kitchen
- HEART brand management
- Human Resource Management including staffing, training and management
- Minor asset renewal
- Technical asset maintenance
- Minor building maintenance and operations
- Utilities
- Procurement of suppliers
- Sponsorship management
- Stakeholder engagement
- Technical support
- Equipment repairs and maintenance
- Consumables
- Industry subscriptions and memberships
- Minor equipment
- Strategic Plans including Business Plans, Communications Plans, Operational Plans, etc.
- Key Performance Indicators

This model would retain the 'fixed costs' of operations (as estimated in the previous 2 models). It is not expected to cost less than either of the first 2 models, in fact it could be higher given there will no revenue streams returned to offset fixed costs.

A venue manager under this model would likely project higher costs as there is no previous year data for costs involved in running the newly expanded venue. As such, the venue manager would likely attempt to minimise their financial risk by charging a higher fixed management fee and/or transferring ownership of certain expenses to the Shire, effectively transferring risk to the Shire and its ratepayers.

Likewise, assuming, the scope of the tender was expanded to include community social capacity building outcomes such as:

- Provision of volunteer opportunities
- Provision of local training and employment opportunities
- Provision of a collaborative workspace

Then the cost of this model would increase and the tendered amount is highly likely to show increased costs than Model 1 or Model 2.

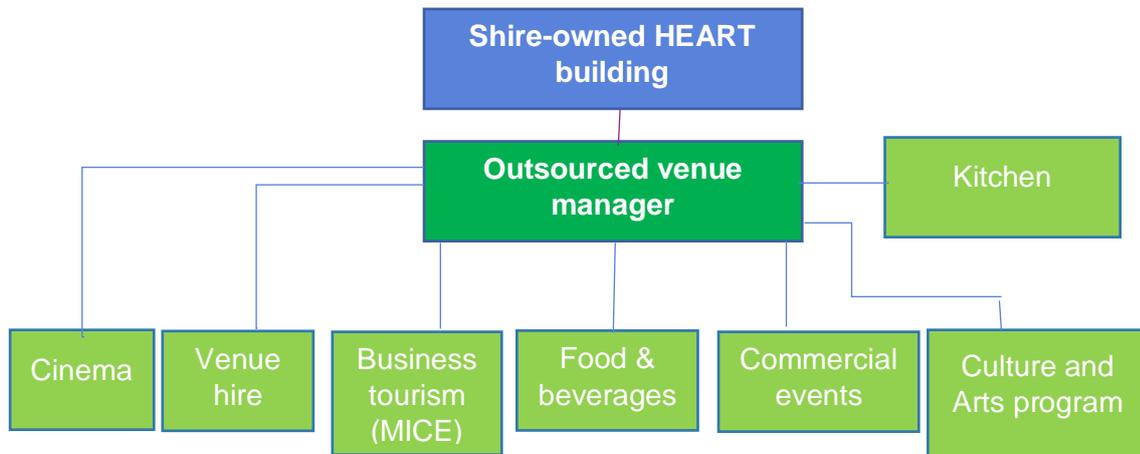
It should be noted a similar tender process was undertaken by the Shire for the management of the HEART venue in late-2018. The process undertaken is outlined in section 3 of this report. The evaluation process undertaken uncovered no suitable tenderer presenting an offer who could provide all the required services whilst at the same time representing value for money for ratepayers.

6.3.1.1 Governance structure



The Shire would be responsible for management of the venue management contract, and would pay for the management service and any other costs relating to the building of a capital nature (this means if major building work or repair were needed), but would otherwise have no involvement in the operation of the HEART venue.

6.3.1.2 Revenue streams and service levels



This is the model with which the former Cultural Centre operated, albeit at a much smaller scale, as the Cultural Centre had a significantly lower capacity than the redeveloped HEART venue, and was unable to hold such a diverse range of activities.

Under this model, the Shire would outsource the management and operation of the HEART in its entirety to an external organisation. This would include all culture and arts programming, cinema, venue hire, commercial events, food and beverage, business tourism (MICE) events and the management of the HEART brand.

In particular, the capability of the venue manager to attract business tourism events is a significant and important addition to HEART operations. The development of this market was a key factor in the Shire obtaining funding from State and Federal government for the redevelopment of the HEART. Any venue manager engaged would need to provide sufficient focus on this deliverable, although the revenue would not be returned to the Shire.

6.3.1.3 Workforce planning

Under the third proposed model, there would be no additional workforce planning considerations for the Shire.

The venue management contractor would be responsible for the attraction, engagement and retention of all staffing, and for the setting of their salary levels. The reimbursement of these staffing cost would be factored into the management fee paid by the Shire to the venue manager.

It should be noted that staffing levels would need to meet health and safety standards and purely volunteer managed events would not meet this requirement.

6.3.2 Process for implementing model

Under the *Local Governments (Functions and General) Regulations 1996* with which all local governments are required to comply, the Shire would be required to invite tenders prior to entering into a contract for the supply of venue management services.

Under this legislation, tenders must be advertised statewide, and any organisation is eligible to apply for consideration. There are a number of organisations in WA who may be able to provide services which would form part of this tender, which include, but is not limited to:

- Facility management
- Cultural and arts programming
- Cinema screenings
- Business meetings, incentives, conferencing and exhibitions (MICE)
- Venue hire for community and commercial users
- Marketing.

All tendering organisations would be evaluated equitably on the basis of specific criteria, with the aim of achieving best value for money. Value for money would be determined with regards to not just price but also tenderers' demonstrated experience and capability to provide the required services (noting in particular the critical MICE component, which has the most potential to delivery flow-on benefits to the local economy). A demonstration of an appropriate level of staff with suitable skills, training and experience to manage a venue of this size, scale and diversity would be required.

A similar tender process was undertaken by the Shire for the management of the HEART venue in late-2018. The process undertaken is outlined in section 3 of this report. The evaluation process undertaken uncovered no suitable tenderer presenting an offer who could provide all the required services whilst at the same time representing value for money for ratepayers. Further, post-tender negotiations with the current venue manager ceased after no acceptable contract being determined.

If this model is adopted, there is likely to be a substantial time lag between the decision to form a tender and the formation of a contract with the successful tenderer, should one be appointed. The planning phase of the tender process would need to commence immediately.

This presents a very high risk to the shire regarding the timeframe and it is possible that any new tender process undertaken could result in the same outcome as the previous tender, with no contract being awarded.

Under the Regulations, the Shire is forbidden from extending the current venue manager's licence agreement, which expires on 31 December 2019. Therefore should the tender process fail again, the HEART venue would become inactive from 1 January 2020 until such time that an alternative way forward is determined.

It is also worth noting that with the implementation of this model, until such time that a successful venue manager is appointed no culture and arts programming will take place. In the interim, inadequate resources exist to undertake even minor community event bookings beyond the current licence contract expiry of 31 December 2019.

6.3.3 Operation of model

Programming

Under this model, the venue manager – being an external contracted party – would have control of all aspects of the programming and all other functions of the HEART within the constraints of the contract.

The Shire could incorporate service level targets and Key Performance Indicators into such contract, and this would need to be given careful consideration.

Community venue access

Under this model, the venue manager would have exclusive operational and management rights to the venue. Any party, whether a community group or commercial undertaking, will need to direct its enquiry to the venue management contractor.

The Shire could incorporate certain requirements into the contract regarding community access, however community access would be at the discretion of the venue management contractor within the constraints of the contract.

The Shire would also need to ensure that it can access the venue when needed for its own events, including emergency management events without incurring costs.

Revenue streams

Venue Income

Under this model, the Shire would not be entitled to any revenue streams from HEART operations. All revenue would sit with the venue management contractor. It can also not be assumed that venue income would be reinvested in the venue.

Contributed Income

As the building owner but not the venue manager, the Shire would be entitled to little, if any Federal or State grant funding. The venue management contractor would have the responsibility to apply for any funding opportunities.

Other Income

There would be limited scope for the Shire to benefit from sponsorship income, for example with naming rights (these are the rights to name specific areas/rooms/events in the venue that attracts a fee from the sponsor) which can form a major part of revenue for a venue.

The venue management contractor would be the beneficiary of the majority of other income streams, sponsorships, donors and patrons.

Cost Structure

The estimated cost of running the venue would be similar under each model, however at this point the split of costs between those which fall under the responsibility of the Shire and the venue manager are unknown, and would remain unknown until such point that a tender is awarded, and it is expected that the split of financial risk between the parties would remain a contentious issue in any contract negotiation / award process undertaken.

With the venue being brand new and untested, there is no previous year data for costs involved in running the venue. As such, the venue manager would likely attempt to minimise their financial risk by charging a higher fixed management fee and/or transferring ownership of certain expenses to the Shire, effectively transferring risk to the Shire and its ratepayers.

The Shire would pay the venue manager an annual 'management fee', and all revenue would remain with the venue manager. All costs would be the responsibility of the venue manager.

Likewise if the scope of the tender were to increase to include social capacity building such as providing a collaborative workspace, providing training and employment opportunities, and providing community volunteer opportunities etc. the cost of this model would increase and the tendered amount is likely to show higher costs than the other 2 models.

The cost of the management fee is expected to be in the order of \$750K to \$1.5M per annum.

Marketing & Communication

Council has previously endorsed the Margaret River HEART brand name and noted the considerable value of brand equity acquired in the name to date. The Shire owns all intellectual property rights to the Margaret River HEART name and logo under Trade mark number: 1958508 Classes 41:43. **Margaret River HEART®**.



In addition, it has already invested in brand assets including a website, social media pages and social media handles, and technology such as venue management software.

Implementing the new HEART brand provides the opportunity to reshape the way our community thinks and feel about their centre for culture and arts and the key to successfully launching the new HEART brand is to replace any previous branding or co-branding that existed in relation to the venue, thereby creating clear and consistent messaging.

This model would present substantial marketing management challenges, which would need to be addressed as part of any venue management contract offered to ensure clear messaging to the community.

The Shire would be required to set clear obligations, expected outcomes and Key Performance Indicators around the marketing and promotion of events at HEART to the service provider including:

- Integration and use of HEART website
- Integration and use of HEART social media pages and social handles
- Integration and use of HEART venue management system
- Integration and use of HEART ticketing systems
- Consistent use of HEART style guide
- Rights and restrictions around HEART co-branding / use of IP
- Introduction of targeted digital marketing campaigns
- Expansion of marketing efforts to intrastate, intrastate and international markets
- Digital data-capture and sharing agreement
- Key Performance Indicators;
 - attendance numbers – linked to programming
 - audience development – linked to programming

- Sponsorships
- HEART Membership program

Volunteers

Under this model the Shire would have limited direction over the implementation and development of HEART volunteers.

Critical Success Factors

- Clear definition of services involved
- Clear roles and responsibilities
- Clear marketing and branding
- Focus on achievement of key outcomes through setting of appropriate and measurable Key Performance Indicators
- Encourage collaboration and communication
- Strategic fit and alignment
- Need to ensure ratepayers can clearly see how their money is being spent
- Determine how risk is allocated between the parties

6.3.4 SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Fixed fee structure leaves little ambiguity surrounding ratepayers commitment to fund venue • Ability to benefit from specialised venue management experience of contractor 	<ul style="list-style-type: none"> • Shire does not maintain revenue to offset any capitol works expenses • Additional revenue raising capability very limited • Community confusion regarding HEART brand versus venue management brand and identity • Potential limited community access to venue and collaborative space
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Potential to leverage on venue manager's existing industry network 	<ul style="list-style-type: none"> • Time required for Request For Tender, model cannot be implemented immediately • Tender process resulting in no venue manager being appointed and venue sitting inactive • Failure to attract suitable tender • The Shire entered into a tender process in 2018 for the HEART venue management which did not result in a positive outcome and there is considerable risk involved going out to tender again at this stage. • There may be competition between commercial and community operators bidding for the contract • There is no guarantee of tender applicants or successful awarding of the tender • Risk of high cost to the Shire

7 Indicative Financial Estimates

As part of the review of potential business models available to the Shire, draft budget numbers were applied to the two of the three models. No draft figures were prepared for the third, fully outsourced model in recognition of the fact that the budget of this model would rely entirely on the outcome of a tender process, and submission by tenderers and that it would provide no benefit to put an arbitrary figure against this.

Formation of detailed budgets would be a function of the detailed business planning required after Council have made a decision on the model to be implemented.

The below figures are indicative only.

7.1 Governance and management model 1 – Shire Managed - Community Culture and Arts Development Fund

Shire Managed Structure with Community Grants Option

	2019-20 Budget	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Operating Revenue					
Venue Hire	0	5,000	14,000	20,000	30,000
Business Events	45,000	25,000	45,000	78,500	131,000
Cinema	0	41,900	125,500	133,500	138,500
Commercial Events	0	0	73,600	73,600	73,600
Bar & Kiosk	0	15,000	40,000	48,000	55,000
Sponsorships & Memberships	0	0	33,500	34,500	51,000
Kitchen Lease/hire income	20,000	5,000	10,000	10,000	10,000
Operating grants	0	0	100,000	350,000	350,000
Other revenue	0	4,350	13,056	15,000	21,500
Total Operating Revenue	65,000	96,250	454,656	763,100	860,600
Operating Expenditure					
Community grants	300,000	223,254	150,000	150,000	150,000
Employee expenses	142,438	240,500	397,000	404,920	412,998
PR, Marketing (Business Development)	96,500	96,500	91,000	91,000	91,000
Communications & Licencing	11,848	16,860	45,420	48,220	49,970
Cost of Goods Sold, event purchase costs & royalties	46,000	23,750	86,750	111,250	149,750
Building operations	61,610	61,610	61,610	61,610	61,610
Building maintenance	21,065	21,065	21,065	21,065	21,065
Utilities	73,200	73,200	75,396	77,658	79,988
Establishment and opening costs	20,000	20,000	0	0	0
IT Systems	73,164	73,164	26,000	26,000	26,000
Equipment Repairs & Maintenance	25,000	25,000	25,000	25,000	25,000
Subscriptions, consumables, etc	30,400	30,400	30,700	30,700	30,700
Minor equipment	20,000	20,000	5,000	5,000	5,000
Refurbishment allowance	0	0	25,000	25,000	50,000
Total Operating Expenditure	921,225	925,303	1,039,941	1,077,423	1,153,081
Net Result before Depreciation and Loan Repayments	-856,225	-829,053	-585,285	-314,323	-292,481
Depreciation	160,800	200,000	200,000	200,000	200,000
Loan Principal and Interest Repayments	42,543	42,543	42,543	42,543	42,543
Total Depreciation and Loan Repayments	203,343	242,543	242,543	242,543	242,543
Net Result after Depreciation and Loan Repayments	-1,059,568	-1,071,596	-827,828	-556,866	-535,024

Notes and Assumptions

- This model shows an improved net result over time as the Shire benefits from controlling revenue streams, including operating grants and business events revenue. This means an improved shire financial position and less reliance on rates.
- Community grants 2019-2020 include a final contract payment to Arts Margaret River of \$123K under the current licence agreement
- Community Culture and Arts Development Fund figures for years 2020-2021 and onwards are only indicative as Council can set funding levels as part of the annual budget cycle.
- All revenue and expenditure amounts are estimates based on underlying assumptions:
 1. 2019-20 Budget is as approved by Council on 24 July 2019, and was based on information prepared in April 2019.

2. 2019-20 Forecast assumes revenue for 6 months from 1 January 2020 and expenditure for 12 months.
3. Business event income is dependent on marketing and promotion of the facility.
4. Cinema income is only from the operation of the small theatre.
5. Income from commercial events will be maximised by promoting the facility.
6. Commercial kitchen is a possible revenue stream but lease or hire is not committed to occur.
7. Possible operating grants include DPIRD Regional Development Touring fund, Department of Culture & the Arts grants, RACIP Regional Arts and Culture Investment Program.
8. Other revenue includes visual arts commission on sales.
9. Community grants are possible payments to arts and culture groups in the Shire of Augusta Margaret River for events and performances.
10. Employee expenses are for full time and casual staff including technical, marketing, cleaning, organisation and administration.
11. Marketing and public relations expenditure is required to promote and develop the business in order to generate revenue.
12. Communications and licencing includes telephones, website hosting and cinema licencing fees.
13. Building operations includes cleaning, waste collection, security monitoring and other operating activities and are fixed for each option.
14. Building maintenance is an allowance for reactive repairs and is fixed for each option.
15. Utilities includes electricity, gas and water and is fixed for each option.
16. Expenditure on various IT systems is required to establish the facility and will reduce.
17. Equipment repairs and maintenance is an allowance for reactive repairs and is fixed for each option.
18. An allowance for minor equipment reduces after the first year and is fixed for each option.
19. An allowance for refurbishment has been included and is fixed for each option.
20. Loan repayments are only for Loan 195 for \$500k. Loan 193 for \$1.1m is repaid from Developer Contributions.
21. Some refinement of operating expenditure amounts for 2019-20 has resulted in lower forecast amounts than budgeted.
22. However operating revenue forecasts for 2019-20 are higher due to the inclusion of cinema and bar & kiosk revenue.

7.2 Governance and management model 2 – Shire Managed - Service Level Agreement

Shire Managed Structure with Service Agreement Option

	2019-20 Budget	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate	2022-23 Estimate
Operating Revenue					
Venue Hire	0	5,000	14,000	20,000	30,000
Business Events	45,000	25,000	45,000	78,500	131,000
Cinema	0	0	0	0	0
Commercial Events	0	0	0	0	0
Bar & Kiosk	0	15,000	40,000	48,000	55,000
Sponsorships & Memberships	0	0	30,000	30,000	45,000
Kitchen Lease/hire income	20,000	5,000	10,000	10,000	10,000
Operating grants	0	0	100,000	250,000	250,000
Other revenue	0	1,500	3,000	4,500	5,500
Total Operating Revenue	65,000	51,500	242,000	441,000	526,500
Operating Expenditure					
Contract services	300,000	323,254	204,000	208,080	212,242
Employee expenses	142,438	240,500	397,000	404,920	412,998
PR, Marketing (Business Development)	96,500	96,500	91,000	91,000	91,000
Communications & Licencing	11,848	2,720	2,720	2,720	2,720
Cost of Goods Sold, event purchase costs & royalties	46,000	23,750	42,750	67,250	105,750
Building operations	61,610	61,610	61,610	61,610	61,610
Building maintenance	21,065	21,065	21,065	21,065	21,065
Utilities	73,200	73,200	75,396	77,658	79,988
Establishment and opening costs	20,000	20,000	0	0	0
IT Systems	73,164	73,164	26,000	26,000	26,000
Equipment Repairs & Maintenance	25,000	25,000	25,000	25,000	25,000
Subscriptions, consumables, etc	30,400	30,400	30,700	30,700	30,700
Minor equipment	20,000	20,000	5,000	5,000	5,000
Refurbishment allowance	0	0	25,000	25,000	50,000
Total Operating Expenditure	921,225	1,011,163	1,007,241	1,046,003	1,124,073
Net Result before Depreciation and Loan Repayments	-856,225	-959,663	-765,241	-605,003	-597,573
Depreciation	160,800	200,000	200,000	200,000	200,000
Loan Principal and Interest Repayments	42,543	42,543	42,543	42,543	42,543
Total Depreciation and Loan Repayments	203,343	242,543	242,543	242,543	242,543
Net Result after Depreciation and Loan Repayments	-1,059,568	-1,202,206	-1,007,784	-847,546	-840,116

Notes and Assumptions

- This model shows an improved net result over time however due to revenue streams being split between the service level provider and the Shire, alongside the reduction of possible operating grants, the net result position is not as positive as model 1
- Contract Services 2019-2020 include a final contract payment to Arts Margaret River of \$123K under the current licence agreement
- All revenue and expenditure amounts are estimates based on underlying assumptions:
 1. 2019-20 Budget is as approved by Council on 24 July 2019 and was based on information prepared in April 2019.
 2. 2019-20 Forecast assumes revenue for 6 months from 1 January 2020 and expenditure for 12 months.
 3. Business event income is dependent on marketing and promotion of the facility.
 4. No cinema income is included as it is assumed the service provider would operate the cinema and obtain this revenue.
 5. Commercial kitchen is a possible revenue stream but lease or hire is not committed to occur.
 6. Revenue from the hire of technical resources to the service provider has not been included as it may be reflected in a reduced service fee.
 7. Other revenue excludes visual arts commission on sales.
 8. Contract services are possible payments to a service provider for providing cinema, events and performances.
 9. Employee expenses are for full time and casual staff including technical, marketing, cleaning, organisation and administration.
 10. Marketing and public relations expenditure is required to promote and develop the business in order to generate revenue.
 11. Communications and licencing includes telephones and website hosting.

12. Building operations includes cleaning, waste collection, security monitoring and other operating activities and are fixed for each option.
13. Building maintenance is an allowance for reactive repairs and is fixed for each option.
14. Utilities includes electricity, gas and water and is fixed for each option.
15. Expenditure on various IT systems is required to establish the facility and will reduce.
16. Equipment repairs and maintenance is an allowance for reactive repairs and is fixed for each option.
17. An allowance for minor equipment reduces after the first year and is fixed for each option.
18. An allowance for refurbishment has been included and is fixed for each option.
19. Loan repayments are only for Loan 195 for \$500k. Loan 193 for \$1.1m is repaid from Developer Contributions.

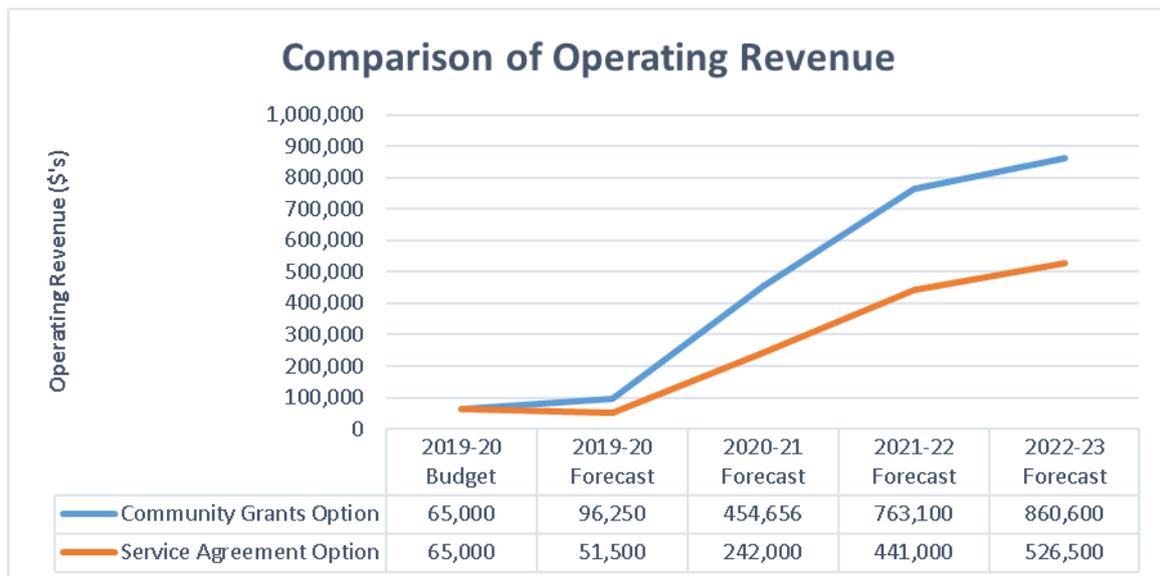
7.3 Comparison of governance and management models

Whilst the costs of operating the HEART remain fairly constant whichever model is adopted, the clear difference between the three models is the flow of revenue streams.

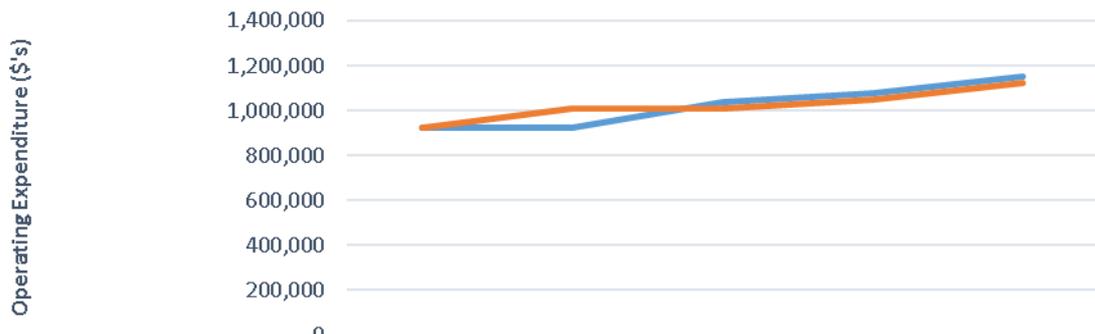
Under the first model, Shire Managed - Community Culture and Arts Development Fund, the Shire in its capacity as venue manager would retain all revenue streams from operations, which would be used to offset HEART operational costs and therefore reduce the venue’s reliance on ratepayer funding.

Under the second model, the service provider would be entitled to retain revenue streams from their culture and arts programming, including cinema. The Shire would still be responsible for the payment of an annual fee to this service provider, as well as being required to cover building maintenance, asset renewal and operational costs into the future, resulting in a greater degree of financial risk for the Shire.

In the third model expected costs are likely to be similar to the other models but are difficult to estimate as they would be dependent upon tender responses. As with model 2 the supplier would be entitled to all revenue. **Note*** under the third model the Shire would receive no revenue from the venue and the cost of the outsourced model must be fully funded by ratepayers.

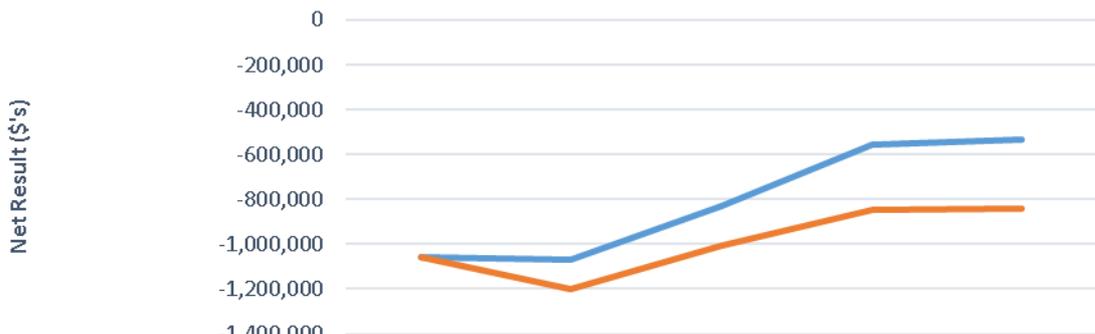


Comparison of Operating Expenditure



	2019-20 Budget	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Community Grants Option	921,225	925,303	1,039,941	1,077,423	1,153,081
Service Agreement Option	921,225	1,011,163	1,007,241	1,046,003	1,124,073

Comparison of Net Result



	2019-20 Budget	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast	2022-23 Forecast
Community Grants Option	-1,059,568	-1,071,596	-827,828	-556,866	-535,024
Service Agreement Option	-1,059,568	-1,202,206	-1,007,784	-847,546	-840,116

8 Comparison of models

	Model 1 Grants	Model 2 Service Level	Model 3 Outsourced
Implementation Outcomes			
Is the Shire required to go out to tender for this model?	✗	✓	✓
Ability for the model to be achieved in the short term	✓	✗	✗
Shire Community Culture and Arts Development Funding available to a range of community groups and individuals	✓	✗	✗
Community Outcomes			
Improved access to funding for individuals, schools and community groups via the Shire's Community Culture and Arts Development Fund opportunities	✓	✗	✗
Delivery of a diverse program of events representing various community and cultural segments	✓	🔍	🔍
Provision of equitable and affordable access for the community to the venue	✓	🔍	🔍
Increased civic pride, shared community identity and active citizenship	✓	✓	🔍
Increased venue utilization	✓	🔍	🔍
Increased attendance at events	✓	🔍	🔍
Social Capacity Outcomes			
Provision of training and employment opportunities	✓	🔍	
Provision of volunteer opportunities and development programs	✓	🔍	🔍
Provision opportunities and inspire creativity in a diverse number of community groups	✓	🔍	✗
Enhanced community cohesion through the provision of a collaborative workspace	✓	🔍	🔍
Economic Outcomes			
Increase income streams to reduce reliance on rates funding	✓	🔍	✗
Revenue returned to the HEART to offset operational and maintenance costs	✓	🔍	✗
Local job opportunities, traineeships and internships	✓	🔍	🔍
Increased ability for the Shire to attract external grants opportunities	✓	✗	✗
Facilitate sustainable local economic development and population retention	✓	✓	✓

🔍 = Outcome could be achievable depending on the negotiated contract

9 Recommended model

The HEART is a new, complex venue with the capability to benefit not just artists and those sectors of the community with an interest in culture and the arts, but also the wider local economy.

Being so vastly different to the former Cultural Centre, it is vital that the Shire gains a true understanding of the capabilities of the venue in reference to the achievement of key outcomes required to reach the HEART's vision whilst at the same time minimising the financial risk for ratepayers.

As such, it is recommended that the Shire initially adopts model option 1, whereby the Shire manages the HEART venue in its entirety and implements a Community Culture and Arts Development Fund program.

The key benefits of this model are:

- Allows the Shire to pursue its key outcomes, particularly achieving financial viability and reducing reliance on ratepayer funding whilst at the same time providing a diverse program of events representing various community and cultural segments;
- Provide greater opportunities for community access to the venue through the introduction of discounted venue hire rates;
- Ability to embed the HEART brand and take full control of the marketing of the venue, leaving no room for ambiguity or confusion in the community, which can easily result from co-branding;
- Gives the Shire time to understand the true potential of the new venue and track data to better understand how the venue can best meet the needs of the community;
- Gives the Shire full access to venue income streams which can be used to offset venue operating costs;
- Allows ratepayers greater transparency with regards to costs and revenue
- Provide opportunities for volunteers
- Provide job opportunities for local people, including traineeships.

Should Council endorse this model, it is recommended that a plan is developed to track the venue's performance. The collation of data and tracking of performance will allow the Shire to review the business model again after a period of operation, to ensure the model is best meeting the needs of the community and ratepayers.

Such a review would not be so easy to undertake under the other models, due to the Shire committing to fixed term, fixed fee contracts with no room for adaption.

Should Council adopt the recommended model, then upon expiration of Arts Margaret River's contract on 31 December 2019, Arts Margaret River would cease to have exclusive management and operational rights to the HEART venue. As part of the contract management process, transitional arrangements would need to be made.

The Shire see it as imperative that a trusting and collaborative relationship with Arts Margaret River is maintained into the future and would support them during the transition.

It is important to note, that Arts Margaret River are able to apply for funding under the 'Community Culture and Arts Development Fund' for their stated, annual program of events, as provided for in Model 1.

The Shire recognises that Arts Margaret River have a long history in occupying the Shire's performing arts venue and have done an exceptional and valuable job of managing the culture and arts program over the course of their contract. Should Council adopt the recommended governance and management model for the HEART, the Shire would hope to see Arts Margaret River continue as a significant and valued user of the redeveloped facility.

The Shire also acknowledges the high level of interest within the community in involvement with the HEART through volunteering opportunities, and recognises the invaluable service offered by volunteers to the successful running of such a venue. Should Council adopt the implementation of the Shire managed model Community Culture and Arts Development Fund, volunteer training and induction will be a priority.

10 References

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Tourism WA (July 2019) Domestic Visitation – Fast Facts

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