

ITEM 6. GRANTS AND SPONSORSHIP – CITY RECITAL HALL LIMITED – OPERATIONAL FUNDING 2016 TO 2020**FILE NO: X000633****SUMMARY**

City Recital Hall opened in 1999 as a purpose built chamber music venue with a capacity of 1,246. It is the only such venue in Sydney, serving companies such as Musica Viva Australia, Australian Chamber Orchestra, Sydney Symphony Orchestra, Pinchgut Opera and Australian Brandenburg Orchestra.

The City has responsibility for the venue through a 99 year lease from AMP. Since opening, its management has been contracted to a commercial facilities management company, Pegasus Venue Management Pty Ltd (Pegasus), on a fee for service basis. In September 2013, following a review of the management arrangements, City officers recommended testing the market for other approaches to the governance of City Recital Hall that could deliver higher levels of activity at the venue and provide better value to the cultural sector and broader community.

On 30 March 2015, Council resolved to approve the establishment of not-for-profit organisation, City Recital Hall Limited, to be constituted as a public company, and to make an application to the Minister for Local Government for consent to establishment of the new entity (see Attachment A). Council also approved a grant of up to \$450,000 for set-up costs and operational funding of City Recital Hall Limited for the period 1 October 2015 to 30 June 2016. The City established a governance structure, a company constitution, appointed company directors and established the City Recital Hall Limited Board. Council and City Recital Hall Limited entered into a 9-month funding agreement for the grant (Funding Agreement) and also a sublease expiring in 2020 with a two year option to renew (Sublease).

On 1 October 2015, the new board took over the operations of the City Recital Hall from Pegasus. In December 2015, the Board appointed a new Chief Executive Officer (CEO), Elaine Chia. As required under the Funding Agreement, the new management has presented monthly and quarterly reports to the City. To date, the reports show that City Recital Hall Limited is maintaining a steady performance against its performance indicators.

On 30 March 2015, Council also agreed that a decision regarding the level of grant funding to the City Recital Hall Limited for the financial years 2016 to 2020 will be made following the provision of a detailed four year business plan from City Recital Hall Limited prior to the end of its first year of trading.

In March 2016, City Recital Hall Limited presented their new four year costed strategic plan, together with an application for a grant of \$450,000 per annum for four years to support their operational costs whilst establishing their business in the city's cultural arena. The application demonstrates strong alignment with the strategic priorities of the 'Creative City Cultural Policy and Action Plan' and 'Open Sydney Strategy and Action Plan' by addressing the social, economic and cultural development of the Angel Place precinct.

The level of funding requested is approximately 8.5 per cent of the City Recital Hall Limited's total projected income in the first year. The four year budget estimates 88 to 90 per cent will be self-generated income (venue hire, ticketing and fee for service). The remaining income is expected to come from other sponsorships, donations and membership fees.

The grant application has been assessed by a panel of staff from Creative City and Cultural Strategy. The assessment was made against the criteria of the Cultural and Creative Grants and Sponsorship program as well as the performance indicators and modelling attached to the 23 March 2015 report to the Cultural and Community Committee. The City's financial officers have considered the four year budget against the City Recital Hall Limited's monthly statements. Whilst some of the projected income and sales seem ambitious, the assessment panel is confident there is sufficient room to adjust expenditure accordingly and is comfortable with the proposed budget.

The panel recognises the quality of the business plan and forward budgets and also acknowledges the original intention for the City's support of City Recital Hall to reduce over time. It is therefore recommended that the City support the request from City Recital Hall Limited for a grant of \$450,000 for 2016/17, \$425,000 for 2017/18, \$400,000 for 2018/19 and \$375,000 for 2019/20.

RECOMMENDATION

It is resolved that:

- (A) Council approve a cash sponsorship of \$450,000 for 2016/17, \$425,000 for 2017/18, \$400,000 for 2018/19 and \$375,000 for 2019/20 (excluding GST) to City Recital Hall Limited;
- (B) Council approve the inclusion of City Recital Hall Limited in the Major Cultural Institutions Banner Program, which provides access to free use of a limited number of banner poles for up to three weeks per year (subject to availability); and
- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer an agreement with City Recital Hall Ltd for the cash sponsorship detailed in clause (A).

ATTACHMENTS

Attachment A: Resolution of Council – 30 March 2015 – Future Management and Governance Models for City Recital Hall

BACKGROUND

1. Following construction of the City's first customised recital hall, in 1999 the City leased the City Recital Hall from AMP for a 99 year term and opened the venue at a gala event on 30 October that year.
2. The opening of a customised recital hall for Sydney followed extensive lobbying by Sydney's arts community, especially its fine music and chamber music ensembles, for an inner city recital centre.
3. Since its opening in 1999, the venue has supported a regular client base comprising Australia's major music organisations (Priority One Hirers), and also been utilised for concerts, conferences, presentations, ceremonies and functions by a range of other hirers, including not-for-profit arts and community organisations, commercial concert promoters, educational institutions and corporations.
4. Current Priority One hirers are the Australian Brandenburg Orchestra, the Australian Chamber Orchestra, Australian String Quartet, Gondwana Choirs, Musica Viva Australia, Sydney Symphony Orchestra, Sydney Philharmonia Choirs, Sydney Festival, Pinchgut Opera, and the Australian Youth Orchestra.
5. From 1999 to 30 September 2015, Pegasus Venue Management Pty Ltd (Pegasus) managed City Recital Hall under various contracts with the City. The fees paid to Pegasus were based on the shortfall between the City Recital Hall's operating income and expenditure plus a management fee. The management fee and operating costs had increased over that time.
6. In a review of the City Recital Hall's venue utilisation and activation, City officers agreed there may be benefits in testing the market for other approaches to the management of City Recital Hall that could deliver higher levels of venue activation and better value to the cultural sector, local businesses and the broader community.
7. In August 2014, the City appointed consulting firm, Positive Solutions to analyse and make recommendations on the best future management and governance models for City Recital Hall to ensure sound management and governance of the venue and its operations; enhance its reputation as Sydney's premier fine music venue; and contribute to the City's cultural, social and economic objectives.
8. After considerable consultations across the industry and a detailed review of recent government practice in the management of cultural infrastructure; environmental conditions; activity levels in benchmarked facilities; and long-term opportunities for sustainable growth, the consultant's report recommended the establishment of a separate not-for-profit entity to manage the City Recital Hall as the most appropriate model for the City to pursue.
9. On 30 March 2015, Council considered the recommendations in the consultant's report and agreed to:
 - (a) support the establishment of a not-for-profit organisation with primary responsibility for operating the City Recital Hall and optimising its social, cultural and economic value;
 - (b) make an application for the Minister's consent to establish the new entity;

- (c) appoint the initial company directors in accordance with the agreed constitution;
 - (d) establish a subleasing agreement to allow the organisation to occupy the City Recital Hall;
 - (e) enter into a funding agreement for \$450,000 for the set-up costs and first nine months of operation within the 2015/16 financial year;
 - (f) note that a decision regarding the level of grant funding to the new entity for the financial years 2016 – 2020 will be made by Council following the provision of a detailed four year business plan from the new entity prior to the end of its first year of trading; and
 - (g) note that subject to the granting of ministerial consent in (b) above, a review of the performance of the organisation and its governance model will be undertaken at the conclusion of its first five year term in October 2020 and reported back to Council at that time.
10. To date, the City has:
- (a) received Ministerial consent to establish the new entity. Section 358 of the Local Government Act 1993 restricts councils in forming or participating in the formation of a corporation or other entity without first obtaining the consent of the Minister for Local Government. This approval was received for the new entity, City Recital Hall Limited, on 23 June 2015. The approval was subject to an amendment to the organisation's draft constitution, which has been amended accordingly;
 - (b) established the new entity, City Recital Hall Limited, and appointed a board to oversee the operation and management of the venue;
 - (c) negotiated and entered into a sublease of the venue until 2020 with an option of two years;
 - (d) awarded City Recital Hall Limited the grant of \$450,000 for set up and operational costs in the 2015/16 financial year; and
 - (e) monitored the organisation's development and fiscal management through monthly and quarterly reports provided by the City Recital Hall management.
11. To date, City Recital Hall Limited has met its obligations in the current grant agreement through the following:
- (a) commenced operations on 1 October 2015, operating as a not-for-profit company limited by guarantee to manage the City Recital Hall facility, and to transform the venue from a 'hall for hire' to a venue with a curated management approach. They plan to launch their new program format in January 2017, which offers a more unified program of events to greatly increase utilisation of the venue and unlock its cultural, social and economic value. The company is still in its first six months of operations;

- (b) recruited and appointed a new CEO of City Recital Hall Limited, Elaine Chia, who commenced in January 2016. Ms Chia has extensive experience in the arts and cultural sector. In her previous role at the Australia Council as Director, International Signature Projects, she successfully oversaw the building of the Australian Pavilion for art and architecture at the Venice Biennale;
 - (c) started the process of reviewing the venue's Priority One Hirers program with a view to maximising the operational outcomes and encouraging greater alignment with the venue's annual programming strategies;
 - (d) reviewed the achievements of the venue's operations to date, considering how it can capitalise on the existing intellectual, physical and business assets, taking into account present and future opportunities. They have established good governance and rigorous processes, providing a solid foundation from which to now launch their intended vision for the venue. Their success will see the significant transformation of City Recital Hall into a dynamic and vibrant entity;
 - (e) prepared a business plan that outlines how, through carefully formulated strategies and actions, they will grow the City Recital Hall operations and programs. Their key performance indicators, developed from sound financial and business modelling, are ambitious but achievable. City Recital Hall Limited will continue to develop these plans over the next 18 months as they add a range of qualitative indicators in artistic vibrancy, cultural and audience diversity, participation and engagement;
 - (f) new curated events produced in-house are building new audiences through quality and diverse programming. For example, in the last quarter, the concert Song Hoy Blues attracted new audiences of 25 per cent (up from 9 per cent from the previous event), and 80 per cent of the audiences gave the concert an excellent rating. The next event, presenting the collaboration of Katie Noonan and the internationally acclaimed Brodsky Quartet, is an example of their innovative programming. The event promises to attract further increases in new and diverse audiences; and
 - (g) prepared budget projections for the next four years demonstrating growth in income through diversification of income streams, supported by strong strategies to grow programming and operations. The budget demonstrates growth in reserves in keeping with sound industry financial best practice.
12. In March 2016, the City received a grant application from City Recital Hall Limited for an amount of \$450,000 per annum for four years towards the organisation's operational expenses. The assessment meeting was chaired by the Executive Manager, Creative City. The panel of assessors (Manager Culture and Creativity, Cultural Projects Coordinator – Funded Programs and Manager Cultural Strategy) assessed the application against the City's Cultural and Creative Grants and Sponsorship program criteria.
13. The application addresses the City's strategic objectives and key performance indicators detailed in the attachment to the 23 March 2015 Committee report and the City's late night economy strategies. The application included a four year business and strategic plan.

14. The budgets submitted by the new organisation to support their application for funding vary from the assumptions presented in the draft financial modelling originally considered for the future management of City Recital Hall. The draft financial model, excluding any subsidy, assumed approximate losses of more than \$400,000 in year one, reducing to \$150,000 in year two, and \$25,000 in year three, with more than \$50,000 surplus being achieved from year four onwards. Based on these targets, a subsidy from the City reduced across four years would see a break-even scenario by year four. However, these projections are based on different income and expenditure figures to those presented by the new organisation, and these models do not reflect the increased strategic focus on programming growth and curatorial vision identified in the new business plan.
15. The budget demonstrates the organisation's plans to diversify income streams with a mix of private sponsorship, a new programming model and business developments. The proposed income projections nominate an almost fourfold increase in income and costs for the curated programming to be delivered, reflecting the serious attention to improving the quality of the City Recital Hall cultural offering. The ticketing income projected in year one surpasses the original model's year four targets. In the original model budgets, the production and technical costs remain static (aside from annual CPI increases), which does not reflect the programming expansion and business development goals of the new organisation as per the current contractual brief with the City.
16. The new organisation's philanthropic and membership income targets are greater in year one, and by year four they more than triple the projections in the original model.
17. Reserves are not presented in the original financial models, however it is considered industry best practice for any not-for-profit cultural organisation to demonstrate financial stability by accumulating reserves. Indeed, they are paramount for a performing arts company that bears substantial risk as the managers of a ticketed venue, relying heavily on projected ticket income to cover expenditure. Reserves are vital if a show cannot proceed or is unsuccessful at box office. Under the previous management model, any shortfall between income and expenditure was passed onto the City.
18. Reserves are also a significant factor in attracting further philanthropic support and other government funding. The new budget indicates a small surplus from year one, building to a modest surplus in reserves by end of year four. Their forecast equity position in year four indicates sound fiscal management and a transition towards financial independence from core operational funding support.
19. In addition, the new organisation is taking on the responsibility for property expenses (including Land Tax, Council rates, rent and any minor building maintenance). There are more than \$70,000 of expenses that the City once absorbed that are now the responsibility of the new entity.
20. The panel supported a grant of \$450,000 for 2016/17, \$425,000 for 2017/18, \$400,000 for 2018/19 and \$375,000 for 2019/20 (excluding GST). The panel also recommended that the City Recital Hall Limited be included in the Major Cultural Institutions Banner Program. This will allow access to hire up to 200 banner poles for up to three weeks free of charge each year.

21. If the recommendation is approved, a funding agreement will be prepared to include key performance indicators, sponsor rights and benefits, and reporting requirements and schedules. These will address:
 - (a) operational responsibilities;
 - (b) working collaboratively with the City and other stakeholders to ensure program delivery;
 - (c) acknowledging the City's support;
 - (d) actively promoting the venue and program;
 - (e) ensuring community access to the venue through hire and ticketing structures; and
 - (f) minimising environmental impact.
22. It is expected that regular reporting and documentation made available to the City will include data about venue utilisation and activation; audiences and hirer feedback metrics; growth in revenue from non-government sources; program diversity and impact; and financial health. Payment of all grant funds will be conditional upon receipt of this information.

KEY IMPLICATIONS

Strategic Alignment - Sustainable Sydney 2030

23. *Sustainable Sydney 2030* is a vision for the sustainable development of the city to 2030 and beyond. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This grant is aligned with the following strategic directions and objectives:
 - (a) Direction 5 - A Lively and Engaging City Centre – the City Recital Hall contributes to the city centre's iconic status by providing the only purpose-built facility for recitals and chamber music. In doing so, it creates a mature and diverse night time culture by attracting a unique demographic interested in a specific cultural form.
 - (b) Direction 7 - A Cultural and Creative City – the City Recital Hall supports cultural activity, participation and interaction by providing specialised cultural infrastructure appropriate to a global city. This ensures audiences can access the work of leading international and Australian performing artists in a building with the appropriate facilities and acoustic standards.

Social / Cultural / Community

24. City Recital Hall is the only custom-built venue serving chamber orchestra, musical recitals and similar cultural performances in Sydney. An effective management structure is vital to the delivery of performances by chamber and contemporary classical music ensembles and choral groups and ensuring this cultural offer is optimised for the local community and visitors to Sydney.

Economic

25. The City Recital Hall plays an important role in supporting the night time economy of the Central Business District, particularly for surrounding food and drink operators. It provides a unique drawcard attracting an alternate demographic to the northern end of George Street, with a particular focus on the early evening economy.
26. Maximising City Recital Hall as a performance venue with increased utilisation and high levels of patronage optimises its economic value through the employment of additional technical, administrative and artistic labour and increasing footfall and spend in the precinct.

BUDGET IMPLICATIONS

27. \$450,000 has been included in the Grants and Sponsorships 2016/17 budget in anticipation of this grant request. Future budgets will incorporate the approved funding amounts for the subsequent years 2017/18, 2018/19 and 2019/20.

RELEVANT LEGISLATION

28. Section 356 of the Local Government Act 1993.

CRITICAL DATES / TIME FRAMES

29. The current funding agreement with City Recital Hall Limited ends on 30 June 2016.

PUBLIC CONSULTATION

30. In September 2014, the consulting firm, Positive Solutions, reviewed the operations of City Recital Hall and conducted research to inform their recommendations. To identify alternative management options, the consultant met with existing hirers; reviewed current financial and management reports; undertook interviews with industry stakeholders; analysed Australian and international benchmark facilities; and considered current environmental conditions relating to metropolitan and regional cultural infrastructure and facilities.

ANN HOBAN

Director City Life

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