

Item 3.

Grants and Sponsorship - City Recital Hall Limited - Operational Funding 2020-2025

File No: X000633

Summary

The City Recital Hall was purpose built as a music venue as part of a building development by AMP. With a capacity of 1,246 seats and excellent acoustics for live music, it is the only such venue in Sydney. The City holds a 99-year lease on the property and in 1999 appointed Pegasus Venue Management Limited, a contracted commercial facilities management company, (Pegasus), to manage the City venue on a fee for service basis.

In September 2013, the City reviewed the management arrangements and tested the market for other approaches to the governance of City Recital Hall, to enable higher levels of venue activity and provide better value and outcomes for the cultural sector and broader community. On 30 March 2015, Council resolved to establish the not-for-profit organisation, City Recital Hall Limited, to manage the venue.

On 21 September 2015, Council and City Recital Hall Limited entered into a nine-month funding agreement for sponsorship of \$450,000 and \$100,000 to build an operating reserve. The new board approved City Recital Hall Limited entering into a sublease with the City (expiring 30 June 2020). In October 2015, City Recital Hall Limited took control of the City Recital Hall operations from Pegasus.

By March 2016, City Recital Hall Limited had developed a four-year costed strategic plan, and made an application to the City for a four-year grant to support their operational costs whilst developing their business in the city's cultural arena. In May 2016, the City approved 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.

A further \$150,000 grant to City Recital Hall Limited was approved by Council on 12 December 2016 to establish a caterer's kitchen to service venue functions and events. This upgrade was part of the organisation's plan to diversify and increase income for the organisation. In addition, since 2016, the City has supported the City Recital Hall through various ad hoc grants to the value of \$70,000 in total, including night time diversification and street banner program grants.

In 2018, City Recital Hall Limited's board and Chief Executive Officer approached the City seeking approval to apply for future operational funding for five years from 2020/21 and a grant of a new sublease to match the funding term. Whilst the current funding and sublease agreement still had 18 months until expiry, the board expressed the importance of financial security and the need to plan core business beyond 2020.

In January 2019, City Recital Hall Limited submitted an application for operational grant funding of \$1 million per year for three years and \$850,000 for the following two years. It also requested a transfer of the lease for an adjoining property, Shop 1, 2 Angel Place to City Recital Hall when the current tenant's lease expires in 2020, and submitted an asset management plan for capital works over the next five years.

An internal panel of senior staff from across the organisation assessed the application.

Under the lease arrangements, the City is responsible for base building maintenance. In order to fulfil that obligation, City staff negotiated a six-year maintenance plan, costing just under \$6.3 million, that has been included in the City's annual capital works budget and future year forward estimates.

Based on the City's leasing and legal obligations, the panel were advised that City Recital Hall Limited will be able to make a competitive bid for the Shop 1, 2 Angel Place café once the current lease is surrendered. It is recommended that this leasing matter be addressed independently of this grant application and that any future arrangements be under a separate lease agreement and at a market rate. However, a new 5-year sublease for the City Recital Hall will be offered to City Recital Hall Limited from 1 July 2020.

After careful financial analysis, modelling and consideration including extensive discussions with City Recital Hall Limited's management, it is recommended that Council:

- (a) approve the following operational funding (all amounts exclude GST):
 - (i) Financial Year 2019/20 - \$325,000 (in addition to \$375,000 currently contracted)
 - (ii) Financial Year 2020/21 - \$700,000
 - (iii) Financial Year 2021/22 - \$700,000
 - (iv) Financial Year 2022/23 - \$700,000
 - (v) Financial Year 2023/24 - \$700,000
 - (vi) Financial Year 2024/25 - \$700,000; and
- (b) grant a new sublease to City Recital Hall Limited for City Recital Hall, 1 Angel Place, Sydney, from 1 July 2020 to 30 June 2025 at no cost.

Recommendation

It is resolved that:

- (A) Council approve a cash grant to City Recital Hall Limited of \$325,000 (excluding GST) for 2019/20 in addition to the previously approved grant of \$375,000, to be sourced from the 2019/20 General Contingency Budget, \$700,000 (excluding GST) per financial year for the financial years 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 for the purpose of assisting with the operational costs incurred by City Recital Hall Limited in operating the City Recital Hall venue;
- (B) Council note the base building funding, a total of \$6.3 million over six years, approved by Council in June as part of the City's annual Capital Expenditure Bid;
- (C) authority be delegated to the Chief Executive Officer to negotiate, execute and administer a grant agreement with City Recital Hall Limited in relation to the grant as detailed in clause (A) above;
- (D) Council approve the grant of a new sublease to City Recital Hall Limited for City Recital Hall, 1 Angel Place, Sydney with no annual rent payments for a term of five years with a commencement date of 1 July 2020; and
- (E) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the sublease with City Recital Hall Limited in relation to the sublease as detailed in clause (D) above.

Attachments

Nil.

Background

1. The City Recital Hall is Sydney's first customised recital hall. It is owned by AMP and leased to the City for 99 years. Since its opening 30 October 1999, the venue has operated on a hall for hire basis and has supported a regular client base comprising Australia's major music organisations.
2. From October 1999 to 30 September 2015, Pegasus Venue Management Limited (Pegasus) managed the 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 increased over that time.
3. In a review of the City Recital Hall's venue utilisation and activation, the City investigated 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.
4. On 30 March 2015, Council endorsed 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. The City received ministerial consent to establish a new company, City Recital Hall Limited, establish company directors, and prepare subleasing arrangements.
5. The City Recital Hall Limited commenced operations on 1 October 2015 and commenced a review of the operations to align with the venue's annual programming strategies. Council provided total funding of \$550,000 to support this work. Since this time they have been working to transform the venue from a purely 'hall for hire' model, to a venue with a curated management approach.
6. In May 2016, the City approved a four-year sponsorship to enable City Recital Hall Limited to achieve the strategies identified in their four-year plan. The sponsorship is for \$450,000 for the financial year 2016/17, \$425,000 for the financial year 2017/18, \$400,000 for the financial year 2018/19 and \$375,000 for the financial year 2019/20 (excluding GST). A reducing budget over the first years of operation was recommended as it was envisaged City Recital Hall Limited would gradually become less dependent on the City's support and secure other income over time.
7. The four-year business plan identified a number of physical changes required to the City Recital Hall building. The goal was to enable smarter use of the facility and assist the organisation to improve flexibility in the use of the spaces provided, generate additional hiring opportunities and subsequently improve their income streams.
8. On 12 December 2016, Council approved a one-off grant of \$150,000 to address the lack of on-site kitchen facilities. The scope of the works included a new cool room, caterer's kitchen, dry refuse room, and chilled refuse room.
9. Quarterly reports delivered to the City by City Recital Hall Limited since 2016 have indicated a steady growth in most areas of its operation. Audience numbers have grown and audience surveys indicated a high level of customer satisfaction. Whilst there were some slow growth areas, overall the reports indicated the operation model was meeting the City's expectations and aligning to the cultural agenda. On January 2017, City Recital Hall Limited launched their first annual program format offering a more unified program of events, which has greatly increased utilisation of the venue and unlocked its cultural, social and economic value.

10. In November 2018, City staff provided positive feedback to City Recital Hall Limited on their performance under the current funding agreement. The noted achievements include:
- (a) working with the City to improve the venue. Facility improvements include new chain hoist, caterers kitchen, installation of WiFi network across all foyers, improvement to the box office, administration and ground floor foyer areas, new foyer furniture across all levels and installation of the acoustic PA system improving technical offering for self-presented and hirer concerts and events;
 - (b) maintaining excellent level of service delivery, with 97 per cent rating their experience of visiting City Recital Hall as Good or Excellent;
 - (c) establishing a strong brand and reputation for quality performances;
 - (d) establishing a strong reputation for accessibility (physical, cultural and financial);
 - (e) increasing activation by 20 per cent in three years, from 225 events in 2015 to 273 events in 2018;
 - (f) producing from scratch the City Recital Hall artistic program that has increased four-fold in three years, to nearly 90 concerts and events annually;
 - (g) introducing new and more engaged audiences to the venue. Their database has grown by 41 per cent (over 50,000 new people) in three years and the City Recital Hall mainstage program saw 50 per cent new audiences attending City Recital Hall in 2018;
 - (h) maintaining excellent relationships with the Key Presenting companies (formerly known as Priority 1 hirers). New City Recital Hall programming, primarily focused on contemporary rather than classical music, to complement, rather than compete with, Key Presenters performances; and
 - (i) securing almost \$980,000 in cash and in-kind sponsorship and philanthropy (in addition to City of Sydney's support) in two years.
11. It was agreed at this time to invite City Recital Hall Limited to make an application for a further five years of operational funding from the City, commencing 1 July 2020. City Recital Hall Limited were informed that their sublease would also be renewed at this time to ensure the two agreements were date aligned. They were informed that the City would also review current operations and requested their funding application include:
- (a) a revised Strategic Plan to 2025;
 - (b) a five-year Business Plan from 2020-2025;
 - (c) business analysis with annual budget targets for each year 2020-2025, including five year reserves and potential for financial outcome for the City;
 - (d) an Asset Management Plan; and
 - (e) considerations for future Angel Place precinct development, including options with and without City-subsidised rent.

12. The funding application was submitted by City Recital Hall Limited in January 2019. The application supplied the above documentation and made three significant requests:
 - (a) annual cash funding of \$1,000,000 per financial year for the financial years 2010/21, 2021/22 and 2022/23 and \$850,000 per financial year for the financial years 2023/24 and 2024/25;
 - (b) a six-year asset management plan for up to \$7,117,517.11 for venue maintenance to 30 June 2025, including 2019/20; and
 - (c) a guarantee that the City will not approve any extension to the existing Angel Café lease (expiring 28 February 2022) and in the event that the present owner walks away sooner, to transfer the lease of Shop 1, 2 Angel Place currently trading as Angel Cafe to City Recital Hall Limited.
13. The application states that the first three years of business have demonstrated that whilst the management model is a successful one, it is not sustainable at current levels of support. Both parties agree the option to continue business as usual under current projected funding levels is unsustainable. The rationale suggests its activities as a curated venue, the aging infrastructure, and limited alternate revenue options within a competitive marketplace require significantly more support from the City. It is noted the City is currently the only government funding body to fund the core operations of City Recital Hall Limited. It is also noted that the City is almost doubling its commitment to City Recital Hall Limited. The City has taken careful consideration, whilst balancing a large number of equally worthy priorities and demands, and determined that the need for this higher level of support is necessary for this significant City and public asset to continue to deliver services for the community.
14. A panel, including representation from City's Property Services, Finance, Legal, Cultural Planning, Creative City, Grants and Venue Management, has completed a thorough and robust assessment of the application. The City conducted several meetings with the Board and senior management of City Recital Hall Limited to negotiate a reasonable level of support that was within the City's means. It was decided that the three components of the application should be assessed independently whilst acknowledging the impact each of these parts had on the other and the overall financial stability of the organisation. All three have considerable impact on the City's ability to fund its current commitments. The following recommendations are unanimously agreed:

- (a) asset management plan:
 - (i) the building will soon be 20 years old and the facilities are aging and in need of repair;
 - (ii) maintenance of the building impacts on the organisation's ability to be competitive against other newer venues in the hirer's market;
 - (iii) all maintenance discussions are to be negotiated under the terms of the current sublease agreement; and
 - (iv) City staff have negotiated and agreed on a six year maintenance plan worth \$6,274,157 with City Recital Hall Limited based on standard landlord tenant obligations (base building/capital works asset). This plan was approved by Council in June part of the City's annual Capital Expenditure Bid;
- (b) transfer of lease for Shop 1, 2 Angel Place (Angel Café):
 - (i) under the lease to the current tenant:
 - a. the City has no rights to require the current tenants to surrender the lease; and
 - b. the current tenant has first option to take out a new lease;
- (c) operational funding - cash request:
 - (i) currently the City's funding represents 7 per cent of City Recital Hall Limited's turnover. City Recital Hall Limited believes the level of City funding should be 10-14 per cent to be operationally viable;
 - (ii) City Recital Hall Limited expressed concern that their reserves were diminishing due to increases in operational costs, the loss of business from corporate hirers to new hotels that offer high end food and venue packages, aging facilities requiring regular repairs and temporary equipment replacements as well as the diminishing City of Sydney annual grant;
 - (iii) City Recital Hall Limited also noted the positive financial outcome from the production of their own shows. It is pleasing to see this has also resulted in the employment of additional staff, artists, production/technical and producer and development manager had netted a positive financial outcome. It is projected City Recital Hall Limited's programming will continue to increase revenue and eventually contribute to organisation's financial stability in the future;
 - (iv) there is suggestion that the aging facility is consuming valuable operation resources. In considering the funding request, the asset management plan recommended is over \$6 million has been taken into account, along with the potential to reduce overheads and improve the venue's offering to potential hirers;

- (v) the following funding recommendation is considered a reasonable offer to support City Recital Hall Limited's forward plan, provide them with a sound financial platform and is achievable from the City's financial perspective; and
- (vi) it is envisaged the funding levels will accommodate additional capital expenditure on IT, Point of Sale systems and office equipment and that these purchases will improve operations to support a more efficient administration.

Financial Year	Cash Request	Capital Works Value	Recommended Cash
2019/20		\$373,503	\$325,000* *+\$375,000 approved under current contract
2020/21	\$1,000,000	\$1,141,255	\$700,000
2021/22	\$1,000,000	\$1,161,329	\$700,000
2022/23	\$1,000,000	\$423,120	\$700,000
2023/24	\$1,000,000	\$1,409,100	\$700,000
2024/25	\$1,000,000	\$1,717,850	\$700,000

Key Implications

Strategic Alignment - Sustainable Sydney 2030 Vision

15. 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 1 - A Globally Competitive and Innovative City - City Recital Hall offers a quality and diverse program, ensuring audiences can access the work of leading international and Australian performing artists in a building with the appropriate facilities and high quality acoustic standards.
 - (b) Direction 5 - A Lively and Engaging City Centre - City Recital Hall is located in the heart of the Sydney CBD and is a cultural and entertainment destination, hosting over 270 events each year. Nestled amongst restaurants and nightclubs it is growing its audiences and reputation as an iconic live music venue.

- (c) Direction 6 - Vibrant Local Communities and Economies - In 2018, City Recital Hall generated over \$11 million in ticket sales, contributing \$3.1 million annually for the cultural sector. With estimated audiences of 180,000 people each year, it is estimated 45 per cent visit local food and beverage businesses within five minutes walk of the venue.
- (d) Direction 7 - A Cultural and Creative City - City Recital Hall supports cultural activity, participation and interaction by providing specialised cultural infrastructure appropriate to a global city. The venue 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.

Risks

16. The City is committed and invested in the success of City Recital Hall Limited. After three years of operation as a not for-profit cultural organisation, the staff and board have transformed the venue into an active and engaging cultural destination in the heart of Sydney. The allocation of this increase in funding is vital to the operational and financial outcomes for the organisation whilst establishing its core business and will assist City Recital Hall Limited's transition to long term financial sustainability and ensure the venue use is optimised for the local community and visitors to Sydney. This approach is a risk sharing model and acknowledges the City's obligation to ensure the venue is operational and viable. The increase in funding is based on the expectation that City Recital Hall's other revenue streams also increase to ensure both parties are sharing the financial risk.

Social / Cultural / Community

17. City Recital Hall is an inclusive and accessible cultural institution celebrating and showcasing our diverse communities. It is the only custom-built venue serving chamber orchestra, musical recitals and similar cultural performances in Sydney. It is well known for its acoustic qualities and considered one of the best venues for live performance.

Economic

18. Maximising the use of City Recital Hall as a performance venue optimises its economic value through the employment of additional technical, administrative and artistic labour, also increasing footfall and spend in the Angel Place precinct. It is estimated that in 2018, City Recital Hall contributed \$3.1 million for the cultural sector.

Budget Implications

19. Financial Year 2019/20 - the additional amount of \$325,000 sought for the current financial year will be funded from the Council's General Contingency budget. This is an increase on the \$375,000 previously approved and under current contract.
20. The City's Long Term Financial Plan includes an allowance for the continued funding of the City Recital Hall at the current level (\$375,000 per annum). If approved, the funding level will be adjusted in the Grants and Sponsorships forward estimates as shown:
 - (a) Financial Year 2020/21 - \$700,000
 - (b) Financial Year 2021/22 - \$700,000
 - (c) Financial Year 2022/23 - \$700,000
 - (d) Financial Year 2023/24 - \$700,000
 - (e) Financial Year 2024/25 - \$700,000
21. Once approved the City can enter into a new five-year sublease for the venue, City Recital Hall for which the rent is 100 per cent subsidised.

Relevant Legislation

22. Local Government Act 1993, section 356.

Critical Dates / Time Frames

23. City Recital Hall Limited's current funding agreement will expire on 30 June 2020. As a public venue for hire, its management will soon be taking venue bookings and start programming beyond the current funding period. As a large organisation, it needs confirmation of the City's cash support and a long term sublease to ensure its financial stability and continuity to work to its established business and strategic plans.

ANN HOBAN

Director City Life

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