

ARTS, CULTURE AND ENTERPRISE CENTRE Financial Analysis

DRAFT REPORT

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Prepared by:



Prepared for:



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1. Executive Summary

RFF has been engaged by the Town of Port Hedland to provide analysis and advice in regards to the potential development of new cultural and community infrastructure. The project is being progressed in conjunction with the \$152 million Spoilbank Waterfront project, potential development of a Port Hedland Arts and Cultural Enterprise Centre and the proposed development of an arts, cultural and enterprise centre by Roy Hill.

This report provides a financial analysis of future costs and revenues associated with the new infrastructure and should be read in conjunction with the Needs Analysis Report provided by RFF.

The new facility is envisioned to include a wide range of uses (Table 1.1) and cost an estimated \$22.5 million. This new facility represents the relocation and co-location of the existing Courthouse Gallery, Port Hedland Library and Visitor Centre as well as a new gym for Port Hedland and a new function facility. The Spoilbank site provides considerable amenity for all of these uses and combined they will serve to activate the precinct (in conjunction with other proposed uses of the Spoilbank site).

Table 1.1 New Arts, Information, Function and Fitness Centre

Element	Size (SQM)
Function Facility (inclusive of commercial kitchen)	1000
Art Gallery and Studios	500
Gym/Fitness Centre	400
Library	50
Visitor Centre	200
Ancillary Areas (i.e. toilets, hall ways, etc.)	430
Total	2,580

Source: RFF

Currently, it is estimated to cost the Town of Port Hedland a total of \$1.13 million to run the Courthouse Gallery, Port Hedland Library and Visitor Centre, including management agreements, building and maintenance costs. It is estimated that the new centre would cost a total of \$1.20 million, thereby representing a cost increase of over \$64,000 to the Town of Port Hedland (in 2016 dollars). This comparison presents both options (i.e. a status quo and the new centre) in today's terms, allowing a fair and balanced comparison between the two options. The actual costs to run the new centre would be higher, given the project will not be delivered for another 3-4 years and inflation over time. However, for the purposes of this report and the comparison of the two different options, this analysis shows that the new centre provides an expansion of existing services as well as adding new services and community facilities for a marginal increase in costs.

Additionally, it is expected that a single management agreement would govern the new centre (except for the gym component), which is likely to create cost efficiencies. Also, the location of the Spoilbank and the co-location of the Art Gallery and Visitor Centre may allow for an increase in sales at these facilities, which would hopefully offset additional costs. Assuming a 15% increase in efficiency through bundling these management agreements, the new centre could actually provide a cost savings of almost \$100,000.

Having regard to this preliminary feasibility, it is recommended that Council proceed towards design development, more detailed capital and operational costings and development of a preferred management model. Design development should be undertaken in consultation with key potential funding partners including the Pilbara Development Commission and Roy Hill. Formulation of a steering group comprising of these key funding agencies may be an appropriate method to ensure alignment on the project moving forward.

To ensure design functionality and ensure operational management planning design development should also engage with key stakeholders including YMCA, HARTz, FORM and Department of Culture and the Arts. This should be coordinated by an appointed architect and in consultation with an appointed project manager given the scale of the project.

2. Introduction

RFF has been engaged by the Town of Port Hedland to provide analysis and advice in regards to the potential development of new cultural and community infrastructure. The project is being progressed in conjunction with the \$152 million Spoilbank Waterfront project, potential development of a Port Hedland Arts and Cultural Enterprise Centre and the proposed development of an arts, cultural and enterprise centre by Roy Hill.

The purpose of this report is to provide financial analysis for the preferred option, which includes the development of an operational cashflow model specifically for this facility.

This report should be read in conjunction with the Needs Analysis Report prepared by RFF which determined the opportunity to improve provision of community and cultural services in Port Hedland through consolidation of services and development of custom designed buildings.

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3. Facility Need and Preferred Option

As highlighted in RFF's Needs Analysis, there is a need to plan for and make improvements to the quality of infrastructure in the community to support a vibrant and well-resourced arts and culture community in Port Hedland. Based on these findings RFF determined in the Needs Analysis that:

- Any new arts and cultural, function facility should be designed and located in accordance with the Traditional Owners, and located along Port Hedland's Waterfront, its most notifiable landscape asset.
- Additional or replacement infrastructure is required to address the limitations of existing infrastructure to meet current and projected community need for arts, culture and fitness space.
- A more diversified income base or management arrangement for Wanangkura Stadium and the Matt Dann Centre which are largely meeting their functional purpose should be considered as part of a broader review by the Town.
- Holistic consultation with the Arts Community should be undertaken as part accurately defining the requirements of arts and cultural space (i.e. studios, galleries etc.) in providing for the future requirements of a Port Hedland population of 30,000.
- Negotiations with major capital and operating funding partners should progress in parallel with arts, cultural and community infrastructure planning; and where possible longer term partnerships should be secure to allow investment which can lead to greater economic independence in the region for the arts and culture community in the medium term.

The following four options were identified in the Needs Analysis:

- **Option 1 – Do Nothing:** This option would see no capital investment in the delivery of new infrastructure nor any improvements to existing infrastructure.
- **Option 2 – Modifications/ Extension of Existing Arts, Culture and Community Facilities:** This option entails undertaking improvements as necessary to increase the capacity at existing facilities including:
 - Renovation and additions to the Matt Dann Centre as recommended in the Port Hedland Entertainment Feasibility (2012);
 - Upgrades and extensions to the courthouse gallery to convert the facility into a Class A gallery which incorporates additional studio space for use by the arts community;
 - Extensions to the Gratwick Hall gym to meet forecast demand for fitness facilities for the Port Hedland locality;
 - Extensions to the Civic Centre (which would require broader building rectification) to provide for a new Community Function space or refurbishment and additions to Wanangkura Stadium to increase use as a community function space.
- **Option 3 – Colocation of Visual Arts, Information Services, Function and Fitness Space:** This option would incorporate a new development along the Port Hedland waterfront to meet future demand and would include:
 - Development of multi-functional building incorporating an A Class Art Gallery, Function/ Restaurant area, Visitor Centre/ Port Hedland Library Integrated Service and New Fitness Centre to meet Port Hedland demand;
 - Renovation and additions to the Matt Dann Centre as recommended in the Port Hedland Entertainment Feasibility (2012); and
 - Refurbishment of the Wanangkura Stadium to increase use for functions/ community events; and
 - Repurposing/ demolition or sale of vacated buildings.

- **Option 4 – Port Hedland Arts and Cultural Enterprise Centre:** As per the Concept Brief to the Pilbara Development Commission, the project was broadly defined as follows:
 - Regional Convention Facility
 - Visual arts studios (space for artists in residence)
 - Performing arts rehearsal and support spaces (storage areas for props and resources)
 - A display space
 - A stage/performance space
 - Civic areas
 - Food and beverage merchant opportunities
 - Office accommodation.

Option 3 – Colocation of Visual Arts, Information Services, Function and Fitness Space was selected as the preferred option with the Spoilbank Waterfront Precinct identified as the preferred site.

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4. Financial Analysis

4.1 Project Development

4.1.1 Capital Expenditure

In order to accommodate the preferred option, the following assumptions regarding the facility have been made, in accordance with the Needs Analysis and consultation to date. It should be noted that these base assumptions should be refined further through in-depth consultation with the local arts and culture community to ensure that the newly envisioned facilities will meet current and future needs. This would be undertaken as part of a schematic design process.

Table 4.1 New Arts, Information, Function and Fitness Centre

Element	Size (SQM)
Function Facility (inclusive of commercial kitchen)	1000
Art Gallery and Studios	500
Gym/Fitness Centre	400
Library	50
Visitor Centre	200
Ancillary Areas (i.e. toilets, hall ways, etc.)	430
Total	2,580

Source: RFF

The new centre would provide a range of activities and a net increase in services for the community. The art gallery and studios would provide an expansion from the current facilities as well as provide purpose built space (as opposed to the current retrofitted Courthouse site). The colocation of the visitor centre and the art gallery and studios would help to promote local Indigenous and non-Indigenous art to visitors and create a modern, welcoming and distinctly 'Port Hedland' point of interaction with visitors. The function space would also provide synergies with the art gallery and studios providing further synergies and opportunities for a variety of organisations to use the function space and interact with the local arts and culture community. The function space would include indoor and outdoor facilities. The provision of a commercial kitchen also means that the function space can be utilised for a wide variety of purposes and by a vast array of community and corporate groups. The kitchen could also be used by local small businesses in the hospitality industry that require more commercial scale equipment. The library component of the project would provide a virtual outpost for the main library facility at South Hedland. The opportunity to embed a gym/fitness centre would provide further activation on the site and ensure that the Port Hedland (West End, Pretty Pool) community had local access to these types of facilities. Finally, the Spoilbank site would provide a high level of amenity for all of these functions.

An initial capital expenditure estimate has been identified, totalling \$22.5 million, which has been established through the evaluation of the various costs to develop other community and cultural facilities (and their average cost per square metre) (Table 4.2).

Table 4.2 Benchmarking of Capital Costs for Community/Cultural Facilities

Facility	\$/SQM
Wanakugra Stadium	\$7,778
ANZAC Centre Albany	\$17,667
Fremantle Maritime Museum	\$5,385
Albury Library and Entertainment Centre	\$5,333
Geelong Library	\$7,500
Average	\$8,732

Source: RFF through various reports, announcements and articles

4.1.2 Funding Options

Early engagement through this project indicates that there may be a number of options to secure funding for this project. Potential funding options are outlined in the table below.

Table 4.3 Potential Funding Sources

Source	Funding Stream	Comments
Town of Port Hedland	Municipal Funds/ Airport Fund	<ul style="list-style-type: none"> The Town of Port Hedland's current asset management planning shows the capital replacement cost of the Port Hedland Library, Visitors Centre and Courthouse Gallery is \$6,033,000 This excludes any capital replacement cost associated with the Gratwick Hall Gym
Pilbara Development Commission	Pilbara Cities Fund (Unallocated)	<ul style="list-style-type: none"> Must be consistent with the Pilbara Regional Investment Blueprint Typical Funding approach is 1/3 PDC, 1/3 Proponent & 1/3 Other Maximum Funding Contribution 50% Subject to Commission, Minister and Cabinet Approval
Federal Government Department of Regional Development	National Stronger Regions Fund	<ul style="list-style-type: none"> Maximum Contribution \$10 million Maximum 50% contribution All other funding must be 100% committed Two Rounds Remaining with Final Round expected to be Undertaken during 2017
LotteryWest	Big Ideas, Heritage and Conservation, Projects	<ul style="list-style-type: none"> Further Engagement with LotteryWest required.
Roy Hill	Native Title Commitments	<ul style="list-style-type: none"> Requires design engagement with Traditional Owners Maybe development/ use specifications which effect final design outcome
Industry (other)	Industry Community Partnership Agreements	<ul style="list-style-type: none"> Preliminary discussions with Roy Hill indicate support for a collaborative development of space Must align with Industry Investment Profile Be consistent with strategic objectives for community portfolio Appropriate recognition Secure funding from key stakeholders including state government.

Source: RFF through various reports, announcements and articles

4.2 New Centre Operating Cashflow Model

An operational cashflow model has been built to demonstrate the operational viability of the new centre so that this expense can be compared to the current expenditure associated with current activities and service provision. The model has used various financial information from existing facilities as well as the Town of Port Hedland 2015-16 Budget to inform this model. The following table (Table 4.4) provides the key assumptions and Table 4.5 provides a ten year snap shot of the on-going operational cashflow for the new facility. As highlighted in the first year, the facility generates revenue of \$386,750 with expenditure of \$1,658,191, leaving a net cost of \$1,271,441. The administrative distributed cost highlighted in the Town of Port Hedland's financial statements has not been included as this cost is based on the overall administrative overheads, which are not associated with the running of this facility.

Table 4.4 Operational Assumptions

Element	Base Case	Notes/Reference
Function Facility		
Avg revenue per function	\$1,250	Based on Wanangkura Gym financials 14-15
Number of functions per year	40	Based on Wanangkura Gym financials 14-15
Art Gallery and Studios		
	\$0	While opportunity for income exists, no income has been assumed
Gym/Fitness Centre		
Memberships	250	Modelled by RFF, aligned to Wanangkura Gym
Joining Fee	\$99.00	Wanangkura Gym current price
Fortnightly Fee	\$48.00	Wanangkura Gym current price
Visitor Centre		
	\$0	While opportunity for income exists, no income has been assumed
Building Costs		
Electricity	\$8.92	\$/sqm sourced from various financial statements
Water	\$5.18	\$/sqm sourced from various financial statements
Insurance	\$5.47	\$/sqm sourced from various financial statements
Maintenance	1.5%	% of capital, industry benchmark
Depreciation	\$243,829	per year, 40 year, straight line depreciation
Cleaning	\$34.31	\$/sqm sourced from various financial statements
Telephone/IT	\$23,989	Based on financials and iinet
Security	\$0.45	\$/sqm sourced from various financial statements
Functional Costs		
Function Facility		
Catering	70%	Assumed cost of catering
Art Gallery and Studios		
Management Fee	\$416,934	Sourced from TOPH 15-16 Budget
Gym/Fitness Centre		
First Aid	\$1,690	Based on Wanangkura 14-15 Financials
Licence and Subscriptions	\$13,446	Based on Wanangkura 14-15 Financials
Manager	\$93,075	Based on Wanangkura 14-15 Financials
Postage and Courier	\$14,329	Based on Wanangkura 14-15 Financials
Recruitment	\$18,986	Based on Wanangkura 14-15 Financials
Library		
Employment Costs	\$0	Based on consultation
Visitor Centre		
Management Fee	\$365,000	Sourced from TOPH 15-16 Budget
Facility Management Costs		
Facility Manager	\$82,511	Salary incl of Super, Based on Wanangkura 14-15 Financials

Source: RFF

Table 4.5 Operational Cashflow, New Arts, Culture and Enterprise Centre

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue										
Function Facility	\$50,000	\$51,311	\$52,657	\$54,038	\$55,455	\$56,909	\$58,401	\$59,933	\$61,504	\$63,117
Art Gallery and Studios	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gym/Fitness Centre	\$336,750	\$345,581	\$354,643	\$363,943	\$373,487	\$383,281	\$393,332	\$403,647	\$414,232	\$425,094
Library	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Visitor Centre	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$386,750	\$396,892	\$407,300	\$417,981	\$428,942	\$440,190	\$451,733	\$463,579	\$475,736	\$488,211
Costs										
Building Costs										
Electricity	\$23,003	\$23,606	\$24,225	\$24,861	\$25,513	\$26,182	\$26,868	\$27,573	\$28,296	\$29,038
Water	\$13,362	\$13,713	\$14,072	\$14,441	\$14,820	\$15,209	\$15,607	\$16,017	\$16,437	\$16,868
Insurance	\$14,101	\$14,471	\$14,851	\$15,240	\$15,640	\$16,050	\$16,471	\$16,903	\$17,346	\$17,801
Maintenance	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297
Depreciation	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829
Cleaning	\$88,526	\$90,848	\$93,230	\$95,675	\$98,184	\$100,759	\$103,401	\$106,113	\$108,895	\$111,751
Telephone/IT	\$23,989	\$24,618	\$25,263	\$25,926	\$26,606	\$27,304	\$28,020	\$28,754	\$29,508	\$30,282
Security	\$1,153	\$1,184	\$1,215	\$1,246	\$1,279	\$1,313	\$1,347	\$1,382	\$1,419	\$1,456
Total Building Costs	\$554,262	\$558,566	\$562,983	\$567,516	\$572,168	\$576,942	\$581,840	\$586,868	\$592,027	\$597,322
Functional Costs										
Function Facility										
Catering	\$23,800	\$24,424	\$25,065	\$25,722	\$26,396	\$27,089	\$27,799	\$28,528	\$29,276	\$30,044
<i>Sub-total</i>	<i>\$23,800</i>	<i>\$24,424</i>	<i>\$25,065</i>	<i>\$25,722</i>	<i>\$26,396</i>	<i>\$27,089</i>	<i>\$27,799</i>	<i>\$28,528</i>	<i>\$29,276</i>	<i>\$30,044</i>
Art Gallery and Studios										
Management Fee	\$416,934	\$427,867	\$439,088	\$450,602	\$462,418	\$474,545	\$486,989	\$499,759	\$512,865	\$526,314
<i>Sub-total</i>	<i>\$416,934</i>	<i>\$427,867</i>	<i>\$439,088</i>	<i>\$450,602</i>	<i>\$462,418</i>	<i>\$474,545</i>	<i>\$486,989</i>	<i>\$499,759</i>	<i>\$512,865</i>	<i>\$526,314</i>

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gym/Fitness Centre										
FirstAid	\$1,690	\$1,734	\$1,780	\$1,826	\$1,874	\$1,924	\$1,974	\$2,026	\$2,079	\$2,133
Licence and Subscriptions	\$13,446	\$13,798	\$14,160	\$14,531	\$14,912	\$15,303	\$15,705	\$16,116	\$16,539	\$16,973
Manager	\$93,075	\$95,516	\$98,021	\$100,591	\$103,229	\$105,936	\$108,714	\$111,565	\$114,490	\$117,493
Postage and Courier	\$14,329	\$14,705	\$15,090	\$15,486	\$15,892	\$16,309	\$16,736	\$17,175	\$17,626	\$18,088
Recruitment	\$18,986	\$19,483	\$19,994	\$20,519	\$21,057	\$21,609	\$22,176	\$22,757	\$23,354	\$23,966
<i>Sub-total</i>	<i>\$141,525</i>	<i>\$145,236</i>	<i>\$149,045</i>	<i>\$152,953</i>	<i>\$156,964</i>	<i>\$161,080</i>	<i>\$165,304</i>	<i>\$169,639</i>	<i>\$174,088</i>	<i>\$178,653</i>
Library										
Employment Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Sub-total</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Visitor Centre										
Management Fee	\$365,000	\$374,572	\$384,394	\$394,474	\$404,819	\$415,435	\$426,329	\$437,509	\$448,982	\$460,755
<i>Sub-total</i>	<i>\$365,000</i>	<i>\$374,572</i>	<i>\$384,394</i>	<i>\$394,474</i>	<i>\$404,819</i>	<i>\$415,435</i>	<i>\$426,329</i>	<i>\$437,509</i>	<i>\$448,982</i>	<i>\$460,755</i>
Total Functional Costs	\$947,259	\$972,099	\$997,591	\$1,023,752	\$1,050,598	\$1,078,148	\$1,106,421	\$1,135,435	\$1,165,210	\$1,195,766
Facility Management Costs										
Facility Manager	\$82,511	\$84,675	\$86,896	\$89,174	\$91,513	\$93,912	\$96,375	\$98,903	\$101,496	\$104,158
Total Facility Management Costs	\$82,511	\$84,675	\$86,896	\$89,174	\$91,513	\$93,912	\$96,375	\$98,903	\$101,496	\$104,158
Total Costs	\$1,584,032	\$1,615,340	\$1,647,470	\$1,680,442	\$1,714,278	\$1,749,002	\$1,784,637	\$1,821,206	\$1,858,734	\$1,897,246
Net Position	-\$1,197,282	-\$1,218,448	-\$1,240,170	-\$1,262,461	-\$1,285,337	-\$1,308,812	-\$1,332,903	-\$1,357,626	-\$1,382,998	-\$1,409,034

Note: Library costs are assumed \$0 through the virtual service provision that is envisioned for the site. While some costs will be incurred through employees and other services, these costs will be absorbed through the South Hedland Library as this will be where these employees will be based. No net increase in costs are expected.

Source: TOPH Budget 2015-16; RFF

4.3 Comparison of New Centre and Existing Provision

The new centre would provide a more centralised and efficient provision of various services, creating synergies and leveraging from colocation. The new centre would continue to provide visitor and library services for Port Hedland, while at the same time providing new and expanded services:

- Expanded art gallery, including artist studios
- New function centre with commercial kitchen, providing a modern, state-of-the-art facility to hold meetings for 20-200 people
- New gym and fitness centre for the local community (i.e. West End, Pretty Pool)

The colocation of the visitor centre, art gallery and studios, library and function centre would provide considerable synergy. For example, visitors can enjoy the art gallery as the drop into the visitor centre and will be exposed to the local Indigenous and non-Indigenous art and culture scene. Additionally, visitors can enjoy the amenity and outlook of the location, which is a considerable improvement from the West End location as the Spoilbank offer ocean views as well as a unique vista for the Port of Port Hedland (and its industrial tourism). The function centre will also leverage off of the gallery and location, providing a high quality function area with commercial kitchen.

As highlighted in the table below (Table 4.6), the current net expenditure on the existing Courthouse Art Gallery, Visitor Centre and Port Hedland Library is expected to be \$1,132,950 in the 2015-16 financial year. Under the new centre, the combined net expenditure is expected to be \$1,271,441 in 2016 dollars, which creates an increase in annual costs of \$107,106.

The represents 4.5% of the total capital cost of the building. The City of Karratha's recently funded Community and Arts Precinct has an estimated annual operating cost of approximately 5% of the total capital cost of the building and therefore the modelled costs are considered comparably realistic to a similar project in the region.

Table 4.6 Existing Expenditure on Service Provision and Services

	2015-16
Courthouse Gallery	
Insurance	\$12,871
Maintenance	\$10,000
Electricity	\$13,325
Water	\$10,000
Telephone	\$2,500
Depreciation	\$90,000
Management Fee	\$416,934
<i>Sub-total</i>	\$555,630
Visitor Centre	
Insurance	\$6,220
Maintenance	\$5,100
Depreciation	\$30,000
Visitor Centre Subsidy	\$365,000
<i>Sub-total</i>	\$406,320
Port Hedland Library	
Operating Costs	\$110,000
Maintenance	\$10,000
Depreciation	\$51,000
<i>Sub-total</i>	\$171,000
Total Costs	\$1,132,950

Source: TOPH Budget 2015-16; RFF

Assuming that the surplus buildings of the Courthouse Gallery, Port Hedland Library and Visitor Centre could be leased as per Table 4.7, then the net increase in costs reduces to \$75,706 (Table 4.9). If the Courthouse Gallery, Visitor Centre and Port Hedland Library buildings could be repurposed, then they could potentially generate annual income of \$227,500 with annual building costs estimated at \$196,100 (for maintenance and depreciation), yielding a net income of \$31,400 (Table 4.8). Overall the combination of the annual operational savings as well as future potential income from surplus buildings, there is a net operational cost increase of \$33,000 (Table 4.9).

Table 4.7 Repurposing Buildings Assumptions

Repurposed Facilities	
Courthouse Gallery	
Size (SQM)	450
Lease Rate (\$/sqm)	\$250
Escalation	2.6%
Port Hedland Library	
Size (SQM)	160
Lease Rate (\$/sqm)	\$250
Escalation	2.6%
Visitor Centre	
Size (SQM)	300
Lease Rate (\$/sqm)	\$250
Escalation	2.6%

Source: RFF

Table 4.8 Repurposing Buildings Revenue and Costs

	2016\$
Revenue	
Lease of Courthouse Building	\$112,500
Lease of Port Hedland Library Building	\$40,000
Lease of Visitor Centre Building	\$75,000
Building Costs	
Courthouse Gallery	
Maintenance	\$10,000
Depreciation	\$90,000
Port Hedland Library	
Maintenance	\$10,000
Depreciation	\$51,000
Visitor Centre	
Maintenance	\$5,100
Depreciation	\$30,000
Net Position	\$31,400

Source: RFF

Table 4.9 Summary of Income and Expenditure New Centre vs. Existing Provision

	2016\$
New Centre	
Revenue	\$386,750
Costs	-\$1,584,032
Net Position	-\$1,197,282
Existing Operations	
Courthouse Gallery	-\$555,630
Port Hedland Library	-\$171,000
Visitor Centre	-\$406,320
Net Position	-\$1,132,950
New Revenue	
Lease Revenue	\$227,500
Lease Costs	-\$196,100
Net Position	\$31,400
Cost Savings	\$0
Net Position Overall	-\$32,932

Source: RFF

4.4 Efficiency Gains

For the new centre, it is envisioned that a single management contract will be let for the entire facility (except for the gym, which will require its own). Through the single management contract, there should be some efficiencies of scale gained, which would translate to operating cost savings. Additionally, the Art Gallery, Visitor Centre and Function Centre would all generate revenue, creating further opportunities to offset costs, particularly given the premier location.

According to a Local Government Procurement Study in Victoria, a 15% cost savings can be generate through the bundling of contracts (similar to the single management contract for the new facility). If this 15% cost savings were applied to the existing model, then the overall increase in operating costs of \$32,932 would transition to a net savings of \$96,735.

Additionally, other elements that could be added in the final design stage, based on consultation with stakeholders and other analysis could include other revenue generating elements, such as a café or other entertainment functions, which could generate additional revenue, potentially offsetting costs further.

Table 4.10 Operational Cashflow, New Arts, Culture and Enterprise Centre (with Efficiency Gains)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue										
Function Facility	\$50,000	\$51,311	\$52,657	\$54,038	\$55,455	\$56,909	\$58,401	\$59,933	\$61,504	\$63,117
Art Gallery and Studios	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gym/Fitness Centre	\$336,750	\$345,581	\$354,643	\$363,943	\$373,487	\$383,281	\$393,332	\$403,647	\$414,232	\$425,094
Library	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Visitor Centre	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$386,750	\$396,892	\$407,300	\$417,981	\$428,942	\$440,190	\$451,733	\$463,579	\$475,736	\$488,211
Costs										
Building Costs										
Electricity	\$23,003	\$23,606	\$24,225	\$24,861	\$25,513	\$26,182	\$26,868	\$27,573	\$28,296	\$29,038
Water	\$13,362	\$13,713	\$14,072	\$14,441	\$14,820	\$15,209	\$15,607	\$16,017	\$16,437	\$16,868
Insurance	\$14,101	\$14,471	\$14,851	\$15,240	\$15,640	\$16,050	\$16,471	\$16,903	\$17,346	\$17,801
Maintenance	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297	\$146,297
Depreciation	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829	\$243,829
Cleaning	\$88,526	\$90,848	\$93,230	\$95,675	\$98,184	\$100,759	\$103,401	\$106,113	\$108,895	\$111,751
Telephone/IT	\$23,989	\$24,618	\$25,263	\$25,926	\$26,606	\$27,304	\$28,020	\$28,754	\$29,508	\$30,282
Security	\$1,153	\$1,184	\$1,215	\$1,246	\$1,279	\$1,313	\$1,347	\$1,382	\$1,419	\$1,456
Total Building Costs	\$554,262	\$558,566	\$562,983	\$567,516	\$572,168	\$576,942	\$581,840	\$586,868	\$592,027	\$597,322
Functional Costs										
Function Facility										
Catering	\$23,800	\$24,424	\$25,065	\$25,722	\$26,396	\$27,089	\$27,799	\$28,528	\$29,276	\$30,044
<i>Sub-total</i>	<i>\$23,800</i>	<i>\$24,424</i>	<i>\$25,065</i>	<i>\$25,722</i>	<i>\$26,396</i>	<i>\$27,089</i>	<i>\$27,799</i>	<i>\$28,528</i>	<i>\$29,276</i>	<i>\$30,044</i>
Art Gallery and Studios										
Management Fee	\$354,394	\$363,687	\$373,225	\$383,012	\$393,056	\$403,363	\$413,941	\$424,796	\$435,935	\$447,367
<i>Sub-total</i>	<i>\$354,394</i>	<i>\$363,687</i>	<i>\$373,225</i>	<i>\$383,012</i>	<i>\$393,056</i>	<i>\$403,363</i>	<i>\$413,941</i>	<i>\$424,796</i>	<i>\$435,935</i>	<i>\$447,367</i>

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gym/Fitness Centre										
FirstAid	\$1,690	\$1,734	\$1,780	\$1,826	\$1,874	\$1,924	\$1,974	\$2,026	\$2,079	\$2,133
Licence and Subscriptions	\$13,446	\$13,798	\$14,160	\$14,531	\$14,912	\$15,303	\$15,705	\$16,116	\$16,539	\$16,973
Manager	\$93,075	\$95,516	\$98,021	\$100,591	\$103,229	\$105,936	\$108,714	\$111,565	\$114,490	\$117,493
Postage and Courier	\$14,329	\$14,705	\$15,090	\$15,486	\$15,892	\$16,309	\$16,736	\$17,175	\$17,626	\$18,088
Recruitment	\$18,986	\$19,483	\$19,994	\$20,519	\$21,057	\$21,609	\$22,176	\$22,757	\$23,354	\$23,966
<i>Sub-total</i>	<i>\$141,525</i>	<i>\$145,236</i>	<i>\$149,045</i>	<i>\$152,953</i>	<i>\$156,964</i>	<i>\$161,080</i>	<i>\$165,304</i>	<i>\$169,639</i>	<i>\$174,088</i>	<i>\$178,653</i>
Library										
Employment Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<i>Sub-total</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
Visitor Centre										
Management Fee	\$310,250	\$318,386	\$326,735	\$335,303	\$344,096	\$353,119	\$362,379	\$371,882	\$381,634	\$391,642
<i>Sub-total</i>	<i>\$310,250</i>	<i>\$318,386</i>	<i>\$326,735</i>	<i>\$335,303</i>	<i>\$344,096</i>	<i>\$353,119</i>	<i>\$362,379</i>	<i>\$371,882</i>	<i>\$381,634</i>	<i>\$391,642</i>
Total Functional Costs	\$829,969	\$851,733	\$874,069	\$896,990	\$920,512	\$944,651	\$969,423	\$994,845	\$1,020,933	\$1,047,706
Facility Management Costs										
Facility Manager	\$70,135	\$71,974	\$73,861	\$75,798	\$77,786	\$79,826	\$81,919	\$84,067	\$86,272	\$88,534
Total Facility Management Costs	\$70,135	\$71,974	\$73,861	\$75,798	\$77,786	\$79,826	\$81,919	\$84,067	\$86,272	\$88,534
Total Costs	\$1,454,365	\$1,482,273	\$1,510,913	\$1,540,304	\$1,570,466	\$1,601,418	\$1,633,183	\$1,665,780	\$1,699,232	\$1,733,562
Net Position	-\$1,067,615	-\$1,085,381	-\$1,103,613	-\$1,122,323	-\$1,141,524	-\$1,161,229	-\$1,181,450	-\$1,202,201	-\$1,223,496	-\$1,245,350

Note: Library costs are assumed \$0 through the virtual service provision that is envisioned for the site. While some costs will be incurred through employees and other services, these costs will be absorbed through the South Hedland Library as this will be where these employees will be based. No net increase in costs are expected.

Source: TOPH Budget 2015-16; RFF

Table 4.11 Summary of Income and Expenditure New Centre (with Efficiency Gains) vs. Existing Provision

	2016\$
New Centre	
Revenue	\$386,750
Costs	-\$1,454,365
Net Position	-\$1,067,615
Existing Operations	
Courthouse Gallery	-\$555,630
Port Hedland Library	-\$171,000
Visitor Centre	-\$406,320
Net Position	-\$1,132,950
New Revenue	
Lease Revenue	\$227,500
Lease Costs	-\$196,100
Net Position	\$31,400
Cost Savings	\$0
Net Position Overall	\$96,735

Source: RFF

5. Conclusion

This report undertakes a preliminary financial analysis of the long-term financial implications to the Town of Port Hedland in proceeding with the development of a new arts, culture and community building. The findings have been informed by high level application of a potential footprint of the building as a result of stakeholder consultation and comparative benchmarking of centres.

The financial analysis demonstrates that based on a conservative capital investment of \$25 million, the long-term financial implications to the Town of Port Hedland are not significant. With the right planning and design and management structure, there is further capacity for the Town of Port Hedland to actually drive longer term financial improvements to the delivery of arts, culture and community facilities whilst achieving an actual improvement in the delivery of services.

Having regard to this preliminary feasibility, it is recommended that Council proceed towards design development, more detailed capital and operational costings; and development of preferred management model. Design development should be undertaken in consultation with key potential funding partners including the Pilbara Development Commission and Roy Hill. Formulation of a steering group comprising of these key funding agencies may be an appropriate method to ensure alignment on the project moving forward.

To ensure design functionality and ensure operational management planning design development should also engage with key stakeholders including YMCA, HARTz, FORM and Department of Culture and the Arts. This should be coordinated by an appointed architect and in consultation with an appointed project manager given the scale of the project.



References

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