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**Consultancy to Review The Concourse Precinct, Chatswood for  
the City of Willoughby**

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## 1. Background

The Concourse is a state-of-the-art entertainment and events precinct located in Victoria Avenue, Chatswood that was built by Willoughby City Council and opened on 17 September 2011.

It includes a number of buildings and areas that serve varying purposes for the benefit and use of the Community, and that provide an income to the City Council. These include:

- The Chatswood Library
- Art Space
- The Concourse Car Park
- The Urban Screen
- Retail Outlets including restaurants and bars
- Performance venues and meetings facilities including the Concert Hall, the Theatre, the Civic Pavilion and the Studio.

Within the performing arts facility are also a Rehearsal Room, Green Room, Orchestra Room (also used for small conferences or a break-out room for conferences), Chorus Room, The Lounge, Dressing Rooms and Office Space.

This operational and financial review of The Concourse was commissioned by Willoughby City Council with a view to more fully understanding the financial operations of The Concourse and in particular the contributions that the above profit/cost centres contribute to the overall annual operating results of the precinct.

Council also wished to have a more fundamental understanding of the cost of construction of The Concourse, the means by which its construction was funded and the ongoing financial implications of that.

This report has been prepared for the exclusive use of Willoughby City Council (our client) and we advise that Anzarts Institute Ltd, Steven J Miller & Co Pty Ltd or Keeping Company Pty Ltd (the Consultants) or any shareholder or employee of those companies undertakes no responsibility arising in any way whatsoever to any person or entity other than Willoughby City Council in respect of such information, including any errors or omissions therein, arising through negligence or otherwise however stated

## 2. The Brief

The Consultants were retained to undertake research, provide analysis and develop a report that would examine the performance of The Concourse precinct having regard to the policy and financial background of its construction through to the current trading and service operations of its constituent entities, both individually and collectively, and to offer advice as to their future oversight, management and economic prospects. In particular, the following six elements were required as key deliverables in the resulting report to the Council:

**An examination of the broad financial framework of The Concourse precinct and in particular:**

- A survey of the cost of its construction
- A survey of the funding of the project
- An analysis of the debt held by Council in respect of these and the manner in which that debt is funded

**An assessment of the current financial position of The Concourse precinct and in particular:**

- An analysis of the cost of operating the precinct as a whole
- An analysis of the revenue earned across the precinct as a whole
- An analysis and summation of net income against each of the following components of The Concourse:

- Willoughby City Library
- The retail outlets forming part of The Concourse precinct footprint
- The Performing Arts Venues
- Art Space
- The Concourse Car Park
- The Urban Screen
- The Concourse Property and Venue Management
- The WurliTzer Organ

**An analysis of The Concourse Reserve Account and in particular:**

What monies are put into the account/withdrawn from the account.

**An assessment of public good aspects of maintaining and operating The Concourse Precinct, in particular:**

what implied or measurable benefits may be derived from it and what value may be placed on those;

what services are offered both to residents and visitors which might not otherwise be available within the LGA;

the audiences/clients that access or utilize each of the components of the precinct namely:

- Willoughby City Library
- Retail outlets
- The Performing Arts Centre
- Art Space
- The Concourse Car Park
- The Urban Screen

**Identify emerging/potential risks**

**Identify emerging/potential opportunities.**

### 3. Executive Summary

In The Concourse the City of Willoughby has acquired a major, multigenerational, working asset with a net valuation of approximately \$240 million used and visited by hundreds of thousands annually, funded in part by multi-generational contributions being repaid multi-generationally and with a debt to equity ratio of a low 13.85% . It is, increasingly, the focus of a vibrant night-time economy in the LGA, thereby contributing to the growth and diversity of the City and its offerings. Moreover, the development of the project has in itself made a substantial economic contribution to the CBD and to its knowledge economy.

The construction of The Concourse project was well managed as a project and well delivered within its various constraints. However, there were along the way individual points of decision which could have been better and more productively handled. The absence of a guiding vision for the precinct as whole, a plan for its business, a plan for its overall operation after opening and a dedicated supervising management have all unnecessarily complicated and possibly retarded aspects of its first four years of life. We have made suggestions as to how those might all be improved.

The stages in costing and expenditure on the project are clear, logical and in line with those budgets adopted progressively, if at times reluctantly, by Council. However, we have found it difficult to extract data relating to this in any consolidated form. The current accounting system is not well structured to track and provide such information. We have likewise recommended how that might be ameliorated in the future, but in general consider that a comprehensive overhaul of Council's financial management systems and software is warranted.

Excluding the Chatswood Library which Council was already significantly subsidising, on an operating basis The Concourse realised a \$621,905 surplus in 2013/14. This, of course, excludes interest payments on loans raised for construction. In effect, earnings on the rest of the precinct are contributing to reducing the cost of The Library towards the level that was incurred before its relocation.

Some economic judgements of The Concourse made in advance of its opening have been fulfilled. For instance, the precinct's gross earned income from its three main revenue streams is ahead of forecasts made at the time of ground breaking in 2010. That forecast revenue of \$6.3 million. The actual in 2013-14 was \$7.26 million. The Retail prediction had been \$3.3 million. The actual was \$3.08 million. Venues prediction was \$2 million. The actual was \$3.1 million/ The Car Park prediction was \$1 million and the actual was \$1.026 million. There is certainly room for growth in all of these areas but overall it has been pleasing to note that that has been the trend.

However, lack of clarity in some areas of attributing of expenditure is problematic. Allocation of some overheads and the lack of allocation of others, notably in the area of loan repayments, appear to have been so arbitrary as to have the effect of obscuring both the general and the detailed picture. This applies both to the overall operations of The Concourse and/or to specific cost centres within it. This confusion need to be resolved. We have proposed that a transparent method of overhead allocation across all cost centres be

adopted so that Council can have both a clear and accurate understanding of the financial current position as well receiving periodic, consistent and complete updates on its progress. The Concourse represents a major breakthrough in creating cultural precincts in Australia. No other city in Australasia that we know of has achieved anything similar to date. First, Council located it in the middle of the business district where large numbers of people come day and night and more and more are coming to live. Second, it is located five minutes' walk from one of Sydney's major train and bus interchanges which is about to become even more significant. Third, Council created a precinct model which has at its base cross-subsidy between rent-paying commercial businesses and the non-profit performing, literary and media arts. Those facts should be held up as visionary and celebrated by the LGA as a great achievement.

While no reliable assessment is available of casual traffic to and through the precinct, ascertainable visitation is impressive. In 2013/14 the performing arts venues had 163,000 attendances, the majority paid attendance. The Car Park had 180,000 paid entries. We estimate the Library had around 145,000 discrete usages. Anecdotally, the majority of the retail outlets are trading well and the food and beverage businesses are increasingly being integrated into, and hopefully benefiting from, the precinct's recurrent public events and programs.

However, because there was never an overarching plan for its future operation, the precinct as such has not been managed or reported on as a unit. That needs to change. We have proposed that a position of Precinct Manager be created to take charge of the supervision of The Concourse both for its day-to-day as well as its longer term operations. That officer's primary responsibility would be the development and implementation of a comprehensive business plan and reporting to Council against KPIs for The Concourse overall and, where appropriate, its constituent entities. The plan would include financial, organisational and social goals for the precinct. Critically, that position would involve liaison with the constituent entities and between them and relevant Council departments.

Within that plan some shifts of usage of spaces and functions are desirable. For example: we have proposed that the exhibition function be moved from the Art Space to the Library; the usage of the Arts Space be rethought; the management and content of the Urban Screen be revisited; and that the Chatswood Library be developed as a knowledge centre and exchange for business and the community. Concomitantly, we have also proposed the development of a marketing and tourism plan for The Concourse which would seek to sustain and grow visitation to the precinct through a mix of special events and distinctive attractions.

The Concourse is a remarkable project and has had some notable successes to date. With a new vision and a refurbished plan of management it could transform Chatswood into an outstanding cultural and leisure draw card for the city.

## 4. Recommendations

Having considered the information presented and their findings with respect to it, the Consultants offer the following recommendations

<p><b>Management and Planning</b></p>	<p>1. That a Precinct Manager be engaged who would be responsible for overseeing the Precinct. (p.12)</p> <p>2. That a comprehensive Business Model and Operating Plan be created and adopted for The Concourse (p.13)</p> <p>3. That, in considering future major projects, Council ensure that not only is there a comprehensive business plan in advance but an equally comprehensive plan of management and implementation in place thereafter. (p.15)</p>
<p><b>Financial reporting and systems</b></p>	<p>4. That Council officers prepare Management Reports on an ongoing basis, preferably monthly which include profit and loss statements that record actual year-to-date results against budget and the forecast year end result against the year's approved budget as to which samples in <b>Appendices 4.0 to 4.4</b> might be taken as a guide and that a balance sheet be prepared that compares the balance sheet at the reporting date to the audited balance sheet at the previous June year end. (p.18)</p> <p>5. That, in future, all of the operational income and expenditure for The Concourse be processed through The Concourse Reserve so that the total population of transactions can be controlled and substantiated. (p.19)</p> <p>6. That Council conduct a review of the internal charges as they apply to The Concourse, in particular property maintenance charges to ensure the proper and realistic allocation to profit/cost centres. (p.19)</p> <p>7. That Council conduct a review of the current ERP Accounting System and Chart of Accounts so to ensure that it can allow ready extraction of the necessary P&amp;Ls and a Concourse-specific Balance Sheet. (p.20)</p> <p>8. That Income and expenses relating to the satellite libraries should be isolated from the P&amp;L of The Concourse and only costs relating to the Chatswood Library be included. (p.20)</p> <p>9. That depreciation charges be calculated and entered into the general ledger on a monthly basis and recorded in the Profit and Loss of each Profit/Cost Centre of The Concourse, including the retail premises. (p.21)</p>

	<p>10. That in future any staff time spent on The Concourse management and operations including employee on-costs be charged to that account in the general ledger. (p.21)</p> <p>11. That interest income and expense be calculated for The Concourse on a monthly basis and recorded in the general ledger against The Concourse. (p.22)</p> <p>12. That Council endeavour to build provisions for the future repairs and maintenance, upgrade or replacement of the buildings and plant &amp; equipment of The Concourse. (p.22)</p> <p>14 That Council review the financial reports, the results of operations and the financial position of The Concourse with a view to better understanding the future obligations imposed on Council by it and that the exercise of forecasting the future operations of The Concourse through to 2024 be continued. (p.23)</p> <p>21. That the proposed Business Manager review the retail outlets with a view to more fully understanding the requirements of these premises and the opportunities and related costs that may apply in the future. (p.41)</p> <p>22. That the expenses of the Urban Screen be reviewed as currently no internal charges have been allocated to it for Property Maintenance. (p.41)</p>
<b>General</b>	<p>15. That ongoing development of the CBD area should continue to be measured as part both of economic and social development arising from The Concourse project. (p.25)</p> <p>16. That no further work be undertaken and no further expenditure on the Wurlitzer Organ be authorised.(p. 28)</p> <p>17. That, in the interests of reducing its outgoings, as one option Council give consideration to commercialising the operations of the Urban Screen, either whole or in part. (p.31)</p> <p>18. That Council reassign the exhibition function from the current Art Space to the Chatswood Library and that the usage of the Art Space be re-assessed for the purposes of creating an additional revenue stream for The Concourse. (p. 32)</p> <p>19. That proposed Business Plan for The Concourse should have as a major goal the integration of the Retail outlets, where appropriate and possible, into all precinct-wide activity. (p. 35)</p> <p>20. That, in the interests of growing both its public engagement and income-generating prospects, Council explore ways in which the</p>

	<p>Chatswood Library can become a genuinely dynamic contributor to the knowledge and information economy while sharing its work and facilities with the rest of The Concourse and the community. (p.36)</p> <p>23. That a deeper collection of social data generally be developed for The Concourse through periodic surveys which would contribute to providing the fullest possible understanding of its visitation and thereby promotion including traffic through the retail outlets especially F&amp;B. (p.44)</p> <p>24. That Council develop a tourism strategy plan aimed at positioning The Concourse and its unique cultural and entertainment offering within the North Shore, and by extension Sydney, through integrated programming, branding and consistent and deliverable messaging. (p. 46)</p> <p>25. That management Reports to Council provide a consolidated view of the social and financial aspects of The Concourse, including Century Venues Pty Ltd. (p.48)</p>
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## 5. Overview

The most striking feature the Consultants encountered in this study was the lack of oversight of The Concourse project at many points in its short history. This emerged critically in the absence of consolidated financial data. That will be discussed in detail in *Section 7* below. Just as tellingly, it was apparent in the lack of guiding policy and organisational supervision.

In the course of its evolution, the project passed through many hands, many reports and much public consultation. The views expressed over time, while not necessarily at odds, did not always align. This seems to have resulted in discontinuity of purpose and process. Consequently, no consistent business model was ever developed. Rather, what emerged was a collection of often competing or, at best, non-complementary models. As a result, there was no plan and accordingly no concerted implementation.

### 5.1 Lack of Oversight

The absence of that guidance and therefore management of a *plan*, as against management of the *construction project*, meant that when some critical decisions were taken there was a no context within which to test them or measurements against which to assess their likely effect. We explore this issue further in *Section 8* below. For instance, neither the *Civic Place Business Plan* produced in 2002 nor the subsequent *Civic Place Masterplan* of 2004 contained provision for, or even comment on, the notion that The Concourse (as the Civic Place was eventually renamed) might require *ongoing overall direction*. Nor did they suggest that the operation of its entities or facilities should be regarded as or *be reported on as a unit*. That is the more peculiar as both those reports clearly saw those entities as forming a single project in which the individual elements were intended to be part of a whole.

It is conceivable that part of the problem was *too much consultation*. There were a plethora of reports in the period leading up to the development of the *Masterplan* and the public plebiscite in 2004. It is possible that so much advice from so many different quarters became an obstacle to evolving a coherent overview. It is equally possible that interests each determined to defend its own territory were working against that end. The evidence suggests that both factors might have been at work.

What is also clear is that there was never *one overarching vision* that guided the development. There was a great deal of visionary language about the benefits that The Concourse would deliver. But not even in the *Masterplan* is there a sense of how the diverse elements would work together or how they would contribute to *an outcome that was financially, operationally and socially balanced*.

### 5.2 Dislocation

To some extent, this may even be seen from the organisation of the precinct itself which emerged as a series of silos to the extent that when some elements were altered the impact of the change on the whole was hardly remarked upon. A case in point is the disappearance of reference to the "amphitheatre" as a feature of the podium level. Given the configuration of the surrounding buildings, one wonders how it was supposed to operate and to what purpose. More significantly it is unclear when the idea was to all intents and purposes, abandoned? The lack of any real plan for the Urban Screen is another example. The Art

Space is a further instance. It was accepted into the project without apparent analysis or plan and left to flounder. The Library, Performing Arts Venues and the Car Park were all seemingly regarded as separate businesses without any inter-relationship. The retail outlets are hardly mentioned let alone factored into a precinct business case. Their sole purpose was as a source of rent. One more factor apparently unforeseen was that the shops on Victoria Avenue and Anderson Street were not equipped originally for the possibility of being food outlets to which they had subsequently to be converted. Above all, it seems not to have been adequately considered how all these diverse elements were intended to combine as part of a total cultural and recreational endeavour?

Even where business plans *had* been developed for the new facilities, such as that in 2002 (updated in 2009), the focus was almost entirely on the performing arts venues and then almost totally on their potential community use. Other strategies were created and proposed from time to time. But they seem never to have been taken up, still less brought together. As a consequence, there is *no sense of the precinct's trading as a whole or of economic or other decisions being made in consideration of the whole.*

### **5.3 Commercial Dimension**

At no stage, from the *Positive Solutions* report in 2001 through to the *Civic Place Business Plan* in 2009, was the commercial potential of the Venues (other than for conference purposes) seriously addressed. The latter was still referring to niche options such as Musica Viva, Brandenburg Orchestra and Bangarra indigenous dance company as prime likely users. Some scenarios suggested commercial hirer uptake as low as 11%. In reality, quite the reverse has proven to be the case and that difference has been economically critical to the Venues' successful operation. The Hassall report came close in its forecast of usage by Year 2 at 293 bookings across the Concert Hall and Theatre. In 2014 it was in fact 320. Allowing for the passage of time, the estimated revenue expectations were also impressively close. However, the *mix* of usage has proven to be utterly different and the implication of that different mix for future development is significant.

### **5.4 Lack of Measurement**

All of these factors have meant that there has been *no reliable measurement* of what was expected of The Concourse either in precise terms or, accordingly, judgements that could be made of its success or otherwise. The question therefore remains: what are its Goals and how would anyone know if they had been achieved? That difficulty has extended even to the branding of the precinct. A 2013 market research report commissioned by Council drew attention to the need for consistency in this matter. Yet a multiplicity of names, and to some extent identities, still contend. Accordingly, it has proven difficult to "sell" The Concourse as a whole and, for much of the time, to encourage the constituent elements to see themselves as part of an operating unified whole.

### **5.5 Achievements to date**

Nonetheless, over and above the individual achievements of the constituent entities of the precinct, there have in fact been a series of events in they have come together successfully or been brought together in a promotional or celebratory mode. They include:

- *Family Festival* – held in January 2015 which involved all sectors of the site:- restaurant offers, screen program, Performing Arts Centre family-focused events (both Century Venues and Council-run), Library and Art Space activity, pop-up activities, all aimed at drawing people to the site during a traditionally quiet month and cross-promoting venue offerings. The concept arose from the market research referred to above;
- *Sydney Writers' Festival*– a partnership model aimed at gaining Sydney-wide exposure for The Concourse brand, and connecting to the credibility of a major highly visible festival. It was run in 2013 and 2014 and 2015 will see an additional outdoor pop-up reading corner added to a program of talks in the Library and events in the Performing Arts Centre. 2014 saw a sold-out author talk screened on the Urban Screen. This program allows strong marketing activity to be undertaken.
- *Large outdoor events* – partnered programs with Westfield/CH 7 have seen key talent perform on site (voice finalists, Chris Lilley, XFactor finalists) resulted in large visitor numbers 2000+ per event. Large exposure to site.
- *Terrific Tuesdays* – aim to demonstrate cross-venue activity by providing screen programs, entertainment and restaurant offerings. Their popularity is largely connected to movie program content. Strong marketing activity connected to program has assisted with brand awareness of The Concourse.
- *Live at Lunch* – combines lunch offering at an on-site restaurant with lunchtime concert. Ticket sales have continued to increase. Lunch offering always sells out.
- *Spring Festival* – StreetFair activity is beginning to focus around The Concourse as the cultural heart of Chatswood with activity spilling from it. In previous years the Venues had been closed during event and the event just took place on the outdoor space. There are plans for that to change.

Thus, there are indications of what is achievable when some entity, in these cases the Performing Arts Venues and Marketing and Events branch of Council, have driven activity. But even here there have been issues of branding with a degree of territoriality being exhibited as to which of the competing Concourse brands might prevail. .

**It seems logical that the only means of achieving both unity of purpose and of promotion would be the creation of a single management for the ongoing operation of the precinct and for its future development.**

We **recommend** that a Precinct Manager be engaged who would be responsible for overseeing the precinct.

## 6. The Process

The Concourse process began in 1997 when discussion started around the need for Council to confront its ageing facilities, notably the Civic Centre which was deemed to be reaching its “use by” date. There was a choice to renovate or replace and, in the event, Council chose to replace and to adopt a major project tentatively called Civic Place. A timeline for the overall development including its various cost stages appears as **Appendix 1**.

### 6.1 Studies and Reports

By 2001/2002 studies had been undertaken on the major likely components. e.g. overall cultural facilities development by Positive Solutions; the Library by Dr David Jones; the performing arts venues by EnterTech and ARUP; Retail/property by Jones Lang LaSalle; conference potential by Hotel Link, a Business Plan by Craig Hassall and Council staff, together with various commissioned design concepts, and costings of these including Gresham Winchester Property Services, WT Partnership and verified by Price Waterhouse Coopers. Their findings were, in turn, incorporated at varying rates and degrees over 2000-2004 into the final *Master Plan*. However, *nowhere was a unified goal articulated* other than what might be regarded as “motherhood” statements about providing a civic heart and cultural meeting place.

### 6.2 Consultation

A public poll was conducted in 2004 which endorsed the project and its costs as they were then understood. The scope and depth of community consultation throughout the project was exemplary. Other than the Gold Coast City Council’s Cultural Precinct it’s hard to think of anywhere in Australia where this has been remotely comparable to Chatswood’s. At the same time, there is probably nowhere else in the country where a precinct’s makeup is quite so complex. There are many groups of buildings large and small that have been assembled into cultural precincts in other places. Brisbane’s South Bank covering state Library, Museum, Performing Arts Centre and Art Galleries is the stand-out. But, apart from in-house food and beverage sales and souvenir shops, it has no inherent retail dimension.

Not only does The Concourse have these elements, it exhibits the further complexity that each is operated under a different business model. Moreover, the precinct itself has *never been regarded as a business or even as a reporting unit* and operates, as noted above, under *no consistent plan*.

**It is our opinion that only by creating both a business model and plan and establishing a single facility management for the precinct to which all of the entities report will this shortcoming be addressed.**

We **recommend** that a comprehensive business model and for operating plan be created and adopted for The Concourse.

### 6.3 Lessons to be learned

It is easy to be wise after the event, but there seems to have been instances in each of the business entities of The Concourse when critical decisions or an absence of decision occurred that adversely effected their future operation. Had a developed business model and subsequent operating plan been in place, some or all of these might have been avoided.

The Archer Street process is an example of this procedural flaw. Originally, the Civic space, now Civic Pavilion and the Studio/Rehearsal Rooms were both located in that footprint. The original financial scoping exercises were based on that understanding. When the decision was made in 2005 to move them to the main site, it was done for the eminently reasonable purpose of providing a better commercial advantage to the lessee Hotel and thereby yielding a higher 99 year ground lease return to Council. Yet, no concomitant assessment seems to have been made of the impact of this switch of location on the viability of the Studio/Rehearsal rooms. These had always been intended both as artistic facilities and a source of income. Given the profound shortage of such spaces in Sydney both for rehearsal and intimate performance this was an entirely practical aim. However, the change of site effectively ruined both the rooms themselves and access to them. Certainly they are rented today and some revenue but more forethought could have ensured a better cultural and economic outcome.

However, the implications of that change go deeper. Originally, it had been intended that the proposed hotel would operate the conference facility. When the decision was taken also in 2005 to relocate what became the Civic Pavilion, there is no evidence that the general plan was revisited to assess the implication of that move on the potential conference trade. Conferencing was arbitrarily added to the functioning of the Venues. While the Pavilion and Venues were always intended to work together, that shift imposed an additional layer of demand on the Venue Management to which it is fair to say they have struggled to respond. Incidentally, hotel or no hotel, that move also reduced the provision for office space in the Venues' site and further compromised the provision of break-out space both of which continue to delimit The Concourse's operation and revenue-earning capacity in the conference market.

#### **6.4 Late additions**

A similar flaw can be noted in what appears to be one of the most curious features of the total cost of The Concourse. That is the late addition in April 2011 (i.e. virtually as the works were complete) of a sum of \$9.3 million to the total budget. This was characterised as expenditure needing to be incurred for the successful *operation* of the buildings. It was on top of the \$4 million contingency already included which was itself over and above the contracted construction cost.

Some of the items on this may reasonably be regarded as extraordinary or unforeseeable such as "stormwater treatment" and the various "landlord base building works". But given the nature of the activity for which the buildings were intended, many of them should have been entirely predictable. Two issues stand out: first, it would appear that until then no consideration had been given to these items or any contingency provided for them. Even if precise costings could not be obtained earlier, some provision should have been made. If The Concourse reserve (from which a number of these items were funded) was intended to be that contingency, it is unclear why it did not form part of the original overall costing. Other items such as the "footpath works" might fairly have been matters of uncertainty or even dispute. But in that case, again, it would have been prudent to have provided contingencies for those possibilities until such time as the matters were resolved.

It seems clear that at this stage of the project a somewhat head-in-the-sand attitude was adopted. That is to say, where it was possible to make assumptions that these late costs would NOT eventuate, even in the light of strong indications to the contrary, that path seems to have been followed. The fit-out of the Library and Performing Arts Venues are cases in point. There seems to have been an assumption that the existing Library FFE and shelving would be transferred to the new premises. This was in the face of a significantly planned expansion of the Library, already approved additional book purchase and the fact that the existing FFE had been dismembered and otherwise compromised in the move to the Mandarin Centre. Similarly, it seems that once the decision had been taken to outsource the management of the Venues to an external operator, it was assumed that that company would bear some of the fit-out costs. Yet no such requirement appears in the RFT nor, frankly, is it likely that any such venue management would have entered into or expected to enter into such an arrangement.

In the case of the retail outlets, again there seems to have been assumed that the prospective tenants would bear the cost of most if not all remodelling of the lots. That flies in the face of all commercial experience and even if the assumption had been that *some* such costs could be negotiated as shared with the tenants, prudence would still suggest that a contingency be provided in cases to the contrary. Costs were also incurred in retrofitting the street level retail spaces which had never been planned as food and beverage outlets and therefore lacked grease traps, wet garbage space and the like. The original assumption relied on forecasts of usage of these spaces as bookshops or similar. Downturn in those trades and the impact of online selling put paid to that possibility. Accordingly, while the change of function was to some extent *unforeseen* it was not *unforeseeable* and contingencies might again have been provided, since of all worlds retail tenancy is one of the least predictable.

But above all, we can only conclude that in the latter stages of the development any additional costs, wherever they might have been identified in the project, were diverted for fear of increasing the apparent overall budget and thus the need to seek further approval from Council. It is hard in the circumstances to identify any other explanation.

We **recommend** that in considering future major projects Council ensure that not only is there a comprehensive business plan developed in advance, but that an equally comprehensive plan of management and implementation is in place thereafter.

## 7. Financial Review scope and process

### 7.1 Financial review, information relied on, representations by officers of Council and reporting framework

What follows is based on the findings of our review and collation of financial information provided to us by officers of Council in relation to the operations of The Concourse for the years 2010 to 2014 inclusive. Officers also provided documents and financial information in respect of the construction of The Concourse and of the sources of both external and internal funds that were used to fund the construction through to The Concourse's opening on 17 September 2011.

For the purposes of this report, we have placed reliance on:

- Trial balances of Income and Expenditure for the years ended 30 June 2010 to 30 June 2014 inclusive for each of the operating profit/cost centres of The Concourse including:
  - The Art Space
  - Venue Management
  - Facilities Management
  - The Concourse Carpark
  - Retail outlets
  - The Urban Screen
  - Chatswood Library
- Audited financial statements of Century Venues Pty Ltd for the years ended 30 June 2010 to 30 June 2014 inclusive.
- Agreements, contracts and selected documents, and details provided by officers of Council.
- Documents and Progress Reports that were provided to the Department of Local Government in relation to the construction and funding of the Concourse Precinct.
- Information and explanations provided by officers of Council.

This report has been based also in part on certain verbal representations made to us by officers of Council. However, with respect to any factual information provided to us by officers of Council, we have not received written confirmation/guarantees that such information is accurate or that no significant information essential to the financial review has been withheld from us. Accordingly, our report is subject to this limitation.

The financial data is also limited to the extent that it was able to be extracted from Council's general ledger and other reports. Officers were requested to extract data with reference to Project Numbers that were used to code/record information for The Concourse in the General Ledger. It is possible therefore, that all of the information concerning the operation of The Concourse for the years in question that was extracted from the General Ledger may not be complete.

## 7.2 Observations and findings

### 7.2.1 Management reporting

It is clear from a reporting perspective that little has been provided to Councillors in relation to the ongoing financial operations of The Concourse. It is also clear that the accounting software, or the way it has been configured and employed by Council, renders it difficult to prepare financial reports i.e. profit and loss statements for the individual profit/cost centres of The Concourse and a balance sheet for The Concourse overall.

It would appear that *the chart of accounts and the project coding constructs are in need of a complete overhaul*. To take one simple example: the current chart of accounts has duplicate expense accounts – one with GST and one without. Accounting software has the option, when recording individual supplier costs, to code the expense including GST or not. Accordingly, the need for two accounts is obviated. This factor alone must have greatly expanded the size of the chart of accounts and thereby reduced the efficiency of expense recording.

Council utilises a number of project numbers when transactions are recorded. On several occasions, we encountered some “jobs” recording income and expense activity within the one cost centre such as in the case of the Car Park or the Performing Arts Venues. We would question whether such multiple “jobs” are required and whether, in fact, anyone utilises the information that this breakdown provides.

It would appear that there is *no framework that manages the whole of The Concourse’s reporting system*. Accordingly, until this analysis was conducted, information that presents a complete picture of The Concourse had, in our understanding, not been extracted previously from the accounting software.

Because of the nature of the project recording system it does not appear to be an easy process to prepare a profit and loss statement for each profit/cost centre or for that matter, a balance sheet for the precinct in its entirety. To report a consolidated Concourse position requires the use of tailored spreadsheets. Balance sheet assets and liabilities are also required to be extracted manually from the project recording system within the general ledger.

*It would, therefore, be a significant advantage to be able to have a general ledger that is specific to The Concourse*. Such a ledger would, through the use of a job/cost centre numbering system, be able to produce timely, individual profit and loss reports for each division of The Concourse as well as a consolidated position. It would also be easy to produce a balance sheet that reflects the assets, liabilities and equity of The Concourse in isolation from Council as a whole.

We understand that these individual general ledgers would need to be amalgamated for consolidated Council reporting. We consider that appropriate software would enable these separate general ledgers to be run in departments within the whole-of-Council general ledger.

It is our understanding that Council is intending, at some stage, to replace the current ERP (Enterprise Resource Planning) software. We would propose that Council considers as part

of that project, investigating the possibility of isolating general ledgers for the different areas of the Council's operations.

### **7.2.2 Venue management**

Of further concern is the maintenance of a project within the general ledger for Venue Management, which is separate from the operations of Century Venues Pty Ltd. Within this project is recorded the underwriting fee paid to Century Venues but also a significant number of other expenses including major internal maintenance charges. We would question whether Council may have concentrated solely on the Century Venues reports when considering the operations of Venue Management or if it has had the opportunity to consider the overall costs of operation as recorded against that project.

### **7.2.3 Management financial reports**

In order to prepare the profit and loss and balance sheet reports for The Concourse in isolation, we have relied on the provision of income and expenses figures for each of the areas of operation. The reality is that if this information is being extracted from the ledger by drilling into project numbers and then further accounts, some information may have been missed through inadvertent oversight or miscoding. Our scope does not extend to an audit, so we have utilised financial data as provided. Whether it is complete or not, we cannot guarantee. Further, we could ask whether all the relevant projects have been drilled into to enable full disclosure of The Concourse's operations.

The balance sheet for The Concourse has had to be constructed in an excel spreadsheet from information extracted from the same projects in the general ledger.

At this time, it is not possible to print a report that shows all of the assets, liabilities and equity of The Concourse.

We assume that Council would wish to see, and in fact should expect to see, a balance sheet that records the current values of all of the properties, the level of accumulated depreciation, plant and equipment costs and written down values, cash held in The Concourse Reserve, trade receivables, prepaid expenditures such as insurances, trade creditors, loan liabilities, employee entitlement provisions for direct employees of The Concourse, GST liabilities and employee tax withholding and superannuation liabilities and The Concourse Reserve liability account.

We **recommend** that Council officers prepare Management Reports on an ongoing basis, preferably monthly which include Profit and Loss Statements that record actual Year-to-Date results against Budget and the Forecast Year End Result against the Year's approved Budget. A Balance Sheet should also be prepared that compares the Balance Sheet at the reporting date to the Audited Balance Sheet at the previous June year end.

### **7.2.4 The Concourse construction costs and funding contributions**

In relation to the investigation of The Concourse construction costs and funding, we relied to a great extent on Project Status Reports, correspondence and documents prepared for the Department of Finance by successive General Managers of Council.

Again, it was difficult to obtain all of the data relating to the construction cost from the general ledger given the limitations described in the commentary above. We were, however, able to obtain a full reconciliation of The Concourse Reserve for the years from 30 June 2004 to 30 June 2014 inclusive. This reconciliation provided significant support for the transactions disclosed in the construction cost and funding summaries provided by finance officers to Council and the Department of Local Government over the years in question. However, it did not include the \$30 Million Lehman Brothers Loan and the nature of the expenditure of those funds, presumably because that loan was drawn down before the Reserve was established.

The exercise of reviewing The Concourse Reserve did go some way, however, to corroborating the nature and extent of expenditures represented in correspondence after construction commenced.

We would point out that had The Concourse Reserve account in the General Ledger been used consistently from the beginning to record all incomings and outgoings after the commencement of The Concourse Project, the detail around the construction costs and funding contributions would have been far more transparent and more easily reconciled.

We would **recommend** that in future all of the operational income and expenditure be processed through The Concourse Reserve so that the total population of transactions can be controlled and substantiated. The only problem that may arise is with an issue of revenue, expense, asset and liability allocation.

#### **7.2.5 Internal charge – property maintenance**

A further significant issue was identified in relation to the operations of the different cost/profit centres and their reported results, namely that in each profit and loss report of the profit/cost centres there is a charge for “Provision for Maintenance”.

Officers of Council have confirmed that a number of costs for The Concourse as a whole e.g., certain wages, cleaning, security charges, insurance, electricity and the like are allocated to a project number in the general ledger and are then reallocated to the relevant cost centres. It would appear from discussions with officers that these allocations are determined *on an arbitrary basis* and allocated using the *internal charge – property maintenance account (1954)*.

Importantly, repairs and maintenance costs are *not* included in the internal charge for property maintenance. Those are recorded separately in the Profit and Loss Statement

We **recommend** the investigation of ways that these charges can be allocated to the different cost/profit centres on a more accurate and realistic basis. For instance, it may be possible to consider the installation of separate electricity metering and separate billings for security and cleaning services. We understand that, where services are provided to whole-of-Council, apportioning of overheads will be necessary to the different areas of Council operations, but if Council is to better understand the profitability or otherwise of its operations, especially The Concourse, an in-depth analysis of this area of the business is warranted.

The current endeavour of Council to better understand the operations of The Concourse clearly highlights its desire to improve whole-of-Council management reporting and operational performance. To this end, Council will need to investigate reporting practices and income and expense allocations and recording across the LGA's operations.

We **recommend** an evaluation of Council's existing ERP (accounting software) with a view to determining its ability to provide the level of reporting for which Council is aiming. Alternatively, it may be that a restructuring of the General Ledger Chart of Accounts could go some way to supporting the cause, but we have some reservations that the level of reporting required will be possible.

#### **7.2.6 The Chatswood Library and satellite libraries**

We can confirm that, to date, Council records all the income and expenses of The Chatswood Library and the six satellite libraries as a group. Therefore, income and expenses are reported for all libraries in a single consolidated project.

Although it was easy to identify the revenue streams of the different libraries it was quite the opposite with regard to operating expenses. In order for us to report the operations of The Chatswood Library specifically, we were required to allocate all overheads on the same ratio as wages paid in each of the libraries.

This method of allocation resulted in 90% of the consolidated expenses being attributed to the Chatswood Library. Although this seems to have been a reasonably accurate allocation, it was impossible to determine the actual costs of operations of the other satellite libraries individually.

Further, the provision for maintenance charged to the Chatswood Library over recent years varies wildly from year to year. In 2014 the charge increased 36.5% over the previous year to \$956,322. It is difficult to see why the Chatswood Library, in its almost new state could incur charges of this scale (we do understand that it is not only repairs and maintenance but also recurrent charges) and to understand how these costs could have increased from the \$700,191 recorded in the 2013 year.

We **recommend** that Income and expenses relating to the satellite libraries should be isolated from the P&L of The Concourse and only costs relating to the Chatswood Library be included.

#### **7.2.7 Depreciation**

Officers of Council have informed us that the retail properties are recorded as Investments in the books of Council. We presume this has been done because the Council derives Rent from these assets.

As a result of this treatment, the properties are revalued each year but never depreciated. It may be a state government reporting requirement that these assets be treated this way, but we consider that these assets should be depreciated for management reporting purposes. These assets do deteriorate as a result of the tenancies and retail use, and accordingly should be depreciated to accurately report the financial profitability of this area of Council's business. The other properties are depreciated along with plant and equipment used in the various areas of The Concourse

Although a detailed asset register is maintained for assets of The Concourse, whether separately or within a whole-of-Council Register, depreciation entries were not taken up in the profit and loss statements of the various profit/cost centres of The Concourse. We can only assume that the depreciation charges relating to The Concourse have been consolidated with the depreciation charges for Whole-of-Council assets.

We **recommend** that, unless there is some statutory prohibition to such an action, depreciation charges be calculated and entered into the general ledger on a monthly basis and recorded in the profit and loss of each profit/post centre of The Concourse.

#### 7.2.8 Staff salaries and wages and on costs

Through discussions with officers of Council we understand that key personnel spend significant amounts of time supporting and managing The Concourse, whether it be with respect to the Performing Arts Venues, the Library, events or ongoing administration. At no time have these costs been recorded against The Concourse project in the Council's general ledger. For instance, the Community Services Director has confirmed that she is required to contribute a significant amount of her time on The Concourse direct management and operations.

By contrast, we have noted that a redundancy payment and accrued benefits to a former officer of \$80,000 were recorded to The Concourse project costs. Officers of Council are unsure whether the charge was appropriately charged to The Concourse, but in any event it seems anomalous in the context.

We **recommend** that in future any time spent on The Concourse's management and operations be charged to that Project account in the general ledger. Employee on-costs should similarly also be allocated to the project.

#### 7.2.9 Interest revenue and interest charges

At 30 June 2014 The Concourse Reserve had a bank balance of \$9.713 million. However there was no evidence in the general ledger of the recording of interest *income* derived from the deposit of those funds. Accordingly, we have assumed that the interest earned on whole-of-Council cash deposits is recorded in Council's general operations.

It is noteworthy therefore that interest *revenue* had been brought to account in The Concourse Reserve as a component of the funding of the construction, and included interest earned on some of the borrowed funds that had not been fully expended. However, from an ongoing operational viewpoint, interest revenue on The Concourse Reserves is not brought to account in the profit and loss statements of The Concourse.

The profit and loss statements that we have presented in this report include interest paid in relation to The Concourse Loans of approximately \$2 Million per year. In 2014 the interest cost for the three loans amounted to \$2,015,873.

At 30 June 2015, the value of the loan liabilities is forecast to be \$38.59 million with interest charges of \$1.905 million for the 2015 year. By 2024 it is estimated that annual interest charges will approximate \$1.486 million, on the assumption that no additional repayments will be made.

As part of the assessment of the operating results for The Concourse we sought the interest paid on the three loans that funded the construction of The Concourse, for each of the years 2010 to 2014 inclusive. This calculation was performed and provided separately from the other expenditures associated with the profit/cost centres of The Concourse, indicating that the interest was not recorded in the ledgers of The Concourse.

We **recommend** that in future the interest relating to each of the loans be taken up in the general ledger accounts of the Concourse on a monthly basis.

#### **7.2.10 Providing for the future**

From our calculations, based on the financial information provided to us, The Concourse loses approximately \$6 million per year after interest charges of around \$2 million.

The Library currently contributes \$4.8 million to this loss. The other areas of operation within The Concourse make a consolidated surplus of \$622,000 currently, before interest charges.

We regard as paramount the capturing of all of the income and expenses relating to The Concourse so that Council can budget the future operations of the precinct and the contribution that Council as a whole is required to make to support the operations and repay the debt relating to it within the 20 year term.

At present, there does not appear to be a structured plan either to increase the revenue of The Concourse, reduce overheads or allocate funding from whole-of-Council operations to The Concourse e.g. s94A contributions, reserve allocations and the like.

We presume that such a plan has not been possible until now, because it was not known how well or badly The Concourse was trading. It is only now, armed with the information that we have summarised that Council can understand the true financial requirements of the precinct.

As far as provisioning is concerned, we **recommend** that Council should endeavour to build provisions for the future repairs and maintenance, upgrade or replacement of the buildings and plant and equipment of The Concourse. As the years pass the likelihood of more significant expenditures will become more real.

As part of our review we requested that officers provide us with estimates of future operations, loan balances and Concourse Reserve balances to 2024. This exercise has forecast that by 2024 one could expect The Concourse to be reporting a loss of approximately \$3.3 million. This, we must stress, does not include the allowance of any provisions for repairs, building upgrades and the like, as mentioned above. It is however, encouraging that after interest expense, The Concourse overall could be returning losses of less than the current operating losses of the Chatswood Library alone.

By 2024 it is expected that the total outstanding balances of The Concourse bank loans would be \$26.245 million. This assumes that no additional capital repayments are made over and above the required ongoing principal repayments.

Officers have estimated that The Concourse Reserve account would grow to \$12.075 million by the end of 2017. This is a significant improvement on the June 2014 balance of \$9.317 million. One might argue that this provides some level of provisioning for the future albeit on an *ad hoc* basis.

We **recommend** that Council review the financial reports, the results of operations and the financial position of The Concourse with a view to better understanding the future obligations imposed on Council by it. We also consider that the exercise of forecasting the future operations of The Concourse through to 2024 be continued and the estimates supported by more robust analyses. Further, investigations into the possibilities of expanded revenues and cost reductions, as discussed elsewhere in this report, would contribute markedly to reducing the Council's outgoings on the precinct.

## 8. Economic development

At 30 June 2015, The Concourse Precinct is estimated to have a net market value of approximately \$240 Million. This estimate is net of the loan liabilities of around \$38.6 Million at that date. Accordingly, the loan to value ratio of The Concourse Precinct is a low 13.85%. If one were to compare this to the average percentage debt to equity of an Australian householder's home of 29% at the end of 2013, we consider that the community should feel a significant level of comfort. In the final analysis, the City of Willoughby owns an asset with a value, net of debt, of approximately \$240 Million.

However, as far as we are aware, no other economic impact study has been undertaken as to the effect on Chatswood of The Concourse since its opening. Indeed, it is not clear that such a study was ever undertaken regarding The Concourse as a whole before the project was begun. However, it is reasonable to suppose that the effect is significant given the size of annual visitation now far in excess of what was occurring previously in the area.

What is measurable, however, is the impact of the various transactions associated with The Concourse project and relating to the sale and subsequent redevelopment of Council-owned property previously used for minor car parks and largely consolidated into the new on-site Concourse parking facility. Together, those sales realised \$45.9 million which, together with a 99 year lease of the Archer Street site at \$14.1 million and the proceeds of sale of some other smaller properties was applied to the cost of building The Concourse bringing it to a total of \$66.982 million or over one third of the final capital expense of the project. But more than that, the developments which have occurred or are occurring subsequently on those sites have contributed a further \$13.8 million in Section 94 levies of which just \$2.867 million was devoted to The Concourse with the balance going to child care, open space and recreational developments in the City. Finally, we are advised that some \$277 million has or is being invested privately on redeveloping those sites in addition to the \$168 million expended directly on The Concourse construction.

Those developments are: 212 serviced apartments on the Archer Street site; 100 tourist suites, 69 residential apartments, a medical floor and retail/café space plus 340 car park on the Albert Avenue site; 47 apartments and 58 car spaces on the Devonshire Street site; and 337 serviced apartments, 271 residential units, child care centre, retail/cafe space and car parking for 567 vehicles on the Thomas Street site. In all, those developments will yield 740 additional short-stay tourist and business accommodation units in the CBD together with an extra 390 residential units and 250 additional public car park spaces returned to Council, via the Thomas Street site, at an estimated value of between \$12 and \$13 million.

It is reasonable to suppose that the sale and rental value of these apartments, and thus their economic value to the City, has been materially enhanced by the location adjacent to an aesthetically pleasing cultural facility with the additional social and entertainment amenities it is providing. A further benefit which can reasonably be construed as a spin-off of The Concourse development is the provision through the Thomas Street site of 11 apartments which will revert to Council ownership for management by Link Housing as affordable housing stock. That will have the effect of doubling Council's current holdings in that area and is a major social outcome. That site has also negotiated a Voluntary Planning

Agreement that will significantly increase the scale of the development. The VPA payment is calculated at \$5.6 million and will be directed to Open Space provision in the CBD.

So in summary, over and above the direct contributions which these movements made to The Concourse project by way of sales, leases and Section 94 levies, the City of Willoughby has been a net beneficiary in respect of tourist and residential accommodation, affordable housing, increased medical facilities, increased public car parking, contribution to public recreational facilities and open space and significantly increased rateable premises.

**We recommend** that ongoing development of the district should continue to be measured as part of both the economic and social development arising from The Concourse development

## 9. Major Issues

In addition to those financial concerns, there have been a number of organisational or operational matters that have arisen either in tandem with or as a consequence of the development of The Concourse and its constituent elements. The Brief required the Consultants to comment on these in particular.

### 9.1 The Flying System

It is now well established that the software operation for the flying system in the Theatre is inadequate for many of the functions it is called upon to perform. Two factors appear to have been at work in reaching this unhappy pass.

Much of the rhetoric that not unreasonably surrounds the development of publicly owned performing arts venues is their future use by community groups, especially those such as amateur theatre, musicals, schools and the like that already enjoy the support of the LGA, enjoy ready access to existing Council facilities or have significant visibility in the area. While The Concourse venues benefitted from expert consultation in the planning phase, the community aspect had a tendency to overshadow one essential fact: that in order to operate financially at anything like optimum level the technological needs of community users at that time would have to be secondary to those of potential outside commercial and/or major not-for-profit hirers.

The other factor was the imperative to contain costs during the planning stage when estimates were rising sharply. The Theatre consultants Marshall Day (aka Entertech), who had undertaken the initial scoping exercise for the Venues project in 2001, were retained by Council as consultants to scope a full set of lighting, sound and stage equipment for both Venues together with the Studio and Rehearsal Room. Provision of some \$5 million had been made for this purpose, presumably on their advice, in the AWE construction estimates. When in 2007 the actual quotes exceeded this amount (and in particular the quote from Jands who were subcontractors to AWE for the flying system in the Theatre) the specifications were downgraded to reflect a more community level of use and, of course, to achieve a lower price.

However, that community-level assumption was based on a false, or at least outmoded, premise. Staging technology had moved on. Schools productions which a mere ten years before were using traditional painted backdrops are now entirely at home with sophisticated automated equipment and high-tech design features. The same is true of the ever more elaborately staged popular theatre and musicals produced by the local community companies. That change was either overlooked or not understood when the downgrade decision was taken. Nor did the new specifications meet the demands of most of the outside hirers which Century Venues, as a proactive and experienced theatrical management, was able to attract as tenants. In effect, the subcontractors, Jands, provided a bespoke system. The system, as installed, met the revised specification. That was tested and signed off at the time as “fit for purpose” but it was no longer the same purpose.

Notwithstanding, in the opinion of those who have had to operate the system, the main reason why it does not work satisfactorily is because the operating software itself does not work. We are not in a position to test the validity of that assertion, but on the grounds that

those who work machinery are usually best placed to determine its efficacy, we are disposed to accept the view. Whatever the conclusion may be, clearly what the system did not meet was either the existing or the changed need.

This is a classic case of penny wise, pound foolish. The initial cost-cutting exercise has had two consequences: in order to maintain functionality Century Venues has had to hire additional stage crew to make good manually the operational shortcomings of the automated system. Council is now faced with new costs to bring the system up to the level of where it would have been had the original specification stood.

**There is little to be done after the event other than to apply the lesson of scoping for need not wish fulfilment.**

### **10.2 The WurliTzer Organ**

We understand that the WurliTzer Organ was a gift to the people of Willoughby when the Dreadnought/Arcadia Cinema was closed in 1962. In the late 1970s it was installed in the former Civic Centre. It is not our intention to traverse the history of that gift nor are we qualified to make a judgment on it. However, these are the salient features as we have understood them:

- Throughout the time when it has been in the possession of Council the organ has had a troubled history and been in need of constant repair;
- It was decommissioned and moved to storage in 2008, pending its rebuilding and relocation to the new Concert Hall;
- It has never been the subject of a heritage assessment and therefore has no standing as a heritage item. That is not to say that it might have at some point had such value but that has never been properly tested or recorded nor, to be fair, has as far as we are aware anyone claimed that it had;
- For that reason, there has also never been a genuine, independent conservation statement issued in respect of it;
- Accordingly, any approval for work given by Council, any work assessed and proposed by John Andrews of Tonal Resources and subsequently undertaken over time by Pipe Organ Reconstructions has been done outside of any such guidelines or considerations;
- Such objects can have historical value and interest or even sentimental value owing to their past connection and may be held in regard as such. But that is not the same as “heritage” as it is understood in legislation or regulation;
- The fact that the organ has undergone significant modification both as to its scale and function rendering it now a hybrid instrument means that whatever putative historical value it might once have enjoyed is now probably nullified;
- It is therefore probable, though not proven, than any monetary value it might have had is also null and void.

In October 2002, a preliminary budget of \$500,000 for the whole of the WurliTzer work was approved as part of the Civic Place project budget. \$200,000 of that sum was reserved for the base works and the remaining allocated to the restoration itself. Storage and minor works, meanwhile, increased that budget by \$33,553.

On February 1, 2010 after further consultation, Council approved an expenditure of \$530,000 for restoration of the organ together with a further \$105,000 to extend the console and the pipe array bringing to the total to \$635,000. At that stage \$107,000 had already been expended directly on the project and it is to be assumed that the base works had been included in the Concert Hall construction costs, as planned. From what we have been able to determine that was of the order of \$300,000. Five years later and nearly four years after the opening of the Venues, that restoration work is not completed to the extent that the organ can be re-assembled in the Concert Hall in a playable condition. Yet we are informed that only \$20,000 of that original budget is unexpended. Council has been advised that further work and thereby further expenditure is required to achieve that goal.

We understand an RFT was issued to complete the work to which no formal response was received. Subsequent direct solicitation of likely restorers has yielded just one, somewhat reluctant, indication of an informal bid of \$350,000 and a timeline of two further years. We have no way of judging the validity of that quote nor are we in a position to identify Council's further potential exposure in this matter. But whatever it is, given the instrument's chequered history, the lack of heritage considerations, level of past, non-beneficial expenditure and the likely extremely low level of usage if and when it is completed, more expenditure can hardly be justified.

We **recommend** that no further work be contemplated and no further expenditure on the WurliTzer Organ be authorised.

## 10.2 The Urban Screen

One of the items added to the total cost of The Concourse very late in the day, as part of the Additional Items, noted above in *Section 8*, was the installation and operating system for the large LED screen on the podium. We are advised that the decision to install this was partly at least to "top off" the elevator tower that intruded into the upper podium level adjacent to the Theatre foyer exits. Various possibilities were canvassed at the time. On the advice of the architect, the idea of the screen was finally favoured. Compared with a piece of public art or the like which once installed would have required only periodic routine maintenance, it does strike one as a somewhat extravagant solution to disguising a lift well.

The Urban Screen became active in late July 2012. Positioned on the podium level of The Concourse, its stands 50 m<sup>2</sup> and in that location is poorly situated for many of the purposes for which it had been envisaged. There is, realistically, insufficient space directly in front of it to accommodate more than a small number of viewers at any one time, though it is of course visible from other parts of the podium and marginally from Victoria Avenue. It has little day-time passing parade being located on a level above both the Library entrances and the restaurants. The only time when there might be significant numbers of casual viewers is before shows in the Venues and during intermissions. Part of the problem is that when the decision was being made to incorporate it into The Concourse, no business plan was developed for it and thus no clear intention formed as to its purpose or value or how it might be operated cost-effectively.

The Screen has been under the management of external contractors for the last three years and that contract is nearing its end. The Screen has the capability to broadcast content taken from free to air television and Foxtel, the internet, as well as social media (for

example twitter feeds and U-Tube), MATV (AV feeds from the Concert Hall and Theatre), SMS, and commercial film file formats and a variety of multimedia digital art. It is operated via scheduled multimedia system. Operational works are sourced, programmed, scheduled and archived by the contractor. It can also be operated from a mobile events kit.

To date, we are advised that the Screen has incurred expenditure, without compensatory income, that has risen from \$189.4 thousand in 2011/12 through \$269.5 thousand in 2012/13 to \$427.9 thousand in 2013/14. Forward projections, as they appear in the various scenarios so far advanced, range from continuation of the contractor at \$444 thousand per annum; bringing the entire operation in-house to Council at \$315.6 thousand; or an hybrid of the two at \$494.5 thousand. Based on experience thus far, it is hard to consider any of those scenarios as value for money.

To put these amounts into a broader cultural context, Council's entire Cultural grants program for 2015 was just over \$100,000. Arts NSW provides fellowships for artists in the community at a rate of \$30,000 pa. Had similar baseline been used, Willoughby could have supported 12 artists last year from the sums expended on the Screen. Another measure of value might be that bodies like Music NSW, Sydney Dance Company, Sydney Writers Festival, and the Australian Centre for Photography received sums of a similar order *as their entire annual subvention* from the NSW government.

According to the Vision statement for the screen, it is intended to act as "a beacon for the site by drawing people in through targeted content". It would, of course, be helpful if that objective could be seen in the wider context of a goal for The Concourse as whole. But since that is lacking, one can only consider the Screen in isolation. In that light, the available evidence would not suggest that it has been successful in reaching its declared aim. In fact, with 105 hours of content per week, one would have to conclude it has been largely unsuccessful.

Community feedback which has been obtained to date is based on shallow sampling and is largely anecdotal. We are advised that only 10 unsolicited items of feedback have been received in three years. Even a Tuesday evening Anime program known as 'Terrific Tuesdays' which, until 'Vivid', seems to have been the highpoint event, peaked at an estimated 150 attendances. Nevertheless, through a variety of partnerships some content of quality has been presented including simple screening events such as "Bran Nue Day" for the Guringai Festival Event or "The Best Exotic Marigold Hotel" for Seniors Week or more complex events – such as One Planet and Earth Hour in association with the Wilderness Society, dynamic film programs and licensed content including a series of curated one-off film programs; Willoughby Shorts Film festival sponsored by Willoughby Council for its budding film makers; and the ambient mode with regular scheduled programming (i.e. in TV mode), an Arts Hour program, Ted Talks, science program, travel program and an artist show case and free-to-air events are also broadcast from SBS, and utilising a Foxtel license as well involvement in ISEA (International Symposium of electronic Art) and Sydney Writers Festival. But despite all this undoubted effort, these are boutique interests hardly likely to have other than niche appeal.

The operation of the Screen is further complicated by the fact that the management contract and thus the content are overseen by Corporate Services while other aspects of The Concourse report through Community Services. With the best will, such divisions are not well placed to ensure a seamless approach either to oversight, planning or for

programming. It underlines yet again the need for there to be a single holistic management of the Concourse which can bring all of these elements together while continuing to draw upon the expertise both of the constituent entities of the Concourse and relevant departments and services of Council critically in this case those of Marketing and Events.

At the inception, Council adopted a policy with regard to the Screen of not accepting paid advertising. As far as we have been able to determine, no in-depth attempt was made at the time to assess its likely commercial prospects by way of including advertising so that the decision was made seemingly in a vacuum. While we appreciate sensitivities in this matter, in the interests of due diligence and in the face of the current costs and low impact at the very least we believe Council should explore the option of developing a stream of revenue for the Screen. This does not need to be blatant advertising. Commercial partnerships might be explored that takes the form of screening of international television content, media streaming and the like. All of these may offer revenue opportunities. At very least, there is a need to ascertain what might be possible. It cannot be beyond human wit to find a solution which balances the desire to contain outgoings with community benefit.

It is conceivable and greatly to be hoped that “Vivid's”, albeit limited, use of the Urban Screen will make some impact. But that is inevitably of limited duration and it remains to be seen whether it will have any ongoing effect. But what must be recognised is that if the Screen is to fulfil a genuinely useful purpose, it must be about site activation and in that context the most crucial questions to be asked and answered are: what is the traffic; what are the optimum times of operation and what kind of programming best matches them and might be calculated to build attendance; and, finally, how might the screen be sustainable in the medium to long term?

The supplier of the Screen, DRM has advised that the life of the current screen is 10 years. Accordingly, Council would need to factor any screen replacement of it into its 2021/22 budget. The replacement of the Urban Screen with an alternative structure would inevitably take considerable time to plan and develop.

In consideration of this we have drawn the following conclusions:

- Thus far the screen has not justified either its initial outlay or its recurrent cost;
- It is arguable that the past and projected budgets could have been more productively spent on other projects in the cultural area;
- In view of its lifespan and other than simply turning it off, it is hard to see another way of terminating its operation before 2021.
- Another option could be to take its management in-house thereby effecting some savings;
- Should the EOI identify a suitable contractor it would still be preferable for Council to have greater immediate control over content and ideally through partnerships both commercial and non commercial be generating more content. It may be that the role should be exercised by an overall Precinct management, and
- Opportunities to create a stream of earned revenue should be explored.

We **recommend** that in the interests of reducing its outgoings as one option, Council give serious consideration to commercialising the operations of the Urban Screen either whole or in part.

### 10.3 Art Space

Throughout The Concourse project there was an assumption that this space, or something like it, was desirable and ought to be provided within the precinct. We have not been able to find any evidence that that notion was seriously analysed or ever challenged. There are some minor after-the-event plans and these appear to have been followed in the mixed usage which has transpired in the space to date. The *Civic Place Masterplan* referred to spaces in the Library, including the entrance areas, being used for exhibitions and, on the face of it, that would seem a more logical solution as being an area with significant day-time as well as night-time traffic. It would also be in line with much contemporary library practice elsewhere. However, the Library option seems not to have been pursued and we can find no evidence that it was ever seriously entertained.

In its present location in the Performing Arts Centre's box office foyer, daytime traffic past the Art Space is negligible and even at night it is limited and scarcely in the best position to capture audiences en route to the Venues.

Another option, cursorily mentioned in the original *Civic Place Business Plan* and also seemingly never pursued, was that of developing a digital media studio or learning centre on The Concourse. That might also be thought a more appropriate business opportunity for the Library. However, such an activity could have content and revenue implications for all aspects of the precinct and bring another much needed 21<sup>st</sup> century creative industries dimension to the site. Certainly, it would seem a more suitable function for the Art Space and still be in line with the original concept.

It is interesting to note that adjacent to the current Art Space is an equipped kitchen area currently used only for storage. For some reason, there is no direct access between the two areas though providing that may not be a major task. Such a link could render the space a useful, rentable room for catered events such as corporate lunches, cocktails, smaller social gatherings and the like including as an adjunct to The Concourse's conference business offerings. The cost benefit of such a change could readily be assessed and a business case developed. .

However, the question remains: does the Art Space currently fulfil a function of significance where it is and, if not, what might be done? Whatever may have been the belief when it was first commissioned, it is difficult to see that as a stand-alone visual arts gallery it currently fulfils a significant community role. It is, put mildly, inconspicuous and apart from very minor traffic is in a place where the public has no reason to be. It is true that many successful commercial galleries do not have a prime location or a passing parade, but they benefit from a recurrent clientele developed over time and by reputation. The Art Space alternates for-sale and not-for-sale exhibitions and so has built no consistent visitation or at least none that can be evidenced. Moreover, Council has no visual arts policy of which this forms a component and there are other spaces in the LGA, such as The Incinerator, which it maintains that fulfil a similar purpose, arguably more effectively. Nor is its presence

articulated to the performing arts content of the Venues. While the Art Space is currently a loss centre in the overall operations of The Concourse that loss is minor in comparison with the rest and could no doubt be supported was its purpose more compelling.

Moreover, the history of such token arts spaces attached, usually as an afterthought, to performing arts venues is not encouraging. Complexes from as large as the Adelaide Festival Centre to the Brisbane Powerhouse have scaled back in this area believing they are not core business, are rarely well-resourced and are usually ineffective for the purpose. That is to distinguish them from those arts centres which have genuine art galleries as part of essential activity such as the Gold Coast, Penrith and Campbelltown, to name a few. There the visual and live arts are equal partners and the galleries have collections and manage fully curated programs.

Accordingly, since none of these factors apply at The Concourse, with some regret it is our view that the Art Space should be reassigned to a different usage. It may be that in what would appear to be significant underutilised areas in the Library an exhibition space could be developed so that the function on site is not lost. We have been advised the Council has received external funding from the Library Development Fund to enable such a move. How that is deployed would be a matter for judgement of those involved.

We **recommend** that Council reassign the exhibition function from the current Arts Space to the Library site and that the usage of the Arts Space be assessed for the purposes of creating an additional revenue stream for The Concourse.

#### 10.4 The Car Park

On a scale of public car parks, The Concourse with 400 spaces is a modest operation. Essentially, it is automated and having overcome an initial financial hiccup of being required to offer first hour free, has settled to a reasonable business returning a satisfactory surplus. Total transactions for financial year 2013/14 were recorded at 180,675. Of course, a significant number of these are repeat usages which are not currently able to be tracked. As a guide, early bird (repeat) users represented about 4000 per month or just fewer than 50,000 per year as can be seen from the following chart:

Year	Month	Count of Car Park Entries 6am-6pm *	Count of Car Park Entries 6pm to 6am	Total
2014	Jan	10,659	1,163	11,822
2014	Feb	11,645	1,239	12,884
2014	Mar	12,409	1,828	14,237
2014	Apr	11,608	2,797	14,405
2014	May	14,200	3,291	17,491
2014	Jun	13,674	2,036	15,710
2014	Jul	13,432	1,799	15,231
2014	Aug	13,720	2,200	15,920
2014	Sep	13,702	2,593	16,295
2014	Oct	12,810	2,322	15,132
2014	Nov	14,760	2,103	16,863
2014	Dec	12,824	1,861	14,685

<b>2015</b>	Jan	13,421	2,095	15,516
<b>2015</b>	Feb	11,689	1,493	13,182
<b>2015</b>	Mar	13,553	1,844	15,397
<b>2015</b>	Apr	12,095	1,942	14,037
<b>Average per month</b>		<b>12,888</b>	<b>2,038</b>	

\* **Earlybird use makes up approx 4,000 entries per month between 6am-6pm**

Source: supplied by officers of Council

Essentially, the only requirement for direct staffing is in the case of routine maintenance issues e.g. a stuck ticket or the like that is handled by one of the Facility Management team on site, as are any immediate issues such as reporting damage. They also help with times of heavy demand as do the regular security personnel. If more serious issues arise, a call-out is required to the system supplier and is covered by the "Pay and Display Machine Maintenance" agreement costed at \$78,000 in 2013/14 and budgeted at \$90,000 this year.

There are large events during the day as well as evening that act as the primary attractors to the site. The ratio of day and night events can vary depending on bookings for the site but from observation the split is in the order of 60/40 (day/night). There are other attractors that generate traffic during the day and which may not draw casual use during the evening. These could be rehearsal and studio use, school pick-ups, contractors both working at The Concourse and at the adjacent construction site. Day-time usage by library attendance appears low. Anecdotally, the medical centre on site appears to be one of the biggest "casual" day-time attractors on site. An anomaly in all this is that there are an approximate 30% of motorists who use the site during the day who are not charged as they fall within the first hour of parking which is free.

One factor which inescapably compromises the Car Park's profitability is the "Parking Space Levy", a state government impost on publicly owned parking stations linked to revenue. This was \$120,370 in 2013/14 and is budgeted at \$160,000 in 2015. The Car Park also carries a heavy load of nearly \$0.5 million (or nearly 50% of its turnover) in internal transfer charges, described earlier, designated "Property Maintenance" - a 25% increase on the previous year.

In 2014/15 there is also a one-off upgrade expense of \$108k for the purpose of installing remote prepaid facilities and new LED signage. The revised 2015 budget shows an estimated surplus of \$132k as against \$80.6k last year. That was reliant on \$108K transfers from reserves to cover that mentioned upgrade. The 2013/14 the surplus of \$80,607 was recorded after a transfer to The Concourse Reserve of \$196,000. That indicates an underlying net surplus of \$276,000 or around 27% of turnover, which is substantial.

However, we would suggest that some analysis be conducted on the benefits of the Combo Deals that are offered by Council for performances, meals and parking. We would like to understand more fully the value proposition and the contribution that these deals add to the Car Park's profitability. We do understand that these deals support The Concourse as a whole and therefore loss leader incentives may still, on balance be appropriate.

**Our conclusion is that the car park is probably operating as well as might be expected. We have formed the opinion that it ought to settle down to a steady but unspectacular profit**

**with low operating costs. At only 400 places the garage is limited in the range of “boutique” services it can provide.**

### **10.5 Retail**

Whether by design or happenstance Council created a business model for an Australian cultural precinct which has at base cross-subsidy between rent-paying commercial businesses and the non-profit performing, literary and screen arts. So far this is unique in the country and may provide a pattern for others to follow. However, it could with greater foresight have been developed even further and with greater profitability than has emerged.

There was an occasion early as 2001 in the planning process which is noteworthy in this regard. Jones Lang La Salle had been retained by Council to advise on various aspects of the commercial dimension of The Concourse. They scoped the retail options. That included assessing and commenting on various propositions floated by Westfield and David Jones and other potential interests about under-street diversions and, in effect, a subterranean or partially subterranean shopping mall connecting The Concourse to the main shopping hub. It is an interesting concept that seems never to have been fully explored, as far as we can determine.

Pursued in more depth it might have offered an alternative paradigm for the entire development. That is to say, it could have predicated the precinct's core revenue flow on a major rather than minor retail presence, underpinning it rather than being, as it currently is, added on the side and within some cases an uncertain future (for example the potentially hard to rent the medical centre space when that lease expires). The Esplanade Centre in Singapore was developed along similar lines and today through rentals and profit-share (all cash registers are linked to a central system for monitoring) provides something of the order of 20% of the total operating costs of its performing arts venues. That model and other like it seemed never to have been considered, still less fully evaluated. Nonetheless, even on the current limited basis judged by 2013/14 outcomes rental return at The Concourse is providing 37% of direct operating costs of the precinct as a whole.

As matters stand, there are twelve independent business housed in 12 discrete premises in The Concourse precinct. Eight may be defined as food and beverage including the currently vacant shop 5. In addition there is a bank, real estate office, medical centre and a Chinese medicine practice. Clearly, the restaurants on the podium level benefit significantly from the proximity and trading of the Venues and are being increasingly linked with promotions such as *Live at Lunch* as well as engaging with special events staged on and around The Concourse of which it is to be hoped “Vivid” will continue to be one. It is to be supposed that the other business do not benefit in any material way from the operations of The Concourse per se or, if they did it, must be very tangential.

Rentals derived from these businesses are the second largest single source of The Concourse's earned income. As such, they are a vital part of the economic mix and offer one of the outstanding and unusual features of the precinct's business model. The greatest challenge it to integrate them more effectively into the overall Concourse operation to their benefit and Council's.

We **recommend** that proposed Business plan for The Concourse should have as a major goal the integration of the Retail outlets, where appropriate and possible, into all Precinct-wide activity.

### 10.6 The Library

Even a casual survey of Chatswood Library- like many other libraries today - reveals a majority of visitors using their own laptops for study, work or recreation, seemingly unconnected with the library's own facilities or collection. Relatively few have a book or periodical with them; few of the installed desktop computers are in use. The impression gained is of a library used as an extension to home study or as a place of relaxation. There is nothing wrong in that as such, but one wonders, given the level of public investment and the extent of the facilities, whether such a business model continues to be the best value for money for local government today.

The Chatswood Library appears greatly focussed on its internal, traditional services and much less on outreach. What strikes one first on visiting the Library is that it is a large space for what appears to be relatively low activity. Despite the apparent visitation levels which are undeniably impressive, the institution seems dedicated to conventional free-to-the-public library functions and is conspicuously low on income-earning activities. Now, we and the community recognise that public libraries exist to provide a public service and that service is not easily quantified, especially in the modern world where information abounds globally and is almost too readily accessible.

Nevertheless, one does not have to be expert in librarianship to acknowledge that the past core offerings of books, magazines and a reading room no longer suffice. Libraries today in many places are centres not just of individual knowledge but of community knowledge. They need to draw the community in rather than just letting them in. On every side, we hear talk of the knowledge economy but what are the implications of this for a regional library, especially one located in a rapidly growing and changing business centre within a high achieving educational landscape and in the midst of a culturally diverse and aspirational population?

As well, the nature of work and of workplace is changing. The notion that increasingly people will not attend a formal place of work from 9 to 5 does not mean they will inhabit a home office for the same hours. Knowledge workers - be they new or established small entrepreneurs - increasingly look for a variety of places and services to grow their trade and be connected. Situated in its unique social and business environment, Chatswood Library has a compelling opportunity to capitalise on these factors as a multifaceted, co-working hub for new business, emerging entrepreneurs and start-up enterprises. These could extend from flexible desks to studios spaces. In this way, it could have particular attraction for young adults in the 30-40 age range and/or more mature people in career transition. We do not offer a blueprint for this, merely the view that Council should consider the possibilities open to it and start to scope ideas which could benefit what we see as an underserved sector.

Among the ideas that might be explored in this area for the Library are:

- Promoting the use of its meeting areas ideally on a user-pays basis
- Developing its currently underutilised areas as short term bureaux-type, shared business spaces hireable by small business and solo operators on an hourly or so basis.
- Growing a digital creative industries studio/hub (which might also or alternatively be in the Art Space;
- Growing capacity of Library staff to support business research.

But more than this are the ways in which the Library overall can become a more flexible outgoing institution that engages proactively with the Willoughby community on a variety of levels. There is capacity to develop a community-centred approach through opening up its facilities and processes on a range of fully paid, discount and free bases. Among the ideas that might be explored in this area are:

- Engaging the community in discuss about what they want the library to do and be:
- Creating a "public space" where people could easily and collaboratively brainstorm ways to address the issues of their community so that it might become a community learning centre;
- Converting foyer and potentially other areas into exhibition spaces so that they have a dynamic relationship with the public. These might be both art and community interest exhibitions that promote discussion and debate;
- Curating activity which might mesh with precinct-wide events/programs e.g. Live at Lunch has a writers/speakers/visual art alternative to the Venues' music offering but in ways that takes them out of their book- oriented comfort zone e.g. performance poets and rap;
- Running regular "ideas forums" maybe a bit like the Opera House's Festival of Dangerous Ideas.

We **recommend** that in the interests of growing both its public engagement and income-generating prospects Council explore ways in which the Chatswood Library can become a genuinely dynamic contributor to the knowledge and information economy while sharing its work and facilities with the rest of The Concourse and the community

## 10. Financial Review: Results of operations

In addition to the financial overview set out in *Section 7* above, we have the trading patterns of The Concourse itself and its constituent elements.

### 10.1 The Concourse

The Concourse overall operating results are as follows:

	2010	2011	2012	2013	2014
<b>Revenue</b>	-	<b>109,072</b>	<b>3,208,508</b>	<b>6,219,491</b>	<b>7,244,907</b>
I/C –Property Maintenance	-	-	(801,744)	(1,252,371)	(1,632,831)
Other Direct Costs/Overheads	(90,544)	(657,744)	(4,205,159)	(4,192,569)	(4,990,171)
<b>Net Surplus/ (Deficit) excl. Chatswood Library before Interest expense</b>	<b>(90,544)</b>	<b>(548,672)</b>	<b>(1,798,395)</b>	<b>774,551</b>	<b>621,095</b>
Chatswood Library	(3,796,040)	(4,116,781)	(4,936,328)	(4,403,519)	(4,784,951)
Interest expense	(1,015,273)	(2,033,108)	(2,654,100)	(2,375,530)	(2,015,873)
<b>Net Surplus/ (Deficit) Excluding Chatswood Library after Interest expense</b>	<b>(1,105,818)</b>	<b>(2,581,779)</b>	<b>(4,452,495)</b>	<b>(1,600,979)</b>	<b>(1,393,968)</b>
<b>Net Surplus/ (Deficit) Including Chatswood Library after Interest expense</b>	<b>(4,901,858)</b>	<b>(6,698,561)</b>	<b>(9,388,823)</b>	<b>(6,004,498)</b>	<b>(6,178,919)</b>

The major contributors to the earned revenue of The Concourse are Century Venues Pty Ltd with \$3,103,340 and the Retail Leases with \$3,083,050 for 2014. The next highest revenue earner was the Car Park with revenue of \$1,026,518.

The 2012 loss is considerably higher than the prior two years due primarily to Century Venue’s loss being \$600,000 higher, due to lower revenues, than the current norm of a loss of \$560,000, and \$1.7 Million less revenue than the subsequent years for the retail premises. Interest costs were also \$300,000 higher than the 2013 year.

An important observation is the profitability of The Concourse with the exclusion of the Chatswood Library results.

Although consideration needs to be given to the development of operations that will strengthen the revenues of the Library, it will always be budgeted to make a loss. Importantly, the other areas of The Concourse's operations are defraying this loss and have the opportunity to improve this contribution.

Refer to **Appendices 2.0 and 2.1** for detailed financial reports

## 10.2 Century Venues

Century Venues Pty Ltd manages the venues in The Concourse. Council contributes an annual underwriting fee to support the losses sustained by the company each year.

The Company's performance can be summarised as follows:

	2010	2011	2012	2013	2014
Revenue	-	-	1,669,374	2,524,431	3,103,140
Overheads	-	(328,060)	(2,914,627)	(3,119,505)	(3,659,891)
Surplus/(Deficit)	-	(328,060)	(1,245,253)	(595,074)	(556,751)
WCC Underwriting	-	311,469	1,247,469	625,298	629,837
<b>Net Surplus/(Deficit) after underwriting</b>	-	<b>(16,591)</b>	<b>2,216</b>	<b>30,224</b>	<b>73,286</b>

Century Venues' revenue has increased significantly since 2011 which indicates that the level of activity and the provision of content to the rate-payers of Willoughby and its environs have also increased. With the increases in revenue there has been a proportionate increase in overheads, accordingly Council's underwriting contribution has had to remain constant. If possible it would be of interest to review the contractor fees to more fully understand the nature of the charges and the increases from year to year.

Refer to **Appendix 3.0** for detailed financial reports

## 10.3 The Art Space

The Art Space contributes very little revenue to The Concourse operations and as noted earlier its annual losses from operations are insignificant in the scheme of things. Nonetheless, we believe that the operations should be disbanded and the space utilised for more immediately appropriate purposes.

	2010	2011	2012	2013	2014
Revenue	-	-	5,094	7,700	11,108
Overheads	-	-	(20,738)	(41,432)	(59,350)
<b>Net Surplus/(Deficit)</b>	-	-	<b>(15,644)</b>	<b>(33,733)</b>	<b>(48,242)</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	-	-	7,502	10,459	13,636

Refer to **Appendix 3.1** for detailed financial reports

## 10.4 Venue Management

Venue management is the division of The Concourse's activities that relates to the management of the venues by the Council. These costs are in addition to the results of Century Venues Pty Ltd, the managers of The Concourse Venues.

	2010	2011	2012	2013	2014
<b>Revenue</b>	-	109,072	1,680	9,710	20,891
Surplus/(Deficit)	(90,544)	(220,612)	(1,274,899)	(1,133,913)	(1,464,896)
WCC Underwriting	-	(311,469)	(1,247,469)	(625,298)	(629,837)
<b>Net Surplus/(Deficit)</b>	<b>(90,544)</b>	<b>(532,081)</b>	<b>(2,522,368)</b>	<b>(1,759,211)</b>	<b>(2,094,733)</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	-	-	425,171	737,427	961,452

It is apparent that further analysis is required of the costs associated with Venue Management. As previously discussed, the internal charge – Property Maintenance appears high and is increasing at significant rate year-on-year.

Refer to **Appendix 3.2** for detailed financial reports

## 10.5 Facilities Management

Facilities Management is the division of The Concourse's activities that relates to the management of the facilities by Council. The costs are in effect employment costs and insurance.

	2010	2011	2012	2013	2014
<b>Revenue</b>	-	-	-	-	-
<b>Net Surplus/(Deficit)</b>	-	-	<b>(134,614)</b>	<b>(121,684)</b>	<b>(23,442)</b>

The employee costs we believe relate to the Car Park's full-time employee and other casuals. It seems illogical that the Car Park employee costs would not be charged to the Car Park profit centre. The insurance charges allocations we believe should also be reviewed to ensure that the appropriate level of costs is allocated to each cost centre.

This area of operations will change significantly from a cost perspective if our recommendation of the appointment of a Precinct Manager is adopted.

Refer to **Appendix 3.3** for detailed financial reports

## 10.6 The Car Park

We believe that the Car Park is operating well and will only improve its operating results over time. The issue, as discussed on a number of occasions, is the validity of the internal Property Maintenance charge. Given that income has increased 46% in 2014 over 2013 one would expect to see charges increase, but the question remains as to the level and validity of the charges.

The Car Park has returned moderate surpluses in the two years to 30 June 2014. The positive outcome, however, is the near doubling of profitability in 2014 and a forecast profit of \$492,500 for 2015.

An improved ticketing /payment process has and will assist the Car Park in increasing profitability over the longer term.

	2010	2011	2012	2013	2014
Revenue	-	-	321,124	702,318	1,026,518
Overheads	-	-	(339,607)	(547,740)	(749,511)
<b>Net Surplus/(Deficit)</b>	-	-	<b>(18,483)</b>	<b>154,578</b>	<b>277,007</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	-	-	277,276	380,693	496,345

Refer to **Appendix 3.4** for detailed financial reports

### 10.6 Retail

The retail outlets are clearly the major contributors to the financial performance of The Concourse. In 2014 the profit from retail rents was \$2,866,166 which effectively recovered all of the losses of the other Concourse cost centres, apart from the Chatswood Library.

	2010	2011	2012	2013	2014
Revenue	-	-	1,211,236	2,974,423	3,083,050
Overheads	-	-	(131,296)	(200,500)	(216,884)
<b>Net Surplus/(Deficit)</b>	-	-	<b>1,079,940</b>	<b>2,773,923</b>	<b>2,886,166</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	-	-	91,694	123,792	161,399

There are relatively few overheads in relation to the operation of this Concourse profit centre. We understand that significant changes have been undertaken over the last few years to separately meter water usage and electricity so that the tenants can be charged based on actual usage.

Apart from the internal Property Maintenance charges there are other more general costs of circa \$50,000 that are being charged to the profit centre.

We consider that it is important to have dedicated property management in relation to the Retail outlets. It is essential that adequate provision is made for the maintenance and preservation of the retail premises, given the level of customer traffic that they sustain. As noted earlier, at present there is also no charge for depreciation in relation to the buildings as they are treated as investments on The Concourse balance sheet. The investments are

merely re-valued each year to fair value. We believe that this approach does not provide for the future maintenance of the properties or their refurbishment in the future when they become tired or vacant.

We **recommend** that the proposed Precinct Manager review the retail outlets with a view to more fully understanding the future requirements of these premises and the opportunities and related costs that may apply in the future.

Refer to **Appendix 3.5** for detailed financial reports

### 10.7 The Urban Screen

The Urban Screen has never been commercialised and, as noted earlier, relies on external contractors for the management and provision of content. To date, the costs of content management have consistently increased year on year to the level of \$427,938 in 2014.

	2010	2011	2012	2013	2014
Revenue	-	-	-	909	-
Overheads	-	-	(189,443)	(270,457)	(427,938)
<b>Net Surplus/(Deficit)</b>	-	-	<b>(189,433)</b>	<b>(269,547)</b>	<b>(427,938)</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	-	-	-	-	-

Some discussions have been had to the possibility of the content management being handled internally by Council at a cost saving. We also urged that commercialising the Urban Screen should be considered to more fully understand the possible revenue opportunities.

Once again, of concern is the lack of internal charges in relation to Property Maintenance. Nowhere in the profit and loss statement is there evidence of electricity charges let alone other maintenance costs. One wonders what the real cost of operating and maintaining the Urban Screen might be?

We **recommend** that this be investigated.

Refer to **Appendix 3.6** for detailed financial reports

### 10.8 The Chatswood Library

The Chatswood Library is the major contributor to The Concourse’s annual deficit with losses in excess of \$4.5 million. This trend does not appear likely to abate unless alternative income sources can be developed. The Library’s annual income is approximately \$250,000 and has been around the \$210,000 level since 2010.

The Library’s results are consolidated with the other six satellite libraries and accordingly a judgement has had to be made in relation to Chatswood’s share of the total overheads.

For the purposes of our report 90% of the overheads have been allocated to the Chatswood Library, the allocation based on the ratio of employee costs.

The revenue of each satellite library was easily identified and therefore easily excluded.

	2010	2011	2012	2013	2014
Revenue	229,781	209,929	207,274	238,691	248,768
Overheads	(4,025,822)	(4,326,710)	(5,143,602)	(4,642,209)	(5,033,719)
<b>Net Surplus/(Deficit)</b>	<b>(3,796,040)</b>	<b>4,116,781)</b>	<b>(4,936,328)</b>	<b>(4,403,519)</b>	<b>(4,784,951)</b>

	2010	2011	2012	2013	2014
Internal charge – Property Maintenance	208,060	171,285	600,313	700,191	956,322

Again, of concern is the level of internal Property Maintenance charges which have increased significantly since 2012 without any real change in operations.

We also believe that the proposed Precinct Manager would have the responsibility of analysing the overall costs of the Library and finding ways to reduce costs and increase revenue.

Refer to **Appendix 3.7** for detailed financial reports

## 11. The bigger picture

Beyond the individual “issues areas” within The Concourse there is the wider matter to be addressed of its public function and role as a gathering place for the LGA. This raises questions such as who comes and why? What is The Concourse’s unique offering and how can that be enhanced and communicated. And how might it all be managed in the future? At base is information. The answer to these question lies in information.

### 11.1 Visitation

The *Civic Place Business Plan* noted in 2002 that the Chatswood Library experienced approximately 2000 visitors per day. "This number is expected to increase to over 3000 per day when Civic Place opens", it commented. Presumably, both the scope of the new building and increased staffing levels were predicated on that figure. The expectation has not been realised. A turnstile survey conducted in April 2015 suggested an average of 2014 per day or effectively nil increase. The State-wide experience as noted in *the Australian Libraries Statistical Report 2012-2013* is somewhat different. This saw visitation grow from 31.5 million in 2004/05 to peak in 2009/10 at 37 million and decline to 35 million in 2012/13.

In line with that trend, one might have expected the daily rate at Chatswood in 2015 to be closer to 2400. Were the difference marginal it might be taken as a seasonable fluctuation. But this gap suggests either excessive optimism in the original plan or a diminishing attraction by the Library itself. Notwithstanding, extrapolating that turnstile attendance over a conservative 340 days still records a gross visitation of 685,000 annually.

Of course, that figure needs to be treated with some care. A high proportion of library users are characteristically repeat visitors many of whom are well known to come for what might broadly be called “relaxation”. The per capita estimate of attendance at public libraries in NSW, again as recorded by the *Australian Libraries Statistical Report*, is 4.7. This is not an entirely reliable guide but it appears to be the only one available. That figure would suggest something of the order of 146,000 discrete visits per year at Chatswood. That estimate is also in line with the gauge of 4.5 visits per capita used across NSW by the Library Council. Admission to and use of the Library, except for some room bookings, is of course free.

We have noted above that in 2014 there were 180, 675 car park users and that these too presumably include a high degree of recurrent transactions. The number speaks for itself and needs no further elucidation other than to observe that while timing and other factors may infer the reasons for parking at The Concourse, that inference is entirely subjective. Nevertheless, they are visitors to the site and it is reasonable to assume that the various offerings of The Concourse are a primary if not *the* primary draw card.

Curiously, the *Civic Place Business Plan* made no comparable estimates of likely visitation to the Venues. Nor did the earlier *Positive Solutions* report. The Business Plan calculated, with some degree of accuracy as it turned out, the likely *utilisation* levels and but no guide was given as to *attendance* numbers.

In the event, the performing arts centre in 2014 registered visits totalling 162,316 and growing. As can be seen from the following table this represents a mix of ticket holders to

performances and attendees at social or business events. Looked at in one light, it could be seen to be slightly over 2 visits by every person in Willoughby. Since a very high proportion of these attendees represent a financial outlay of some kind, that is a significant number. Even when the visitor is a guest either of the show or a conference or social gathering it is likely they will have bought a drink, paid to park or someone has done so on their behalf.

	Ticketed	Private	Total Attendance
<b>Attendance 2014</b>	<b>109,613</b>	<b>52,703</b>	<b>162,316</b>
<b>Attendance 2013</b>	<b>81,731</b>	<b>51,007</b>	<b>132,738</b>

Source: The Performing Arts Centre on The Concourse, Financial Report and Statistics for Financial Year Ending 30 June 2014

By contrast, Council does not currently collect statistics on retail usage. We appreciate that this would not be easy unless the tenants were prepared to collect and share those with Council and that, in some cases at least, there may be legal reasons why they cannot. If it is the longer term intention to create as complete a picture as possible of the economic and social activity on site, we would urge that steps be taken in that direction.

Council also has no reliable facility to capture daily, casual foot traffic to and across the site or foot traffic occasioned by special events such as the Urban Screen operations and the like. Inevitably, any such calculations would be to some degree guesstimate. Nevertheless, a more co-ordinated attempt should be made to establish a more accurate assessment.

**Looked at in raw terms, we may say that even on the basis of the current information there are just over one million *trackable* visitations to The Concourse annually which takes no account of retail, casual traffic or free event attendance. Even allowing for the likely high rate of repeat visits, that is still an impressive figure.**

We **recommend** that a deeper collection of social data generally be developed for The Concourse through periodic surveys which would contribute to providing the fullest possible understanding of its visitation and thereby promotion including traffic through the retail outlets especially food and beverage

### 11.2 Tourism

Having a share in Sydney-wide festivals and events be they Writers Festival, Vivid, Film Festival or Sydney Comedy Festival will attract a following. All can contribute to the boosting of periodic visitation and extend brand recognition and build the night-time economy. However, The Concourse needs to determine what its *unique offer* might be if it wishes stand out from the crowd and attract and sustain in-bound tourist traffic. The questions needing to be answered are: what can one see only there and what is the strategy to grow and promote that? A response is yet to emerge. All that has happened to date has been testing the waters. But because that testing has not conformed to any plan, it has been piecemeal and as a result inclusive. What then is the BIG IDEA?

At the moment, in the absence of an overall plan for The Concourse, it is by no means clear what the context is within which its tourism objectives might operate. Worthy as each of the

public events held so far may be, there is a sense of opportunistic grabbing at ideas as they arise rather than that they form part of an ongoing strategy to lure visitors from near or far to the site.

This is further complicated by the lack of data on what happens now and what therefore may reasonably be predicted to happen in the future. In order to achieve that, *real research and based on that research real planning is required.*

The first and most important issue is: what is the economic impact of what is occurring and what are its trends? A proper assessment of that would involve not only activities directly on The Concourse but in the Mall and adjacent areas. Allied to this are the equally important questions: what currently attracts the public and what are the inhibitions to attendance? That is to say who comes now? Why do they come? What stops others from coming? What might make them come back? And what would grow the positive and turn around the negative?

These are critical questions and their answers can help map current and likely future visitation, consumption and overall behaviour. Without that evidence The Concourse will be fated to operate on a pattern of short-term, stop-go events never really knowing if it is hitting the target or possibly even which target to hit.

Significant work has been done on *developing branding* but, for reasons discussed above, its application has been erratic. We believe that unified management and concerted forward planning can go far to ensuring that The Concourse can position its brand more effectively in the future.

But branding is only part of the challenge. The Concourse needs *consistent messaging* to lure the public. What is it trying to say about itself and to whom? The world today is awash with sloppy and exaggerated claims about such precincts. We would urge that simple, believable messages about cultural value, customer service and convenience and integrated offerings are greatly to be preferred to the "life changing experiences" offered in some other places. We would further urge that the concept of quality enjoyment with ease of access be a prime feature of The Concourse's offer to the public.

Above all, we believe that not enough has yet been made of The Concourse's unique cultural proposition to the population of the North Shore. The Chatswood Library is already one of the busiest in New South Wales. With greater outreach and engagement it could be an information Mecca for community and business in this rapidly growing and diversifying region. The Performing Arts Venues are now the largest and most developed from Sydney Harbour north and are already drawing substantial audiences from across the region. They need to be positioned and promoted as *the* Performing Arts Centre of the region. Equally, The Concourse's boutique conference and social facilities need to be promoted for their exceptional integrated services of that scale and their track record of achievement and customer satisfaction to date. Finally, the special events on and around the podium need to be designed and promoted as the "must see", "must attend" unique offerings of the area. In that case care needs to be taken that they are invariably promoted under The Concourse

brand and not run the risk of being seen as a suburban subset of someone else's master event elsewhere.

We **recommend** that Council develops a tourism strategy plan aimed at positioning The Concourse and its unique cultural and entertainment offering within the North Shore and by extension Sydney through integrated programming, consistent branding and consistent and deliverable messaging.

## 12. Future Policy – A summary

We have several times referred to the lack of general oversight of The Concourse Precinct. It seems fairly obvious that, throughout this project, enthusiasm got ahead of the strategy and that situation is in need of urgent remedy. We have made a number of recommendations to that effect. However, in conclusion, it might be helpful to recap to the various issues surrounding this.

Currently there is a facility management team of low visibility located on site which looks after some routine maintenance and emergency issues. There is no function that brings all the elements of the Precinct together either in strategic or practical terms. Doubtless, part of that results from the absence of an agreed goal or goals or of an overall plan which might respond to those goals. That has also been mentioned several times.

Part of it is also the result of the mix of business models, reporting lines and modes and the range of Council departments which have a stake in various aspects of The Concourse. Clearly, they need to be simplified and regularised.

In order to make good those apparent and, in our view, pressing deficiencies a number of steps should be taken:

- Adopt a policy framework for The Concourse which sets out its objectives within the broader framework of community and cultural services for the City;
- Establish a number of clear goals to which all entities should in their vary ways conform, but in particular highlight the cultural, recreational, social and economic roles which The Concourse is expected to fulfil and the benefits arising from them;
- Develop a set of strategies for the achievement of those goals recognising that some, such as marketing and promotion, will be overarching of the Precinct as whole and others will of necessity be specific to the constituent entities;
- Develop a set of measurements by which these strategies can be periodically evaluated and against which the Precinct as whole should report to Council;
- Develop a simple but coherent reporting mechanism that incorporates both social and financial outcomes of the Precinct. We would propose that this be done on two levels:

A: a regular (say) monthly report which in the case of the social area includes attendance/visitation data and any variations in them, and in the case of financial information a Year to Date Profit and Loss statement for the entire Precinct indicating the contributions of each constituent entity; and

B: a more detailed half yearly (or some other suitably frequent) report which includes, as far as practicable, demographic and ideally behavioural data in the social area, and in the financial aspect a more detailed P&L with source and application of

funds and trend analysis together with an easily readable balance sheet showing all depreciation and loan liabilities.

- To give effect to all of this, the establishment of a precinct management structure for The Concourse which would act the point of implementation of the policy, strategies and reporting as mentioned above;
- That would involve among other things: the collection and dissemination of all data related to the Precinct; day-to-day liaison between Council and the constituent entities; first call, line management of the operation of facilities and services beyond the immediate competence or purview of the staff of the constituent entities.
- In these respects it might be expected to take on some of the operational and management roles currently spread over a number of Council departments though not to duplicate the discrete services that they alone can provide. Neither is it expected to intrude into the day-to- day internal running of entities such as the Library or the Venues except where these might have Precinct-wide implications.
- It would also be the focal point for the operation of a marketing plan and thus one-stop shop for the scoping, development and implementation of events either specific to The Concourse or in which it plays a significant part.
- We believe that it is imperative for The Concourse to have a dedicated Precinct Manager to oversee the operations of the centre. This is especially true from a financial management perspective.
- That officer would be responsible for improving the opportunities for revenue growth and cost control in addition to the general operation and financial management of the centre.
- This initiative would allow for the current commitment of a range of officers of Council from different areas to cease or at least reduce, with the benefit of a more structured approach to the provision of services. This can only benefit Council and ensure that one individual's performance is measured against a structured job description and KPIs
- Further, the real cost of Management will be more easily quantified and charged to the appropriately to the precinct's operations .

For that purpose we **recommend** that management Reports to Council provide a consolidated view of the social and financial aspects of The Concourse, including Century Venues Pty Ltd.