

BUTTER FACTORY ARTS CENTRE MANAGEMENT

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Index	ECM/ Subject/ 72.04 Butter Factory Arts Centre
Attachments	Nil

EXECUTIVE SUMMARY

Not applicable

RECOMMENDATION

That Council note the report by the Special Projects Officer to the Infrastructure & Services Committee Meeting dated 15 September 2015 and:

- A. Adopt Option A (as set out in the Report) and authorise the CEO to enter into an agreement with the Cooroy Lower Mill Board to operate the Butter Factory Arts Centre on a 12 month trial basis, commencing 1 January 2016; and
 - B. Provide a 12 month operating subsidy of \$120,279 to the Cooroy Lower Mill Board on the basis that the Board provide six monthly acquittals.
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REPORT

Following considerable community consultation on the operation of the Butter Factory Arts Centre (BFAC) in 2014/15, Council resolved at the Ordinary meeting on 12 March 2015 to:

- A. *Adopt Option 3 as its preferred option;*
- B. *Staff consulting with the Cooroy Lower Mill Board to develop a Business plan and budget to present to Council in a future report; and*
- C. *Continue to maintain the Butter Factory and Pottery Shed buildings.*

Option 3 proposed a hybrid community management model with the Cooroy Lower Mill Board (CLMB) as the facility manager, and U3A and Centre for Ceramic Excellence as anchor tenants.

The Special Projects Officer was allocated to lead the development of a business plan in conjunction with CLMB representatives. With the assistance of Robyn Barrett from Mercer Enterprises (for financial analysis) the Special Projects Officer has been working with CLMB representatives on the development of a business plan for the BFAC. Consultation with a number of key staff within Council has also been undertaken. Through the information gathering process a number of issues have been identified and it is now evident that a comprehensive business plan is unable to be completed in a timely manner.

1. Current status of the business planning process

Council officers, with the support of CLMB representatives, have commenced drafting a business plan for the BFAC. Development of the business plan has required the CLMB to undertake a research process which has included visits to other similar arts facilities. This process has enhanced their enthusiasm for operating the BFAC and reinforced their belief in providing arts programs and exhibitions at the BFAC.

There is however, still a considerable amount of work to be done to develop a robust business plan because, while CLMB bring a wealth of local knowledge, support and commitment to the task of managing the BFAC, CLMB needs to further develop its overall purpose, structure, programming and activities to successfully operate the facility.

The CLMB are keen to develop a detailed business plan but in order to do this they require an experienced staff resource to explore and trial programming options and provide the detailed information required for the business plan/feasibility. In order to engage such a resource the CLMB require funding.

Given the gap between the Council resolution in March and the completion of the business plan, a level of confusion is becoming evident within the Cooroy community regarding who is operating the BFAC. The CLMB have already had a number of approaches and proposals for activities within the BFAC which they are unable to act upon as they are not currently operating the facility.

Difficulties in developing the business plan have also arisen as current operations are not a reasonable benchmark to predict future operations and in particular, future revenue opportunities. Council is currently operating the BFAC in a 'caretaker' mode with limited programming which makes it difficult to provide the CLMB with a fully operational 'business as usual' model, particularly where revenue sources are concerned. Historical information has been difficult to find and provide to assist CLMB form the basis of 'business as usual'. In fact, actively seeking revenue sources has not been a focus at the BFAC for the past four to five years. In turn, this requires the CLMB to make a number of assumptions around the programming opportunities that may arise for the CLMB operation of the BFAC.

Robyn Barrett of Mercer Enterprises has undertaken financial analysis with the available data. She was able to forecast base operating expenditure based on Council's previous expenditure however forecasting revenue was problematic. She noted that while there were potentially credible ideas for activities and revenue streams, these needed to be developed in much further detail to enable robust financial analysis.

Based on the need for a high level of assumptions and increased staffing, indicative financial projections and analysis undertaken by Mercer Enterprises indicate that the Council subsidy will be higher than estimated in the report to Council on 3 March 2015. The proposed 12 month subsidy is \$120,279, compared to \$80,000 proposed previously. The main reason for this is the additional level of staffing required to cover a five to six day operation (including weekends and after hours) which equates to approximately 1.5 FTE. Some of this on site staffing was originally anticipated to be covered by in-kind support from U3A. The CLMB will undertake overall management, planning and programming for the BFAC and have indicated that, given the existing commitments of their members, they are not in a position to undertake the day-to-day operation of this public facility and will require sufficient staffing to do this.

Programming of PopUp Art (and other) exhibitions have been scheduled by Council until December 2015. It is important to note that the PopUp Art exhibitions are nearing the end of their current life and it is not expected that exhibiting will continue beyond December 2015.

It is also important to note that through the business planning process it has been identified that a number of capital improvements including acoustic treatment and better disability access will be required to enable greater simultaneous use of the spaces at the BFAC.

Finally, the business planning process has identified that the previously recommended approach of bringing together the CLMB with two anchor tenants (U3A and the CCE) is no longer viable.

2. Anchor Tenants

On 12 March 2015, Council adopted the option for the BFAC to be a community managed facility with Council providing financial support to a community organisation (namely CLMB) to manage and activate the facility with an understanding that CLMB would work with U3A and Centre for Ceramic Excellence (CCE) as 'anchor tenants'. The 'anchor tenants' would ideally provide financial or 'in-kind' contributions.

Subsequent investigation through the business and transition planning process has indicated that tenancy by U3A and CCE cannot proceed as originally planned.

The intent was for U3A to provide activation through use of the BFAC, as well as the potential for in-kind support such as administration resources, volunteers and assistance with grant funding. This in-kind support would reduce the staffing burden on CLMB.

The U3A Management Committee has recently changed and subsequently decided that they no longer have the resourcing to establish and operate a U3A sub-branch at Cooroy. U3A are however continuing community consultation and if there is enough interest and drive from the Cooroy and hinterland community to establish a Cooroy U3A branch, then the Noosaville branch will be available to provide advice and assistance to establish the new branch. If a Cooroy U3A is established, the committee will continue to work with the operator of the BFAC to investigate venue hire options.

The CCE will not be a major user of the BFAC in the short term. As a young organisation their focus is now centred on holding a major wood firing conference in 2017, at which time they will hire the BFAC. However, the CCE and regular Potters located at the BFAC have been in consultation to look at ways to improve usage and revenue streams at the pottery shed and are currently working on a grant submission to replace the pottery wheels in the pottery shed.

The two proposed anchor tenants in the proposed business plan will not come to fruition in the short term.

3. Options

The business planning process is in somewhat of an abeyance. CLMB continue to maintain their enthusiasm and drive to operate the BFAC, however the difficulties highlighted above demonstrate that it may simply be too early for the development of a long term business plan and long term agreement due to lack of certainty about potential revenue.

Therefore, the following options are proposed:

- A. Council enters into a trial operation arrangement with CLMB for 12 months.
- B. Council continues to operate the BFAC under a 'caretaker' model with limited programming, essentially a venue for hire.
- C. Council continues to operate the BFAC and undertakes the role of activating the BFAC.
- D. Council investigates other uses for the BFAC.

Option A. Council enters into a trial operation arrangement with CLMB for 12 months.

CLMB operation of the BFAC was identified through the community engagement process as most closely aligned with the community aspirations for the BFAC based on past experience.

Under Option A, Council would enter into an agreement with the CLMB to operate the BFAC for a 12 month period. This time would allow the CLMB to engage an expert to establish the viability of the programming options and other ideas at the BFAC, with an expectation that the feasibility of a long term business plan can be determined by the end of the 12 months for the ongoing operation of the BFAC based on actual revenue. Should CLMB determine that the operation of the BFAC is not viable, or should Council determine that the operational subsidy required for the operation of the BFAC is too onerous, the arrangement would cease and one of the other options below explored further.

In short, a 12 month trial should determine whether this community based model will work or not.

Council would provide an operating subsidy to CLMB for the 12 month period. This amount will be capped at \$120,279 and an acquittal process would be undertaken at 6 monthly intervals. The acquittal process should also help with the development of the business plan should CLMB determine they are able to operate the BFAC beyond the initial 12 month trial period.

It is anticipated that CLMB would commence operating the BFAC on 1 January 2016, with a transition occurring from October. Council would continue to undertake day-to-day operations during the transition however the CLMB and their staffing would work with Council staff to understand the building and plan for programming and exhibitions to commence from January. A subsidy of \$12,600 would be required for CLMB to staff the transition period October to December 2015. This amount can be met within the current budget.

As highlighted in the Infrastructure & Services Committee meeting report to Council on 3 March 2015, *'There [remain] some risks associated with this proposed model. While individual CLMB members have facility management experience, the CLMB itself has not managed a community facility and their successful relationship to other stakeholder groups and individuals needs to be developed. In order to manage these risks, it is recommended that Council clearly establish roles and responsibilities by way of a Memorandum of Understanding [or Agreement] between Council and the CLMB.'*

The 12 month trial will allow CLMB to test programming and operational assumptions to determine whether continued CLMB operation of the BFAC is viable. If it is not, then the other options in this report can be further explored.

As noted in section 2, the business planning process has allowed the CLMB to start building relationships with stakeholders and interested parties. This puts them in a good position to commence greater activation of the BFAC should Council adopt Option A.

This model also meets the preferred outcome of community management of the BFAC identified through the community engagement process undertaken in 2014/15.

Option B. Council continues to operate the BFAC under a 'caretaker' model.

Under this option, Council would operate the BFAC in a 'caretaker' model primarily offering the facility as a venue-for-hire and overseeing the Pottery. Cooroy Library staff would manage the building, take bookings and facilitate access. There would be limited Council programming or curated exhibitions and the building would only be open to the public if a hirer undertook this.

This model could be funded within the current net budget for the 2015/16 financial year of \$233,311 including depreciation and corporate overheads.

It is important to note that the PopUp Art exhibitions are nearing the end of their current life and it is not expected that exhibiting will continue beyond December 2015. Any further programming or exhibitions would require Council staff to source exhibitions or artists in the community to step forward and hire the venue and staff exhibitions.

The benefit of this model is that it would determine what the "latent" demand for the facility actually is i.e. how many requests to use the facility will be made if it is not being actively marketed or promoted.

This model does not meet the preferred outcome of community management identified through the community engagement process undertaken in 2014/15 but it would be the cheapest of the community use based options.

Option C. Council continues to operate the BFAC and undertake an 'activation' role.

Programming of exhibitions and events would be managed by Council staff with additional support provided by volunteers. While the arts focus would continue there would be no significant increase in community engagement or ownership.

In order to further activate the use of the BFAC, staffing levels would need to increase to program and staff the facility. The estimated impact of this would be \$80,622, resulting in an adjusted budget for the 2015/16 financial year of \$313,933.

This model was identified as unsustainable through the community engagement process undertaken in 2014/15, and it does not meet the preferred outcomes identified through that process. It would be the most expensive of the community use based models.

Option D. Council investigates other uses for the BFAC.

While the community engagement process undertaken in 2014/15 explored many options, the potential for non-community use of the BFAC site was not investigated.

If the community management model proves to be unsustainable in the long term, Council could investigate the possibilities for other uses of the site. The current zoning is Community Use however the BFAC’s original use was commercial in nature. A design studio or showroom, etc and potentially other like uses other uses in keeping with the overall Lower Mill site and the historical use of the building.

This option would require Council or potential tenant to undertake a Material Change of Use application or the zoning could be considered through the development of the new Planning Scheme.

This model does not meet the preferred outcomes identified through the community engagement process undertaken in 2014/15 which opposed commercial use of the BFAC and sought greater community involvement. However, if the proposed 12 month management trial by CLMB proves unsuccessful, this option may warrant further consideration.

Previous Council Consideration

Ordinary Meeting 12 March 2015

REVIEW OF THE OPERATIONS OF THE COOROY BUTTER FACTORY.

That Council note the report by the Director of Community Services to the Infrastructure & Services Committee Meeting dated 3 March 2015 and agree to:

- A. Adopt Option 3 as its preferred option;*
- B. Staff consulting with the Cooroy Lower Mill Board to develop a Business plan and budget to present to Council in a future report; and*
- C. Continue to maintain the Butter Factory and Pottery Shed buildings.*

Finance & Risk

Summary of options

The 2015/16 net total budget (including depreciation and corporate overheads) for the BFAC is \$233,311.

The 12 month trial recommended is proposed to commence 1 January 2016, therefore crossing over into the 2016/17 financial year. For comparison purposes the 12 month period (1 January to 31 December 2016) has been projected for each option. Note that a 2.5% inflation rate has been included in the 2016/17 figures for the purposes of calculating projected figures.

Option D has not been costed as further investigation into potential commercial uses and revenue opportunities would need to be determined through an expression of interest process.

The table below outlines the indicative costs under options A, B and C:

	Net Operating Cost to Council	Total Cost to Council (including depreciation & corporate overheads)
Option A - CLMB 12 month trial	\$146,097	\$243,898
Option B - Council caretaker model	\$138,426	\$236,227

Option C - Council activation model	\$220,056	\$317,858
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Option A is slightly higher than the current budget and Option B, however it is important to note that it will result in activation of the BFAC rather than a caretaker model. It also remains more cost effective than Council activation under Option C.

Option A. 12 month trial with CLMB

While this option has risks associated with the CLMB’s first foray into managing a facility, it is the preferred model, representing a lower cost to Council than if Council were to undertake an activation role. It also meets the preferred outcomes of the community engagement process undertaken in 2014/15.

Operating costs such as water, electricity, building maintenance, etc. will remain Council’s responsibility under this option, however many of these costs would be transferred to CLMB beyond the 12 month trial. CLMB will need to consider these costs for business planning and future operations.

A review of corporate overheads with Council’s finance section indicates that a substantial reduction in corporate overheads is also likely under this model, however this has not been factored into the projected budget for the 12 month period.

	Projected budget 1 January – 31 December 2016
Revenue	\$0
Expenditure	\$146,097
<i>Continued Council operating expenses during CLMB operation ^</i>	<i>\$22,607</i>
<i>Other Expenses (fire levies and internal charges other than corporate o/head)</i>	<i>\$3,211</i>
<i>Operating subsidy to CLMB *</i>	<i>\$120,279</i>
Net Operating Cost to Council	\$146,097
Depreciation & Amortization	\$19,745
Corporate Overheads	\$78,056
Total Cost to Council	\$243,898

Notes:

^ Continued Council operating expenses during CLMB operation projected based on 2015/16 budget figures.

* Based on Indicative Cash Flow Analysis undertaken by Mercer Enterprises

Option B. Council ‘caretaker’ model

The ‘caretaker’ model uses the existing 2015/16 budget to project overall costs across the two financial years:

	Projected budget 1 January – 31 December 2016
Revenue	-\$8,371
Expenditure	\$146,797
<i>Employee Benefits**</i>	<i>\$52,900</i>

<i>Materials & Services***</i>	\$92,946
<i>Other Expenses</i>	\$951
Net Operating Cost to Council	\$138,426
Depreciation & Amortization	\$19,745
Corporate Overheads	\$78,056
Total Cost to Council	\$236,227

** - potentially, this is a worst case scenario based on current levels of usage. If there was a reduction in usage (for example, no after-hours opening) than the actual cost would be lower.
 *** - similarly, lower usage would result in lower costs for services such as electricity, water usage etc.

Option C. Council ‘activation’ model

Employee costs would increase under this model with a requirement for Council to staff the BFAC. The figures provided are considered conservative because after hours and weekend penalties have not been factored into the increased employee benefits calculation. While an increase in revenue has been factored into this model, it is likely that increased revenue will be offset by the additional materials and services required to provide programs and exhibitions. Adoption of this model would require an adjustment to the budget in Budget Review 3.

	Projected budget 1 January – 31 December 2016
Revenue	-\$18,496
Expenditure	\$238,552
<i>Employee Benefits *</i>	\$134,530
<i>Materials & Services #</i>	\$103,071
<i>Other Expenses</i>	\$951
Net Operating Cost to Council	\$220,056
Depreciation & Amortization	\$19,745
Corporate Overheads	\$78,056
Total Cost to Council	\$317,858

Notes:

* An additional LGOA Level 4 position has been added under the activation model.

It is anticipated that revenue increases will be offset by materials and services requirements

Option D. Investigate other uses

This option will need to be costed should Council wish to pursue further but it would be difficult to calculate without market testing potential revenue or determining whether there is an actual market for this type of use. Costs will be incurred for undertaking a Material Change of Use application. Expressions of interest will need to be sought as an indication of the potential viability of this option.

Capital Works

Previous reviews have highlighted the need for building modifications to address building constraints and increase potential uses. During the business planning process, CLMB have identified areas such as acoustic treatment and disabled access as areas they may be able to source grant funding to assist with capital improvements.

There are no capital projects included in the 2015/16 capital works budget for the BFAC.

Council Building & Facilities staff are currently investigating significant roof leaks which have exacerbated over recent months. This will require capital expenditure within 2015/16 to resolve.

Consultation

External Consultation - Community & Stakeholder

Representatives from Cooroy Lower Mill Board
Mercer Enterprises

Internal Consultation

To facilitate the business planning process and the development of this report a number of internal sources were consulted, including:

Director, Community Services
Manager, Libraries and Galleries
Gallery Director and staff
Management Accountant
Governance Advisor
Grants Officer

Departments/Sections Consulted:

- Community Services**
 - Disaster Management & Public Order
 - Waste & Environmental Health
 - Community Facilities
- Cultural Facilities

- Planning & Infrastructure**
 - Building & Plumbing Services
 - DA Planning
- Strategic Land Use Planning
- Asset Design & Investigations
- Asset Planning
- Civil Operations
- Environment

- Executive Office**
 - Community Engagement
 - Customer Service
 - Executive Support
- Governance
- Human Resources

- Corporate Services**
 - Finance
 - ICT
 - Procurement & Fleet
 - Property & Facilities
 - Revenue Services