

Business Case for a new art museum in Shepparton

Final Report
28 January 2015

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Citation

Simon McArthur and Associates (2015) Business Case for a new Art Museum in Shepparton.

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1. Introduction

1.2 Importance of arts to the regional Victorian economy

At the end of June 2008, there were 333 museums and art galleries operating in Victoria, which was 23% of the Australian total. Approximately 26% of the 4.4 million people in Victoria aged 15 years or over visit an art gallery / museum. Of those who attended art galleries in the 12-month period, almost half (48%) attended 2–4 times. Of those who visited museums, more than half (54%) attended once during the 12-month period and 36% attended 2–4 times.

There were 9.3M admissions to museums and art galleries in Victoria during 2007–08. Free admissions accounted for 72% of all admissions, while paid admissions accounted for 28%.

In 2007–08, museums and art galleries in Victoria:

- received total income of \$239.3M with \$64.3M coming from admissions and fundraising;
- generated \$234M in expenses, of which 39% (\$91.6 million) were labour costs;
- employed 2,070 people in Victoria; and
- generated 4,713 volunteers.

1.2 Shepparton – socio economic background

Compared to most other areas of regional Victoria, Shepparton City has a weak economy and more serious social problems.

Unemployment is comparatively high and youth unemployment is a growing social problem. In addition the risk exists of further cutbacks to manufacturing employment that could significantly increase regional unemployment.

Figure 1.1 indicates that unemployment in Shepparton is the highest of any region in Victoria in the first seven months of 2014.

Shepparton has a large Indigenous population as well as a large population of recent migrants to Australia with poor English skills. Council officials consider that ABS Census data from 2011 understates these ratios due to reporting biases. **Table 1.1** highlights that Shepparton has higher ratios on these measures than do comparable Victorian inland regional cities.

1.3 Visitation to Shepparton

Tourism to the region makes a smaller economic contribution than it does to other significant regional inland cities of Ballarat, Bendigo and Benalla.

In addition, tourism to existing museums and art galleries is a far less common activity among the tourists that do reach Shepparton compared to the tourists that reach the other three inland towns.

The existing tourism profile of Shepparton is heavily reliant on domestic overnight and day trip visitation to friends and relatives (VFR) who live in the city. Within the VFR market and the smaller number of holiday domestic overnight visitors to the city, the core markets are the Grey Nomads and families with young children.

Shepparton has far lower tourist visitation to museums and art galleries than three regional cities (Benalla, Ballarat and Bendigo) whose more general tourism profile is almost identical to that of Shepparton (noting that Shepparton is further from Melbourne, has no regular train service and no built heritage in comparison with these regional centres).

Existing Shepparton attractions have a strong bias toward serving families with young children – an unusual bias among Victorian tourism destinations.

The core market of socially aware art lovers is far smaller in size. While the core market for the existing SAM is Grey Nomads who may also be socially aware art lovers there are few other attractions in Shepparton to keep these visitors in the city for an overnight stay.

Figure 1.1 Unemployment in regions of Victoria in the first seven months of 2014 (Source: ABS)

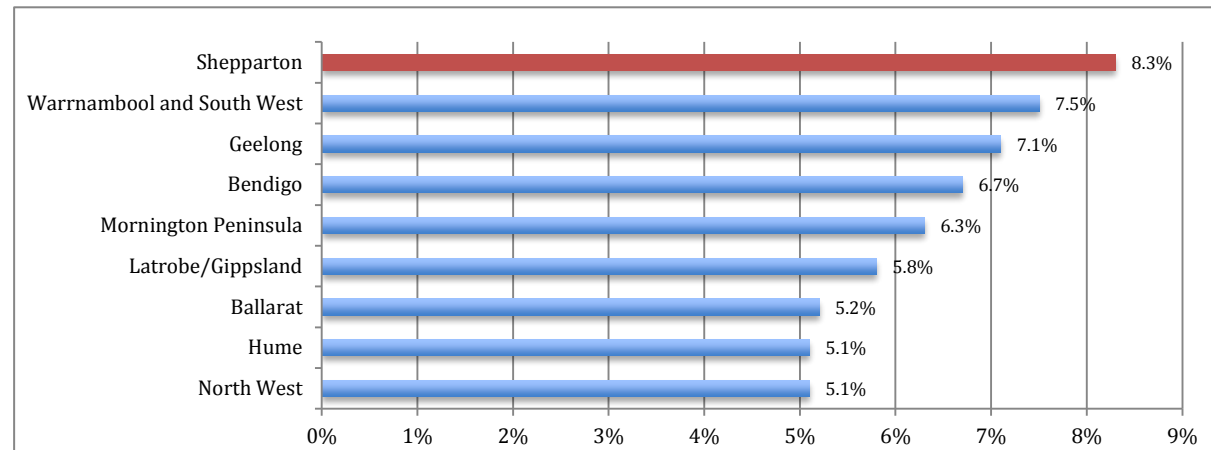


Table 1.1 ABS Census 2011 indications of community challenges in Shepparton City

Local Government Area	Aboriginal	Speak English not well or not at all	Speak other language than English at home	Migrant since 2000
Ballarat City	1.1%	0.6%	4.0%	2.7%
Benalla (RC)	1.1%	0.3%	2.9%	1.4%
Greater Bendigo	1.3%	0.5%	3.0%	2.0%
Greater Shepparton (C)	3.3%	2.9%	12.3%	5.3%
Average of 3 cities other than Shepparton	1.2%	0.5%	3.5%	2.3%

1.4 The Victoria Park Lake Precinct

Victoria Park Lake, located 2km south of the Shepparton CBD, had always been considered the city's premier public space. In 2007, after years of drought had taken their toll on the lake's water quality and the surrounding habitat, Greater Shepparton City Council developed a Masterplan to improve the area.

The Master Plan directed major works to clean the lake and ensure the water levels remained stable, even in very dry periods. The disturbed river edge environment was revegetated, open space was increased and significant improvements to access and recreational amenities were made, such as development of a shared pathway network, boardwalks and a 70 m span river crossing.

As a result of the redevelopment there has been vast improvements in the lake's water quality and native wildlife numbers, and a marked growth in the number of people using the precinct for leisure and recreational pursuits. The site is now the major recreational focal point in Shepparton, and is ranked by TripAdvisor as the number one attraction in Shepparton. The Victoria Park Lake Precinct is also becoming a key place to meet and socialise.

Figure 1.2 Images of the Victoria Park Lake Precinct



The area is one of the best locations to witness significant multi-cultural makeup of the local population, and the high proportion of young families residing in Shepparton. The precinct provides some of the best access to the Goulburn River and is close to land regarded as significant by the local Indigenous population.

1.5 The existing SAM

The Shepparton Art Museum collection was established in 1936. By 1949 the collection totaled 37 works and was displayed in the Town Hall. In 1965 a gallery was established inside the redeveloped Civic Centre. Significant changes took place in the 1970s with ceramics becoming the focus of the collection and collecting policy. In 2011 the Shepparton Art Gallery was rebranded to Shepparton Art Museum, or SAM.

SAM's collecting activities focus mainly on acquiring Australian ceramics and contemporary Australian art, with international ceramics and contemporary Indigenous Australian ceramics acquired through the biennial Sidney Myer Fund Australian Ceramics Award, and Indigenous Ceramic Art Award, respectively.

SAM holds one of Australia's leading collections of historic and contemporary Australian ceramics. The collection includes objects made by the first convict potters, and a large collection of domestic and decorative ceramics.

SAM has a growing collection of contemporary Australian art that complements and speaks to works and themes in the existing collection, such as investigations of Australian landscape traditions, ceramic art practice and the use of clay, print-making and sculptural traditions. SAM has DG status (meaning collection donations to SAM are tax deductible).

SAM is open 7 days a week and admission is free.

Section 3.4 provides detail on visitation to SAM.

SAM currently receives education funding and delivers programs in partnership or in collaboration with local schools, teachers, art education sectors, adult sector including tertiary - GOTAFE and local university courses. Staff have also developed partnerships or programs with other metropolitan based organisations and artists.

Figure 1.3 Entry to the current building



Figure 1.4 Example of ceramics - The Four Horsemen of the Twenty First Century Apocalypse, by Penny Byrne



Figure 1.5 Signature piece of contemporary art in SAM – Woman and Child by Sam Jinks



SAM's current governance rests largely within the Council. Council is in charge of all operational aspects, including the budget, financial performance and employment of staff. A Museum Director reports to the Council's Director of Community. The Museum structure has been recently changed.

The recently incorporated SAM Foundation is the first innovation beyond the traditional local government run model. The main role of the SAM Foundation is to source funding to assist and enhance the performance of SAM. The Foundation is currently developing a Business Plan / Fund Raising Strategy.

SAM is run day to day by a team of nine staff:

1. Gallery Director
2. Senior Curator
3. Collections Curator / Registrar
4. Marketing Liaison Officer
5. Community Cultural Development Worker
6. Visual Arts Educator
7. Administration Officer
8. Art Museum Technician
9. Art Museum Shop Assistant

The annual SAM Budget is approximately \$1.38M, which is funded by approximately \$1M Council support and \$0.4M revenue. Further analysis suggests that:

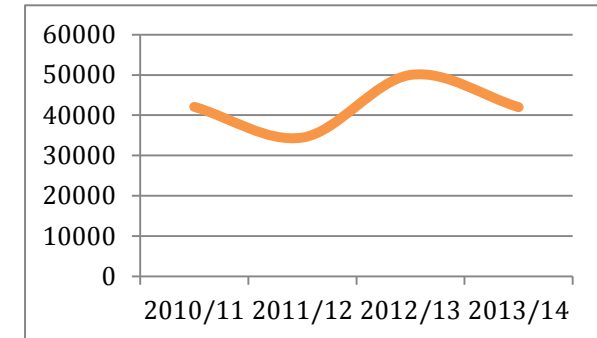
- SAM commercial activities generate 17% (\$59,000) of total revenue (the remaining \$285,000 is raised from grants and donations);
- For every dollar of income SAM requires almost \$3 in expenditure.

As a department of Shepparton Council, SAM receives approximately \$0.24M in indirect support, covering costs such building maintenance, plant, energy, fire services, human resource management, financial management, vehicle and office. This means that Council really subsidises SAM by approximately \$1M in cash and \$0.25M in kind, per annum.

The current governance model for the existing SAM with strong City Council oversight is not best practice for encouraging innovative SAM management or donations of art or funding for new acquisitions from private benefactors.

The current SAM has a far smaller role in tourism to Shepparton than museums and art galleries have in other comparable regional Victorian cities. **Figure 1.6** shows that over the past three years, annual visitation to SAM has varied between 42,000 and 50,000. This is a relatively low outcome in comparison with other regional art museums in Victoria, but indicates potential growth through a new art museum.

Figure 1.6 Annual visitation to SAM 2010-2014



Initial visitor data on the latest major exhibition to SAM 'Delinquent Angels', suggests average visitation of 300-400 visitors per week (less than 60 per day). We regard this visitation as quite low. Visitor surveys conducted during the exhibition period suggests approximately 50% of visitors came from Melbourne and 40% from regional Victoria – we assume the latter includes Shepparton and thus will be predominantly residents of the Shepparton local government area.

2. Why this project

2.1 Introduction

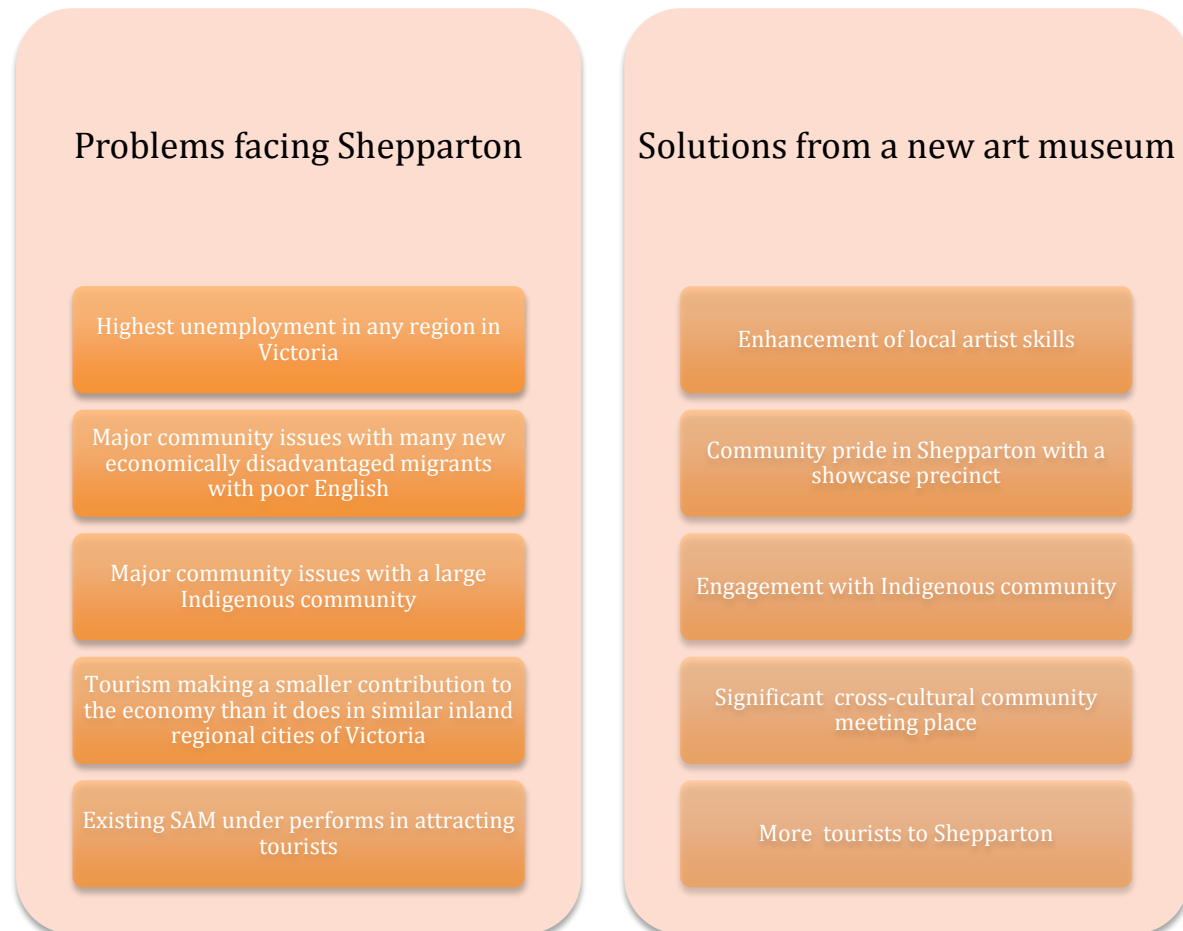
A new art museum in Shepparton with a best practice governance model will not, on its own, fix the economic and social problems facing Shepparton City. These are major problems for Victoria.

The opportunity exists for a new art museum to act as a pivotal investment toward rebuilding Shepparton City economic performance and social cohesion. A new art museum can:

1. Lift community pride and optimism about the economic outlook for the city
2. Improve the liveability of the city
3. Improve community connectiveness and social cohesion with the Indigenous and new migrant communities
4. Increase the number of tourists to Shepparton
5. Increase the share of tourists to Shepparton visiting museums and art galleries.

A summary of the problems facing Shepparton that a new art museum can address is provided in **Figure 2.1**.

Figure 2.1 Problems facing Shepparton City and ways that a new art museum can address them



2.2 Problems this project addresses

There are four drivers for action by all levels of Government at this time.

Problem 1 – The existing SAM could attract more tourists and locals, compared to art galleries in comparable cities

This is assessed as 30% of the justification for funding by the three levels of government for a new art museum

Table 2.1 uses National Visitor Survey data to present a comparison of the performance of museums and art galleries in Shepparton and three other regional centres in attracting tourists.

The low tourist attraction of Shepparton museums and art galleries is partly due to the lower tourist visitation to Shepparton. However, the larger factor is that far fewer of the domestic tourism market that visit Shepparton are converted to visit museums and art galleries in Shepparton, compared with other regional cities. **Table 2.1** therefore highlights the potential of a new art museum in Shepparton to attract more tourists to Shepparton, and to convert more of the current tourists to Shepparton into visitors to an art museum.

Table 2.1 Comparing local and tourist visitation to the existing SAM, Benalla Art Gallery and Art Gallery of Ballarat for the average of the four years ending 2012/13 (built from National Visitor Survey)

Tourists	SAM	Benalla Art Gallery	Art Gallery of Ballarat
Day trips from regional Victoria	5,100	7,200	6,790
Day trips from Melbourne	0	2,600	27,070
Regional Victoria Overnights	1,200	1,800	7,169
Melbourne overnight	7,600	14,460	7,200
Interstate overnight	3,100	13,685	6,372
Overseas overnight	700	1,600	3,823
TOTAL	17,700	41,345	58,424
Locals	19,169	40,258	56,839
Locals as % of LGA resident population	32%	295%	61%
Locals as a share of visitors	52%	49%	49%
Tourists as a share of visitors	48%	51%	51%
TOTAL VISITORS	36,869	81,622	115,263

More detail on the derivation of these visitor estimates from the large sample national surveys from Tourism Research Australia and the official Arts Victoria data is provided in the Economic Evaluation of the SAM as attached to this report (see **Attachment H**).

Problem 2 - Shepparton is an economically disadvantaged region

This is assessed as 30% of the justification for funding by the three levels of government for a new art museum.

Regional unemployment is one measure of economic disadvantage. A more general measure is the level of the index of economic resources as measured by the ABS Census as shown in **Table 2.2**. On this measure Shepparton is the 17th most disadvantaged of the 80 local government areas in Victoria.

A comparison of relative social and economic disadvantage with other key Victorian regional cities confirms that Shepparton is an economically disadvantaged region.

Table 2.2 Shepparton has significant social and economic disadvantage

Local govt area	LGA area code	Relative social economic adv		Relative social economic disadv		Index of economic resources		Index of education & occupation		Usual resident population
		Score	Decile	Score	Decile	Score	Decile	Score	Decile	
Surf Coast Shire	26,490	1060	10	1066	10	1052	10	1,066	9	25,885
Golden Plains Shire	22,490	1011	8	1030	9	1052	10	967	6	18,768,
Moyne Shire	25,490	1005	8	1017	8	1029	9	1,007	8	15,953
Geelong	22,750	980	7	993	7	983	6	978	7	210,920
Southern Grampians	26,260	978	6	994	7	987	6	980	7	16,340
Corangamite	21,830	970	6	986	6	1003	7	972	7	16,386
Warnambool	26,730	970	6	989	6	972	4	964	6	32,030
Ballarat	20,570	969	6	981	6	962	4	986	7	93,517
Bendigo	22,620	967	6	983	6	972	5	969	6	100,547
Wangaratta	26,700	965	5	981	6	982	5	961	6	26,867
Wodonga	27170	963	5	975	5	971	4	950	5	35,488
Colac	21,750	946	4	965	5	982	5	941	4	20,357
Benalla	21,010	945	4	957	4	965	4	955	5	13,672
Glenelg Shore	22,410	943	4	960	4	975	5	928	3	19,555
Greater Shepparton	22,830	942	4	952	4	964	4	943	5	60,491

Source: ABS Census of Population and Housing: Socio-economic Indexes for areas 2011, ABS Cat. No. 2033.0.55.001

Problem 3 - Shepparton has greater social problems than other comparable regional cities

This is assessed as 30% of the justification for funding by the three levels of government for a new art museum.

On the ABS measures of relative socio-economic disadvantage the Shepparton local government area is the 13th most disadvantaged of the 80 local government areas in Victoria. Similarly, on the comparison of the index of education and occupation as well as index of relative of socio-economic advantage Shepparton is ranked 15th most disadvantaged of the 80 local government areas in Victoria.

Social issues in Shepparton are also accentuated by the high proportion of Aboriginal residents compared to other areas and the high share of recent migrants with poor English compared to other areas.

Problem 4 - Indigenous art and culture lacks a strong showcase attraction in regional Victoria

This is assessed as 10% of the justification for funding by the three levels of government for a new art museum.

Shepparton with its strong Aboriginal history and resident population is an ideal location for a gallery that highlights Aboriginal art and culture.

Within Shepparton there are differences in the Aboriginal community that trace back to the Yorta Yorta Land claim. However without exception, all of the people from the community interviewed expressed a wish for the younger generation of Aboriginal people to have better opportunities in the future. A new art museum in Shepparton is intended as a cultural centre that will provide opportunities for professional development and education and embrace all of the diverse cultural communities including the Indigenous people within Shepparton and the surrounding region.

2.2 Opportunities available

Beyond addressing existing problems, a new art museum represents a rare opportunity for a

productive partnership of the private sector with the three levels of Government.

Consultations with all the key stakeholders in this project highlight that a new art museum with a best practice governance model can potentially access capital from all three levels of Government and the private sector through philanthropists.

The best practice governance model is also critical to ensuring innovative management of the new art museum with a focus on engaging experiences targeted to relevant markets.

2.3 The connection to governments' priorities/existing policies

The economic problems and social issues facing Shepparton are not ones that can be addressed purely by market forces. For example, while market forces ensure lower cost housing due to a weak local economy that will attract some new residents, these residents are unlikely to bring entrepreneurial skills and capital that will transform the local economy. Indeed there is a risk that low cost housing will attract additional welfare recipients to this region, entrenching regional disadvantage.

Market forces have also delivered a high unemployment rate to Shepparton City.

The proposal for a new art museum is a good fit with the key State Government policies that address regional development through increasing competitiveness (more jobs) and improving liveability. This project would be able to demonstrate that would have a beneficial impact on communities and surrounding regions, and support an improved experience for those who visit and reside in regional Victoria. Developing cultural assets is crucial to ensuring the livability of regional Victoria, through improving the attractiveness and lifestyle benefits of regional Victoria, and enhancing the aesthetic value and cultural vibrancy of communities and regions. Another important policy match to this project will be attracting regional tourists, supporting major events and festivals, and providing increased opportunities for ancillary spending within regional communities.

In October 2014, the Commonwealth Government announced the new National Stronger Regions Fund (NSRF) as a long-term response to the disadvantage facing many regional communities. This new \$1 billion fund over five years commencing from 2015–16 is a recognition by the

Commonwealth that more disadvantaged regions struggle to gain private sector and public investment that can contribute to economic and social performance.

The National Stronger Regions Fund is an initiative to boost social and economic development in Australia's regions by funding priority infrastructure projects in local communities. Funding will be provided for capital projects that involve construction of new infrastructure, or the upgrade, extension or enhancement of existing infrastructure. The Guidelines indicate that projects selected for funding should deliver an economic benefit to the region beyond the period of construction, and should support disadvantaged regions or areas of disadvantage within a region. Clearly to honour its objective of lifting disadvantage regions this fund should be targeting investment projects in Shepparton.

Local Government and incorporated not-for-profit organisations are eligible to apply for grants of between \$20,000 and \$10 million. Grant funding must be matched in cash on at least a dollar for dollar basis, and the funded part of the project must be completed on or before 31 December 2019.

A key challenge for the proponents of this project is that the second round of funding applications under the NSRF closes on 31 July 2015. The guidelines for this existing program highlight that decisions on further Rounds will be determined by Government subject to the outcomes of Rounds One and Two. Without a guarantee of further funding rounds under this program, there is a strong incentive to move quickly to prepare a thorough funding application before the end of July 2015.

This new Commonwealth based fund beside the existing programs managed by Regional Development Victoria is clear recognition by Governments in Australia of the justification for government intervention in promoting regional development in more disadvantaged regions.

3. Stakeholder consultation and market research

3.1 Stakeholders targeted & involved

Most of the stakeholders that were targeted for consultation were either: responsible for the management of the existing SAM; direct users of the existing SAM; major potential beneficiaries of a new art museum; or major influencers of a new art museum being made a reality.

Approximately 300 people were involved in the project's consultation. Major sectors and organisations consulted included:

- Greater Shepparton City Councillors
- Greater Shepparton City Council staff (particularly sectors from tourism & events, planning, finance, project management);
- SAM Staff;
- SAM Foundation;
- Regional Development Victoria;
- Arts Victoria;
- Tourism Victoria;
- Shepparton Festival Board;
- The Committee for Shepparton;

- Friends of SAM Committee and members;
- University of Melbourne;
- La Trobe University;
- Goulburn River Valley Regional Tourism;
- Kids Potz;
- Shepparton Textile Artists;
- Splinter Contemporary Art;
- Local Artists;
- Indigenous Artists;
- Yorta Yorta Nation
- Artists & Board Members of Gallery Kaiela
- Bangerang Cultural Centre;
- Ethnic Council/ Italian Community
- Shepparton primary and secondary school teachers
- Locally active philanthropists
- Local, State and Federal members of government
- Local media (radio and print media)
- Various directors of regional art museums and galleries across Australia

3.2 Consultation methods

The consultation techniques used were:

1. Interviews

2. Workshops
3. Councillor briefings
4. Online platform.

Interviews

The consultancy team interviewed approximately 120 people. Most people were interviewed face to face on a one to one basis, or as part of a small group that they had nominated. The remainder of people that were unable to make a face to face meeting were interviewed by telephone and / or chose to submit written responses directly to the consultants.

The interviews were particularly useful in gathering feedback on some issues that people wanted to provide in a more confidential environment, such as on future SAM governance.

Workshops

Two rounds of workshops were conducted that involved a total of 100 people. The first round of workshops collected ideas for a new art museum and explored feedback on the consultants emerging ideas. The first round ran six workshops and involved approximately 60 people. Individual workshops were run for:

1. Indigenous artists and managers of Gallery Kaiela;
2. Friends of SAM;
3. SAM operational staff;
4. Local artists and teachers;
5. Artists based in Melbourne with a former involvement with the existing SAM;
6. Senior academics involved in art education.

The second round presented the emerging concept for a new art museum (governance model, site and experience) and sought feedback to further enhance it. Five workshops involved approximately 60 people and were run for:

1. Indigenous artists and managers of Gallery Kaiela;
2. Friends of SAM;
3. SAM operational staff;
4. SAM Foundation; and
5. General public (attracting residents, local artists and philanthropists).

Councillor briefings

The lead consultant met twice with Councillors of the City of Greater Shepparton. During the first consultation, the Councillors were invited to provide their input to the feasibility study and introduced to

the project and potential risks and benefits to the Council were explored. This session also canvassed preparedness for an alternative governance model, contribution towards development costs and contribution to an increased annual operating budget. The second consultation discussed the proposed target markets, emerging ideas for the experience, the emerging superior location and “back of the envelope” development cost and operating budget.

The briefings were critical to ensure the Councillors had input in advance to the consultation and project processes proposed in the Study. These briefings also provided an opportunity for the Councillors to outline any more general concerns or issues with the Feasibility Study.

Online platform – Share your vision

The stakeholders were also engaged through an online ideas board called “Share Your Vision”. This innovative approach was derived in consultation with the SAM Marketing Liaison Officer and involved Council IT staff building an interactive platform within the Council’s website. The platform allowed interested stakeholders to not only post their idea, but also review other people’s ideas and use them to potentially improve their own contributions.

The Share Your Vision initiative was promoted through:

- SAM Facebook stories
- Story posted on ArtsHub, a major artist network
- Several stories in the local newspaper and radio
- A letterbox drop flier to every resident within the local government area (this also promoted the workshops)

Approximately 100 people posted ideas during the main operating period. The majority of respondents were from within the region.

Consultation to address constraints

In Phase 3, as potential project risks were identified, meetings and discussions with relevant stakeholders were undertaken. Key stakeholders that were consulted in this capacity included: individual Project Board Members; consultants undertaking a feasibility study for changes to the Shepparton Tourist Park; The Goulburn Broken Catchment Management Authority; planning, finance, tourism and major project management expertise in Greater Shepparton City Council.

3.3 Use of the consultation feedback and evaluation of the consultation

Feedback from the consultation was shared with the Project Management Board in verbal and written formats. At Board meetings, the Board members were asked to determine which suggestions they would like to adopt. The consultants then followed this direction into the next Phase of the Project.

During the consultation, there were no formal complaints received, no media issues generated and no politically focused statements made.

Implications of the Proposal on other projects that were raised by stakeholders are addressed in **Section 7**.

Though benchmarking research set potential directions, and market research tested these with target market visitors, it was the consultation that has firmed up the proposed main experiences, governance model and site. At the end of the second round of workshops, all 60 participants (including Friends of SAM) unanimously supported the overall proposal for a new art museum in Shepparton. This feedback was shared with the Project Management Board.

3.4 Tourism analysis and target markets

Tourism analysis

In Phase 1, desktop research was undertaken to:

- Identify current visitation and visitor profiles to Shepparton
- Identify current visitation to regional galleries and art museums across Victoria;
- Identify current visitation to SAM and compare it to the regional data
- Formulate target markets for a new art museum in Shepparton.

Section 1.3 provided a brief summary of the key research findings and **Attachment A** provides a copy of the full research report.

Target markets

There are four core target markets for a new art museum in Shepparton:

1. Cultural opinion leaders
2. Grey Nomads
3. Parents and grandparents of young children market
4. Students in upper primary and lower secondary schools

Cultural opinion leaders are critical target market for Tourism Victoria. This group will seek out new cultural experiences and is heavily focussed on weekend travel. This group represents 7% of the Australian population, is more likely than the average Australian to holiday in Victoria (31% versus 25%) and spent 30% more on domestic trips than the average Australian. This group will not be difficult to attract in the first year of a new art museum in an iconic building.

Grey Nomads are the core 'off peak' target market. Specific sub-sectors of Grey Nomads to be targeted would be those that travel through regional Australia seeking novel experiences who travel outside weekends and school holidays. Teachers and program coordinators of upper primary and lower secondary schools could be targeted for the mid-week school terms. The geographic radius for this target market should be within a two hour drive of Shepparton.

Teachers and program coordinators of upper primary and lower secondary schools could be targeted for the mid-week school terms. The geographic radius for this target market should be within a two-hour drive of Shepparton.

Parents and grandparents of young children residing in Melbourne and prepared to travel on weekends and school holidays are a new target market for an art museum in Shepparton. This target market was chosen to exploit a gap in the art gallery market, recent innovations in art gallery experiences and most importantly because Shepparton City has an existing strong offer to this market with other attractions. By focusing the new art museum to appeal to the family of young children market, visitors are likely to stay longer in the region and there is a fit with the existing profile of the family friendly Shepparton brand.

3.5 Benchmarking and unmet needs

Desktop research was undertaken in Phase 1 to identify:

- Key lessons from arts led recoveries in regional centres;
- Unfulfilled demand from art museums;
- Trends in cultural facilities to meet the unmet visitor needs; and
- Governance models used in regional galleries in Australia.

The results of the benchmarking research were documented in a Research Report, and are presented in **Attachment B and C**. The Research Report set the direction of a new art museum in Shepparton to:

- minimise the proportion of the permanent collection on permanent display at any one time;
- avoid a focus on attracting major travelling exhibitions; and
- focus on creating immersive, interactive ways to engage with art that will engender strong word of mouth support for the new gallery.

The Report also set a direction to move towards a more independent governance model.

3.6 Market research and testing

Two rounds of market testing were undertaken to support the Project Online market testing and Focus Group testing.

Online market testing

Online testing was conducted in Phase Two to support the Options development, and specifically

to test the comparative strength of the three experience options across one of the tourism target markets. To be considered competitive, each product was expected to achieve a majority score of 'Quite interested' or 'Extremely interested' (as opposed to neutral or not keen).

To achieve this objective:

1. An online survey was designed to test the appeal and the strength of each product to motivate a visit to Shepparton
2. Three 30 second promotional videos were created to visualise the experience, with voice over delivering the italicised text shown in **Section 3.3**,
3. The videos were loaded onto an online survey;
4. The online survey was run for five days to recruit 300 participants from the target markets.

Recruitment of participants targeted people with the following traits:

- female (females lead travel decision making and are more likely to visit art museums);
- aged between 30 and 70 years;
- lived in Melbourne (the main potential visitor catchment for Shepparton);

- had visited within the past 12 months, or planned to visit regional Victoria within the next 12 months; and
- had visited within the past 12 months, or planned to visit an art museum or art gallery within the next 12 months.

The results of the online market testing were critical to shaping the potential experience options taken forward to feasibility assessment. The online testing resulted in two experiences being refined and taken forward for feasibility. Most of the third experience was removed from the proposal and did not proceed to feasibility assessment. The results of the online market testing are provided in **Attachment C**.

Focus Group testing

Focus Group Testing was done in Phase Three to support feasibility assessment. Two Focus Groups were recruited to test the strength of the refined optional experiences for a new art museum, and to explore any further ways that the experiences could be further refined, prior to them being finalised for costing and forecasting.

Two groups of eight women were recruited. Participants all had children aged 5 to 10, lived in

northern suburbs of Melbourne, had visited a regional centre of Victoria with their children in the last 12 months and had visited an art museum or art gallery with their children in the past 12 months.

Respondents provided useful background on their travel experiences to regional Victoria, use of art museums and related cultural attractions, and awareness of and perception of Shepparton as a visitor destination. Respondents then provided:

- a quantitative score of each experience's appeal to them;
- a quantitative score of each experience's capability to stimulate a visit to Shepparton;
- qualitative comments supporting likes and dislikes about each experience;
- suggestions on how to improve each experience; and
- an indicative price point for each experience.

The results of the focus group market testing allowed the experiences and building layout to be further refined, assisted refine visitation forecasting for the overall project and some of its experiences, helped set price points for chargeable experiences and even offered marketing suggestions for a new

art museum. The results of the focus group testing is provided in **Attachment C**.

4. Project options assessed

4.1 The do-nothing option

The existing SAM provides the base case or counterfactual to the recommended option. This base case assumes that the existing SAM remains unchanged in its: operations; collection; governance model and site.

As explained in **Section 2.1**, on the basis of national tourism statistics and official Arts Victoria data, the existing SAM does a comparatively poor job in attracting tourists and locals compared to the Art Gallery of Ballarat and Benalla Art Gallery.

On Trip Advisor, the hugely influential website with travellers, the existing SAM is rated as the third top attraction in Shepparton after Victoria Park Lake and the Shepparton Motor Museum. With 17 reviews on Trip Advisor, the existing SAM has fewer reviews than the Art Gallery of Ballarat with 157 and Bendigo Art Gallery with 232 but more than the Benalla Art Gallery with only 8 reviews on Trip Advisor.

The existing SAM runs at an operating annual deficit after direct and indirect revenue and direct and indirect expenses of around \$1 million per

annum. This operating deficit varies with the cost of visiting exhibitions, visitation and other operating variables. This operating deficit is assumed to increase at 8% per annum (or just over 5% pa after inflation) as the existing SAM faces losing competitiveness against competing attractions over the construction period and to the end of the 10 year forecast period of 2027-28.

Under the base case, the existing SAM would:

- continue to require approximately \$1M in cash to operate at a base level;
- continue to require approximately \$0.25M in indirect support from Council (though this is not included in the net present value calculation);
- fail to gain significant new donations from private philanthropists;
- lose competitiveness over time against more innovative and better-funded regional art galleries; and
- slowly lose visitation from both locals and tourists by 3% per annum (due to falling competitiveness).

Valuing the do-nothing option applies the same methodology that is used to estimate willingness to pay for a new art museum in Shepparton. As noted

in the attachment on the economic evaluation, this methodology is also tested against the existing Art Gallery of Ballarat and Benalla Art Gallery to check its robustness.

While the existing SAM building represents a sunk cost, the opportunity cost for using this building as an art gallery rather than other Council purposes needs to be estimated. Use of the existing SAM building as office space is assumed to bring in rent of \$500,000 per annum, increasing with inflation.

Net Present Value of the Existing SAM

The consumer surplus (as expressed in after inflation dollars) of the existing SAM is assumed to decline by 3% per annum over both the three years to 2018-19 and the ten year forecast period, to reflect declining competitiveness against competing attractions.

The estimated consumer surplus of the existing SAM is less than half that estimated for the existing Art Gallery of Ballarat and Benalla Art Gallery.

The net present value of the existing SAM over the first 10 years of the proposed new art museum is estimated at negative \$10.73 million, as shown in **Table 4.1**.

4.2 Governance

The Phase 1 Research Report investigated a number of governance structures, reported on a significant trend towards more independent models, and documented various examples of governance models in use within Victoria.

The Phase 2 Options Report identified and further developed two models:

1. Not for profit limited by guarantee - an example of this governance model in operation in Victoria is the Art Gallery of Ballarat
2. Company limited by guarantee - an example of this governance model in operation in Victoria is the TarraWarra Museum of Art

Attachment D compares the characteristics, advantages and disadvantages of these two models against the base case (current situation). **Attachment D** also provides an assessment of the two governance options and the base case against the project objective to share risks and financial burden, and capitalise on opportunities amongst long-term project partners/sponsors.

Table 4.1 The estimated NPV of the existing SAM

Year	Consumer Surplus from the Zonal Travel Model (real \$m)	Net operating subsidy (nominal \$m)	Rental opportunity cost of existing SAM building (real \$m)	Discounted value of consumer surplus (NPV \$m)	Discounted value of Net operating Subsidy (NPV)	Discounted value of rental opportunity of existing SAM building (NPV \$m)	Net Present Value of existing SAM (NPV \$m)
1	0.96	-1.36	-0.5	0.93	-1.28	-0.48	-0.83
2	0.94	-1.47	-0.5	0.87	-1.30	-0.46	-0.89
3	0.91	-1.59	-0.5	0.81	-1.31	-0.44	-0.95
4	0.88	-1.71	-0.5	0.75	-1.33	-0.43	-1.00
5	0.86	-1.85	-0.5	0.70	-1.35	-0.41	-1.06
6	0.83	-2.00	-0.5	0.66	-1.37	-0.40	-1.11
7	0.81	-2.16	-0.5	0.61	-1.39	-0.38	-1.16
8	0.78	-2.33	-0.5	0.57	-1.41	-0.37	-1.20
9	0.76	-2.52	-0.5	0.54	-1.43	-0.35	-1.24
10	0.74	-2.72	-0.5	0.50	-1.45	-0.34	-1.29
TOTAL NPV OF EXISTING SAM							-10.73

The assessment against the base case highlighted that the current governance model does not maximise innovation, constrains staff morale and productivity, and is not conducive to capital raising from the private sector. The Options Report concluded that a publicly owned company limited by guarantee is the most effective way to significantly involve philanthropists and the private sector in funding and expertise to develop and operate a new art museum in Shepparton. This is critical to support a significant investment and increased operating risk. The other supporting reasons for this choice are:

- allows acceptance of Carrillo Gantner's highly valued collection, and ensures that this gift is not offered to a competitor;
- shares out financial risk, so that local government is not the only risk taker;
- generates financial reserves to periodically source capital for product reinvigoration;
- sources funds from the private sector and to support ongoing operational requirements;
- protects Council ownership of the existing collection;
- creates a highly functional facility which supports Shepparton communities;

- promotes Shepparton nationally and globally by building a twenty first century state of the art facility that will attract world class exhibitions;
- generates higher levels of staff motivation and performance that typically comes from independent organisations with strong brand values; and
- attracts valuable collections / art donations from those not prepared to donate to local government.

Section 5.2 presents detail on the model recommended governance model.

4.3 Sites reviewed

The Phase 2 Options Report identified and evaluated potential sites for a new art museum (see **Attachment E** for full assessment). There are many potential sites within the Shepparton area that could have been scrutinised as part of this project. Three sites mentioned through consultation but discounted by the Project Board included:

1. The Ardmona Factory, Mooroopna, discounted by the PB due to it being privately owned and therefore unaffordable to purchase
2. Nagambie, as part of a wider Settlement Museum concept, discounted due to it being

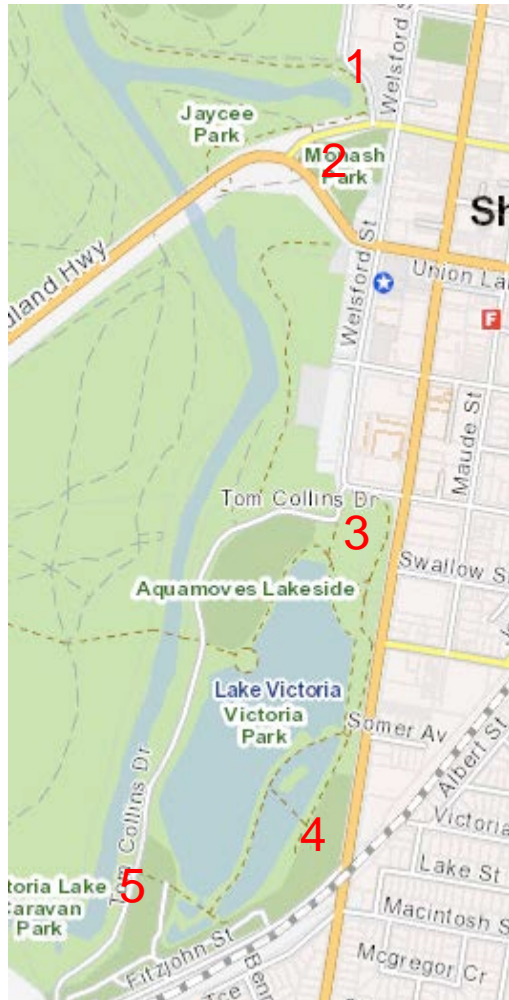
- too far out of Shepparton to attract staff and regular local use (50km)
3. Taking over more of the existing Council building as a consequence of moving 'back of house' Council offices 6km south east to the Doyles Road site, discounted due to the move not being a Council priority

The Project Management Board provided the consultants with a site matrix which indicated possible requirements of the site and scope for a rating and ranking system to be applied to them. They identified five possible sites which fitted within the site requirements to be investigated. This advice and local knowledge of the region was taken on board by the consultants, and in survey of the project objectives, and the region, agreed to as the sites requiring investigation. These sites were:

1. Immediately behind the current SAM building, over an existing parking area
2. Over the top of Monash Park
3. In the north west corner of Victoria Park
4. In the south east corner of Victoria Park,
5. In the south western corner of Victoria Park

These five sites are located on **Figure 4.2**.

Figure 4.2 The main sites investigated



All of these sites are on public land owned and managed by the City of Greater Shepparton. This tenure was a major influence on the selection, as purchasing private land was likely to induce a major cost and unpredictable negotiation and timeframe.

To assist in assessing sites, a basic footprint requirement was estimated for the parking and building as being:

- Car parking 4,500m² (150 cars);
- Coach parking 1,000m² (5 coaches);
- Building footprint 2,500m² (total area 5,000m² over two storeys); and
- Outdoor art area to extend the experience.

For each site, these footprints were transposed onto the best part of the site, so that it was clear how the site could operate, and whether there was sufficient land to do so.

The project objectives were used to evaluate each site, and resulted in the following order of ranking (from the most to least impressive):

1. Option 4 (in the south east corner of Victoria Park), which had a raw score of 35, weighted score of 38.25)

2. Option 5 (in the south west corner of Victoria Park), which had a raw score of 31, weighted score of 33.8)
3. Option 2 (over the top of Monash Park), which had a raw score of 29, weighted score of 31.45)
4. Option 3 (in the north west corner of Victoria Park), which had a raw score of 27, weighted score of 29.4)
5. Option 1 (immediately behind the current SAM building, over an existing parking area), which had a raw score of 26, weighted score of 27.9)
6. Base case (current site) which had a raw score of 21, weighted score of 22.4)

The key strengths of Option 4 pushing it into being the strongest location were (in order of strength):

- High visibility from a major road (being on the edge of the Goulburn Valley Highway);
- High potential for safe vehicle and pedestrian access (through being set well back from the main road) and use of existing roads;
- Strong portrayal of Shepparton brand values (such as multi-cultural and young family integration);
- A strong preference from the SAM Foundation that this site was the best available; and

- Space for future expansion.

Additional benefits of Option 4 were

- capitalising on existing local and visitor use of the area, giving a new art museum an instant form of visitation leverage;
- providing the opportunity for the return of a Visitor Information Centre and its integration with the same building, which in turn creates more visitation leverage for both uses and a significant cost saving to Council in avoiding the construction of a new building;
- providing the opportunity for further integration with a redeveloped caravan park and / or the development of high-end accommodation on the caravan park site. This accommodation would be designed in conjunction with the design for the new art museum as was done at MONA.

The limitations of the Option 4 site were its distance from the city centre and public transport and approval risks associated with flood management, building on open space and the timely and cost effective removal of the existing Shell Service Station.

Section 5.3 presents further detail on the site.

4.4 Building options

During Phase 3, many potential building layouts were designed for the chosen site. Ultimately, two options were shortlisted and presented in detail to the Project Management Board. The two options were:

1. A two storey 5,300m² building, sitting on a footprint of 2,600m².
2. A five storey 5,300m² building, sitting on a footprint of 1,260m².

Detailed floor plans and capital costs for development were developed for the two options.

Tables 4.2 and 4.3 summarise the advantages and disadvantages of the two building options. The Project Management Board unanimously chose the five storey building option because it:

- was superior in achieving the project objectives;
- was superior in addressing likely site constraints; and
- was more likely to gain the support of stakeholders and potential funders.

Section 5.4 presents the detail on the chosen recommended building option.

Table 4.2 Five storey building option

Advantages

- Greater potential for iconic look of building – impression of large sculptural form
- Never been done before, becoming the tallest building in Shepparton
- Minimises footprint for flood management and open space loss
- Open area on upper level provides outside area inside building & all weather outdoor operation
- Storage well above flood level
- Separate levels for varying environmental control
- Highly accessible viewing areas on each level create an additional reason to visit, and more potential visitors to a new art museum

Disadvantages

- Less access to community spaces outside of normal museum hours

Table 4.3 Two storey building option

Advantages

- Greater linkage between the Great Hall and Temporary Exhibition Gallery
- Greater access to ground level outdoor space

Disadvantages

- Takes up more existing public open space
- Blocks more view of the open space / Victoria Park Lake from the Goulburn Valley Highway
- Provides less opportunity for significant architectural impact

4.5 Engaging experiences

The benchmarking research and consultation yielded over 100 ideas for new experiences or variations to common experiences in art museums. The many ideas generally came in one of three sectors:

1. Exhibitions
2. Interactive experiences
3. Community development

These three sectors were generally seen as being inter-related and capable of supporting each other. For example, exhibitions were seen as expected in an art museum – particularly as a way to show and share the collection. Interactive experiences were seen as critical to attracting non-conventional visitor segments, and to enriching the experience of all visitors. Community development was seen as a way of building background capacity to drive the other two components – artist capacity and local stakeholder support for the overall art museum operation. **Figure 4.3** presents this integrated approach.

Options for each of these sectors were formulated and tested with the Project Management Board, potential visitors and stakeholders.

Figure 4.3 Advantages and disadvantages of the two building options



Options for exhibitions included:

- A single large space capable of hosting larger exhibitions, but also flexible enough to support events
- Dedicated exhibition space to present the ceramics collection
- Dedicated exhibition space to present the Indigenous collection being offered to a new art museum
- A Community Gallery that presents local works
- An exhibition space for travelling exhibitions
- Presentation of the ceramics collection in storage
- Outdoor exhibitions

Options for interactive experiences included:

- Artists in Residence
- Make your own art – indoor and outdoor, as independent activities and facilitated programs
- Children’s Gallery
- Outdoor Mystery Trail
- the opportunity to view and study individual art objects

Options for community development included:

- Artist training and development programs and facilities
- Auditorium
- Lecture Theatre
- Library
- Meeting Places
- Transfer of Gallery Kaiela
- Café
- Bar
- Micro distillery and tasting area
- Function space

The options for experiences were objectively assessed using:

- fit with the project objectives and their supporting criteria;
- response from target markets via market testing;
- response from stakeholders via consultation; and
- response from the Project Management Board.

5. The recommended option

5.1 Summary using the Investment Logic Model

Figure 5.1 summarises the recommended option as an Investment Logic Map. The first column of the map outlines the problems the model is designed to address. The second column outlines the benefits from the recommended option. The third, fourth and fifth column outline the hierarchy of strategic responses involved in the recommended option.

Note that an iconic building is only one element of an integrated solution that begins with changes to governance, selection of the best available site and pursuit of particular target markets with engaging experiences.

5.2 Vision for a new art museum in Shepparton

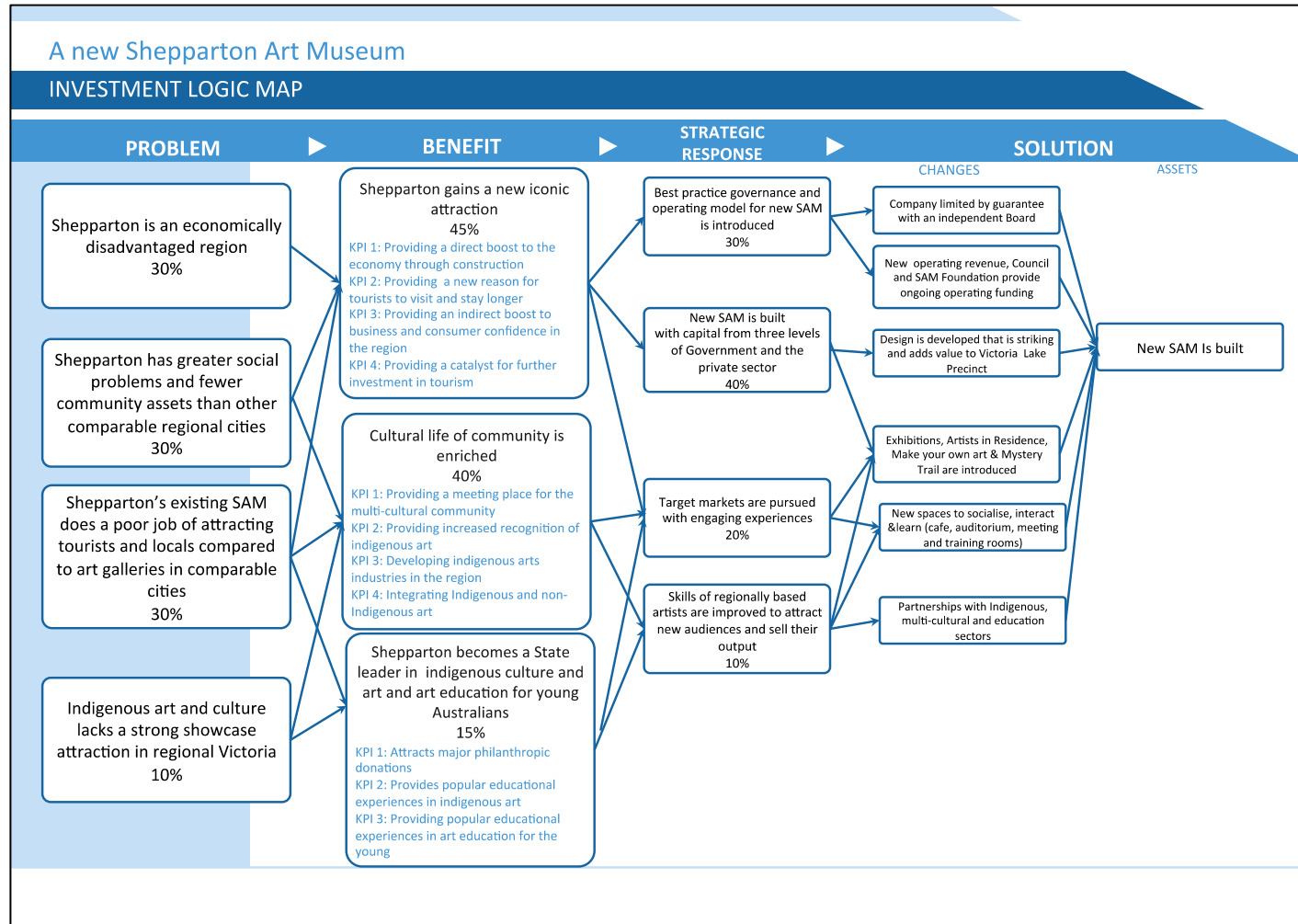
SAM will be a museum with the artist at its centre, a meeting place for the Region's people, providing captivating art experiences and connection to the Aboriginality and multi-cultural origins of the Region's heritage.

Specifically SAM would:

1. Provide an inspiring, community hub for locals to frequently meet, socialise, and form as an essential part of their lifestyle.
2. Present exemplary contemporary, international exhibitions of relevance to the regions diverse cultural communities.
3. Provide opportunities for visitors to learn, be challenged, think about, emotionally engage with and directly make their own art.
4. Provide access to the art collections and significant ceramics collection in unique, and engaging ways.
5. Present Indigenous art and support local Indigenous artists to provide complementary programs; such as through the inclusion of a space to house Gallery Kaiela.

6. Support local artists in the development and presentation of their art and the creation of empowering experiences.
7. Provide a front door to engaging experiences of nature and art in the areas surrounding the Victoria Park Lake Precinct, and a permanent home for the Visitor Information Centre - providing opportunity for visitors to access this service and learn more about the region's offerings.
8. Operate as a break even business, with financial support from agreed pre-set local government and SAM Foundation resources.

Figure 5.1 Investment Logic Map for a new art museum in Shepparton



5.2 Governance

Public company limited by guarantee

It is recommended to establish a governance model based on a Public Company Limited by Guarantee.

The Company could be staged into operation through a transitional evolution from the SAM Foundation. The people of Shepparton would retain ownership of the existing SAM collection, and donations could either be made to the council collection or the company collection. The company would be responsible for the day to day management, conservation and presentation of the collections. The collections would be insured under the one policy.

Directing this model should be a Constitution to guide the structure and operation of the Company Board, a set of policies and procedures for operations, a business plan and a set of KPI's addressing areas such as visitation, financial performance, regional economic impacts and social benefits.

Assuming the new Art Museum is located on public land owned by Council, with a building owned by Council, the Company could lease the land and

building at a peppercorn rent (part of Council's contribution).

Potential overall structure

Figure 5.2 presents a draft structure for a Publicly Owned Company limited by guarantee. **Figure 5.2** suggests that the Company should be run by a Board of Directors, who in turn are supported by the Art Museum Director and several management committees.

Potential structure of Board

An honorary non-representational skills based Board could include:

- Financial management
- Legal advice
- Marketing / tourism
- Art Museum management
- Professional visual art production
- Indigenous development
- Trust management / philanthropic services
- Two additional skills based positions nominated by Council

It was suggested that secondary considerations for selecting Board members could include

representation of multi-cultural interests, agricultural sector and community groups. To initiate the Board, an Interim Chairperson could be nominated by Council and the SAM Foundation Chairperson. Thereafter the Chairperson could be nominated from within the Board members.

Terms could be three-year renewal and five years for the Chairman. Council, as a major partner, could be offered two positions for their representatives, with these positions to be occupied by relevant skills-based individuals whether from within the Council or the community.

The Board would directly contract an independent auditor, and could oversee two Management Committees focussed on:

- Finance / Governance / Management / Capital Works
- Acquisitions, Exhibitions & Public Programs.

Art Museum Director

The Art Museum Director should be appointed by and report to the Company Board. The Director would propose and implement policy and programs, and oversee staff, partnerships, contractors and volunteers (including Friends of SAM). **Figure 5.3** presents a potential staffing structure for full time positions. A salary structure has been developed for these positions, along with a financed incentivisation program. In addition to these positions would be part time / casual staff to deliver the 'Make your own art' programs. Consistent with its capacity building objective, a new art museum should seek local junior persons and develop their skills in public contact / interpretation, as there could be a number of self-employed guiding business opportunities that flow from a new art museum. Contractors would include:

- artist trainers;
- graphic design and website hosting;
- bookkeeping, payroll and accounting;
- security of facility;
- building and plant maintenance, fire services, pest control and cleaning and waste management;
- The Gallery Director should compare quotes of external suppliers with quotes from Council.

Figure 5.2 potential structures for a Publicly Owned Company limited by guarantee



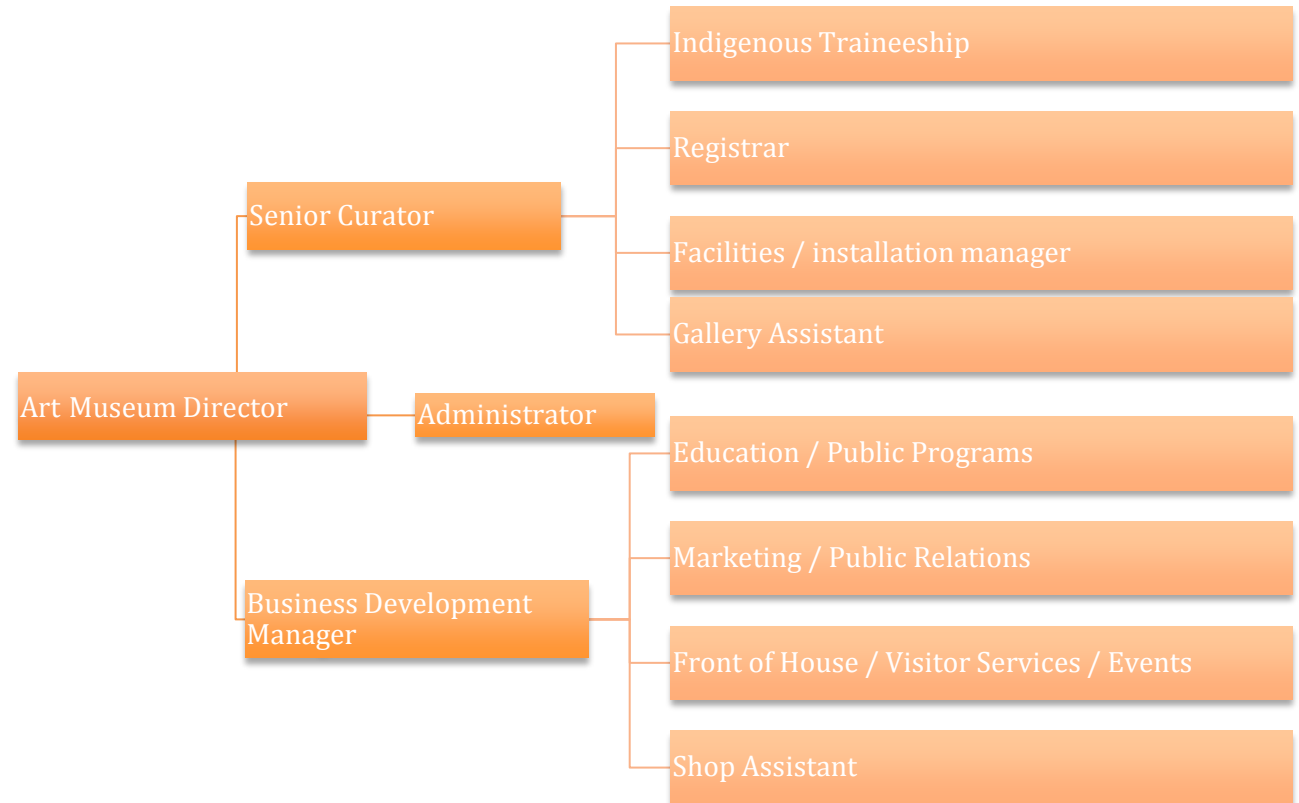
A food and beverage operator associated with a café and function centre would be managed through a sub-lessee, as would Gallery Kaiela.

Potential partners

A number of exciting partnerships are proposed for the new art museum to develop / embellish. Specific partnerships have been proposed to further develop relationships with the Indigenous, multicultural and educational sectors. Specific partnerships are proposed for:

- SAM Foundation
- Shepparton Visitor Information Centre
- Gallery Kaiela
- The Bangerang Cultural Centre
- Shepparton Motor Museum
- Friends of SAM
- Shepparton Festival
- The Australian National Piano Awards
- Shepparton Textile Artists
- University of Melbourne
- La Trobe University

Figure 5.3 Potential structure for full time staff of proposed art museum



The site offers Council an opportunity to bring the Shepparton Visitor Information back to its original area, and collocate with the new art museum. This collocation would generate at least four significant advantages to Council:

1. Generate more visitation to both the VIC and new art museum than would have been achieved as two separate locations, through the 'sharing of visitors'
2. Strengthen the relationship between tourism marketing and the cities major tourist attraction
3. Avoid Council having to reconstruct a new building for the Visitor Information Centre
4. Share operational costs otherwise provided by both facilities (car parking, toilets etc)

Gallery Kaiela provides a huge opportunity for a partnership based on:

- Presentation and interpretation of Indigenous art;
- Engagement of local Indigenous artists to lead training programs;
- Engagement of local Indigenous artists to develop and deliver aspects of the 'Make your own art' programs;

- Engagement of local Indigenous artists to assist develop the Mystery Trail;
- Sale of locally produced Indigenous art within a new Gallery Kaiela.

A partnership between the Bangerang Cultural Centre and a new art museum might also be possible, perhaps based on:

- Jointly promoting each other's attractions as a package experience, helping to enhance the appeal of visiting Shepparton and visitation to both attractions;
- Integrating some joint programs covering Indigenous culture and art, so that one part is delivered at SAM and another part it the Bangerang Cultural Centre.

A partnership between Shepparton Motor Museum and a new art museum might also be possible, perhaps based on jointly promoting each other's attractions as a package experience, helping to enhance the appeal of visiting Shepparton and visitation to both attractions;

Co-promotion at a new SAM could also include other relevant existing experiences as a package, such as Kids Town and the newly developing Indigenous Botanic Garden.

A new art museum taking visitors into the surrounding bushland and Goulburn River edge, could also establish a link to the development of a new Indigenous tour that uses the multi-use trail network to access country and Indigenous sites. This could be a separate experience run by a separate Indigenous business, promoted at a new art museum.

There is significant opportunity for a new art museum to partner with the tertiary education sector. For example:

- The University of Melbourne is interested in a partnership involving: an internship program; a residency program; symposiums on relevant topics in the auditorium; research; and relationship development with local Indigenous representatives; and
- La Trobe University could be interested in integrating a new art museum with an Indigenous / nature course off-site.

5.3 Site

Precinct-based solution

The proposal for a new art museum is a precinct-based activation proposition for the southern end of Victoria Park Lake, in that it recommends:

1. Establishing an iconic symbol for the beginning of the core part of Shepparton's outdoor, recreational, social and cultural lifestyle;
2. Establishing sufficient parking for a new art museum, new Visitor Information Centre, for visitors to the northern end of Victoria Park Lake (where the Aquatic Centre and Kids Town often lack sufficient parking) and for events staged within the Victoria Park Lake area;
3. Establishing a new Shepparton Visitor Information Centre within the new building, so that the two uses generate visitation for each other;
4. Establishing potential for the redevelopment of the Victoria Park Lake Caravan Park as special interest tourist accommodation, deriving its character from its proximity to Victoria Park Lake and a new art museum; and
5. Establishing a café driven brand for the local market, becoming the must go place for

socialising via coffee, lunch and special functions, and in doing so, driving brand awareness and visitation to a new art museum among local residents.

6. Establishing a site for a potential SAM Railway platform – modest and downscaled from the usual railway station operation.

Location and footprint

It is proposed to locate a new art museum adjacent to the Goulburn Valley Highway within the south-eastern corner of Victoria Park. The land is located within the Urban Floodway Zone (UFZ) and the Public Park and Recreation Zone (PPRZ). **Figure 5.4** presents a scaled site plan, to present access, infrastructure and building footprint. **Figure 5.5** presents an artists impression of how the building could fit into the site.

The site offers:

- a sense of arrival to Shepparton from the south;
- significant passing traffic that would raise the museum's profile and visitation from local residents and visitors to Shepparton

- lake frontage where people want to visit and socialise;
- pedestrian access to bushland associated with the southern end of the Park;
- pedestrian access to the Goulburn River;
- an existing strong base of local resident usage that can be converted into art museum visitation; and
- an opportunity to bring the Shepparton Visitor Information back to the site and collocated with the new art museum, to generate synergistic awareness and visitation.

Visitors could enter into Fitzjohn Street, park to the south in a designated carpark, and walk through a landscaped area to the new building, placed on the northern end of the site (to maximise visibility).

After experiencing the art museum building, visitors could then venture into an outdoor sculpture area within the bushland at the southern end of the Victoria Park Lake.

Figure 5.4 Artist's impression of the new building could fit into the site



Figure 5.5 Artist's impression of the new building could fit into the site



5.4 Building

Design

The architectural language of the gallery, nascent though it is, is evolving around the idea of a series of architectural moments curated in a family of experiences in and around the new building. These experiences, and architectural expressions will render the building both iconic and familiar. The preliminary design is focused on a series of functional diagrams and perspectives. Full design resolution, which is beyond the scope of this project, would take place subsequent to concept, sketch, and design development phases of work.

Layout

It is recommended to construct a five story tower-style building. **Figure 5.6** presents a first draft layout of the proposed Ground Level, and **Figure 5.7** presents the layout of the upper Levels. **Attachment E** provides the proposed area schedule for the building levels and outdoor areas.

A tower concept is envisaged that provides:

- an exceptional opportunity for an iconic building that would express an outstanding sense of arrival for the City of Shepparton for the

majority of visitors who approach from the south;

- multiple balcony views of Victoria Park Lake, the forest to the west and Shepparton generally;
- a specific level that is roofed but open to the outdoors, to maximise the sense of connection with the surrounding landscape;
- the highest all weather views in Shepparton; and
- the highest views for people with disabilities.

The tower concept would fit within a ground level footprint of just 1,260m² allowing:

- minimal loss of public open space
- minimal impact upon views from the Highway towards Victoria Park Lake; and
- the meeting of flood management footprint requirements for the area.

The new building would be constructed approximately 1.3m above current ground level, so the ground floor is above flood level. Collection tanks could be built underneath the mound to collect and store stormwater. The building is not proposed to hang over the lake, as this disrupts the Lake trail.

The tower concept would include sustainability initiatives to harvest and reuse water and reduce energy use typically associated with an art museum.

The Entry / reception area will be central to administration and security requirements during and after normal museum opening hours.

From the drop off sheltered area and upon entering the SAM's reception/retail area the Visitor Information Centre would be immediately accessible. After passing the Ceramic Wall Collection Display, a view to Victoria Park Lake would be evident through the large soaring space of the central Great Hall, sky-lit from above. This ground level would also include the loading dock, a Café and Function area with an adjacent enclosed outdoor Children's Play Place and the Kaiela Gallery, accessible from the Great Hall but with provision for a separate after hours entrance. Exhibition openings and events would be held in the Great Hall, and the Café will be able to service it directly.

A dramatic partially glazed lift in addition to a grand staircase would provide access for visitors throughout the building. Balconies overlooking the Great Hall would be located on the upper levels.

Figure 5.6 Potential ground floor layout for the building

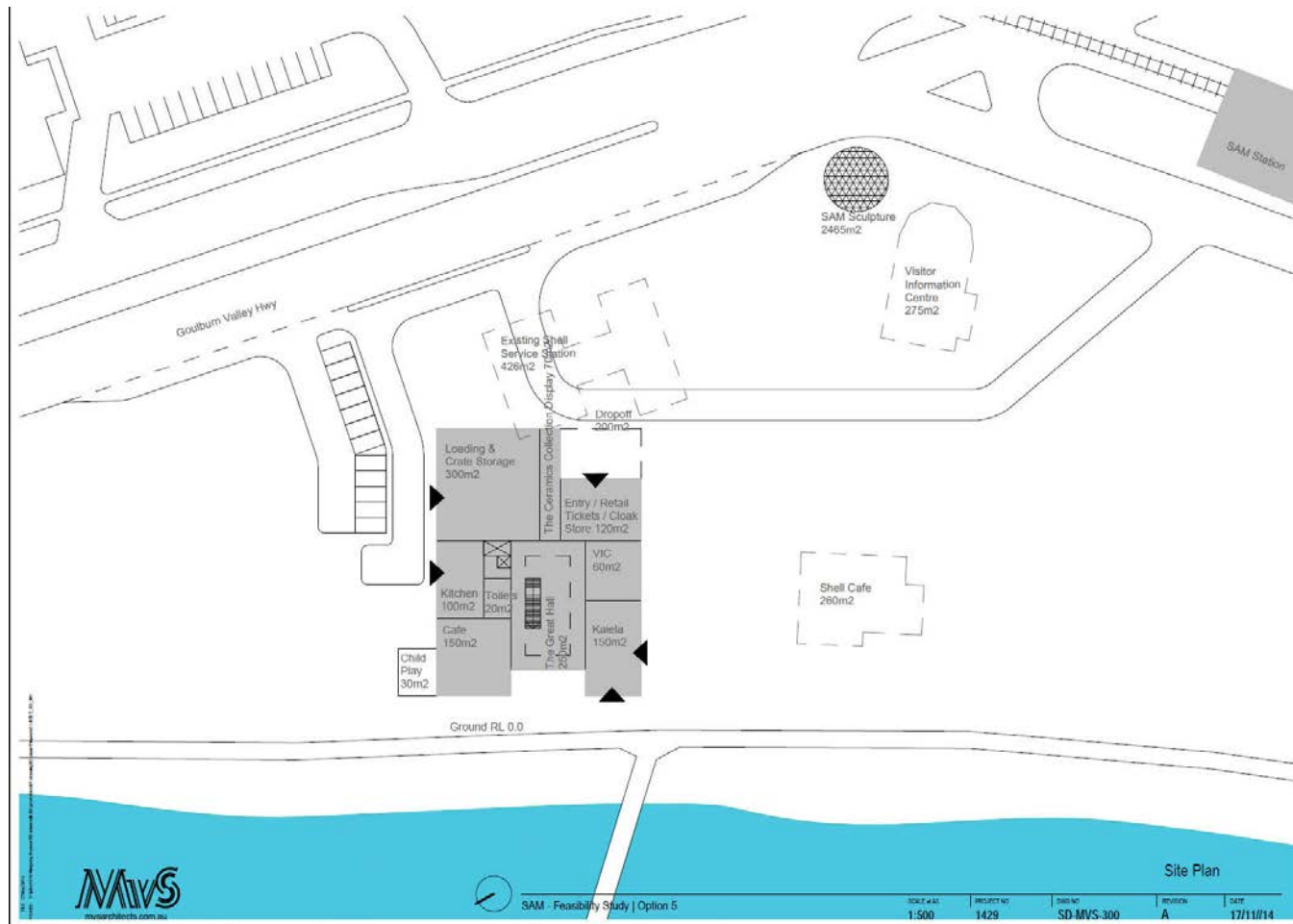
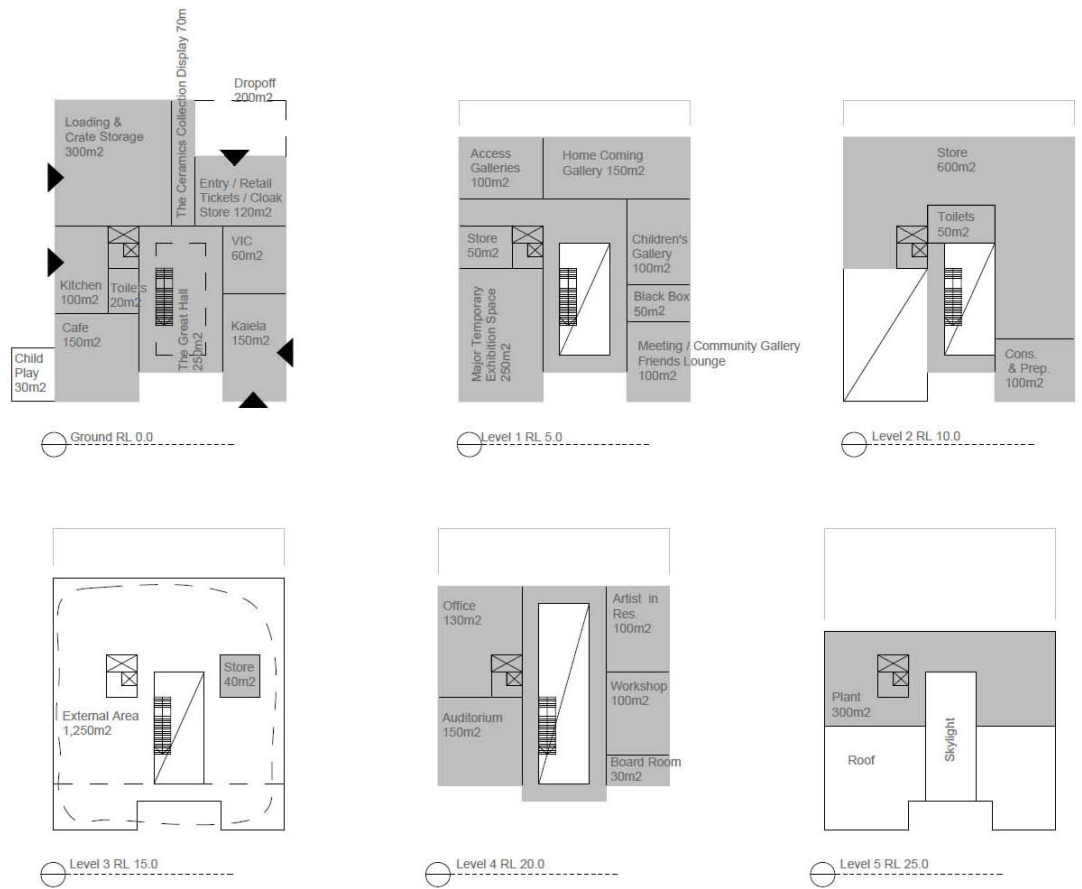


Figure 5.7 Potential above ground level layout for the building



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 PROJECT: SAM - Feasibility Study | Option 5



SAM - Feasibility Study | Option 5

All Levels

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Visitors would ascend to Level 1, where the major museum galleries would be located: including the Access, Home Coming and Black Box Galleries, a Children’s Gallery and a large-scale Temporary Exhibition Gallery (with a double-height ceiling). This level would also include the Meeting place / Community gallery and Friends of SAM lounge which would have a view over the lake. On Level 2 the back of house areas dedicated to Collection Storage, Conservation and Preparation would be housed. Levels 1 and 2 could be closed off after hours when events are taking place on other levels.

On Level 3 there would be a magnificent open area situated beneath the remaining two levels. This shaded outdoor area would provide an extraordinary viewing platform of the surrounding landscape, the river and significant Indigenous bush land. It would also be possible to look north to the City of Shepparton. Level 4 would house spaces accessible after hours, including an Artist-in-Residence studio, Workshop and Auditorium. Level 5 would house the Plant.

5.5 Engaging experiences

Entry

The New SAM would have one entry that would include a large verandah for groups to come together before entering. The building would have space for the display of collection works in locations through orientation areas and from the exterior of the Museum in its facade, lit up at night.

Inside a 120m² area will be set aside to allow for reception, ticket sales and retail and a cloakroom. Adjacent to the entry area is a 60m² area dedicated to a new Visitor Information Centre (VIC).

During gallery hours it will be possible to enter and exit the New SAM via the main entrance or the Victoria Park Lake side of the building.

It is intended that workshops, training, lectures, functions and all make-your-own-art programs will be booked and coordinated by reception before distributing to elsewhere in the building.

The Collection and Exhibitions

The premise of how the Art Museum of Shepparton responds to collections is based on dramatically changing the way collections are currently

presented and putting them to work in a way that is relevant and engaging for visitors. It is proposed to dispose of the curated collection exhibition, whether temporary or permanent, but not the display of collections. Collections would be accessible in a way that encourages study, learning, extended looking, visitor selection and ultimately response. The galleries outlined below would be designed to:

- meet the needs of educators who need to know what will be on show to extract the most educational potential from visits for primary and secondary students;
- minimise curatorial workload and conceptual drag or disconnect between curatorial rationale and visitor position;
- put exactly on display what people want to see; and
- make sure the collections change regularly and don't become static and dull.

The exhibition spaces would provide the opportunity for visitors to see something different every visit. They would create surprise in the visitor experience as exhibits change without notice, and also control as visitors can nominate works and the degree of access they have to them.

In line with contemporary best practice, no more than approximately 5-10% of the SAM collection would be on exhibition at any one time (this excludes ceramics within collection display, covered below). A larger exhibition space (than the current SAM) is proposed to provide more flexible operating capability (such as a single larger area that can be divided if needed – notionally called a Great Hall).

Future exhibition content should focus on:

- multi-cultural themes (linked to local resident origins) that push people’s boundaries and their notion of art;
- the SAM collection – especially the ceramic collection;
- contemporary art from around the World;
- Indigenous art;
- an artistic representation of the story of Shepparton and its many Indigenous and multi-cultural facets; and
- quality art produced by local artists.

Great Hall

This space is designed as a function space that would be available to be serviced by the Art Museum café operator. Private functions could be

held here without interrupting the operating of the gallery, allowing it to be a revenue generator for the new business.

Ceramics Collection Display (Open Store)

In the 1970s ceramics became the focus of the acquisition policy and this now significant collection is promoted and sustained through the biennial Sidney Myer Fund Australian Ceramics Award and the Indigenous Ceramic Art Award respectively. It is planned to house a part of this collection in the large glazed walls to be incorporated in the walls of the building. However this does not preclude exhibitions from the collection focusing on ceramics alone or including them in the context of overall collection exhibitions.

This would display part of the SAM ceramics collection en-masse. The works would be tightly packed behind darkish glass. The works would be accessed from behind and the inside of the cabinet access doors would be mirrored created a sense of an endless collection. This has been located as a significant part of the museum entry sequence.

An Open Store Wall would display a glass wall alongside an extended ceramic object store. The

Open Store experience is designed to show a window into collection management and give a sense of the breadth and depth of the ceramic collection, objects would be stored/displayed in multiplication on shelves - and it would look like a store and function as a store, which can nonetheless be viewed.

Some ceramics may be able to be displayed on slowly rotating platforms so that a 360 degree view can be gained.

Access Gallery

The goal is to exhibit approximately five percent of the Collection at any one time (with the exception of the permanent ceramics collection and rare, major exhibitions). At times, artists will be engaged to interpret and complement collection works. This gallery will meet the needs of the visitor, who can request access to objects to display via an online system. It is also where new acquisitions will be immediately displayed (as they arrive into SAM). Visitors will make a date to experience and study works. Opportunities will also be provided for students and visually impaired people to study and handle objects.

Black Box

The Black Box is envisaged as a contemporary gallery that can be totally darkened where new media, film and sound could be shown. The library component of it could easily be removed if use was insufficient to justify it. This area can also be considered temporary exhibition space for Artists in Residence commissions.

Home Coming Gallery

This gallery will bring the Indigenous and multi-cultural communities together to see their unique story expressed through art. Artists in Residence and temporary exhibition programs will feature country/heritage of origin of the Region's people. Local Indigenous artists will participate in providing meaning to the Indigenous collection.

The historic collection is made up of a selection of Australian Art and a few European paintings. In more recent years contemporary Australian art that complements earlier existing themes in the collection (including ceramics and sculpture) has become a focus of the acquisitions policy. New disciplines and conceptual concerns are featured.

Foundations generously provide funding for ceramic awards.

There is the potential for the Indigenous collection to be expanded by the gift of a large private collection of contemporary Indigenous art that will dramatically enhance SAM's collection and together with Kaiela on site, and the artists who work in this Aboriginal Community Arts organization, SAM will be able to forge a new direction in the state of Victoria, where people can appreciate Indigenous art and learn about it from the practicing artists.

Artists in Residence

Artists will be central to the new art museum. This will provide an alternative version of the conventional Artists in Residence program. The distinguishing aspect of this program would be that the artists would spend some of their time working at SAM, making art and talking with visitors.

The Artists in Residence space would include a small dedicated space for artists who are in residence to present work during their residency. It will be programmed in direct relationship with the residency program and the participating artist would take a leading role for the selection/presentation of

work. It would always be viewable to the public, through the use of glass doors as a partition during installation.

Figure 5.8 Ceramic artist demonstrating their skills to visitors



The times when the artists would be available for studio visits would be programmed for the convenience of artist, visitor and SAM staff.

When the studio is not occupied by an artist, visual material could be on view that would demonstrate the manner and method of the artist at work. Artists could access the studio and workshops outside

normal Museum hours (as many artists do their best work when they are without distraction).

Ideally, the artist's accommodation would be located close by. There may be potential to utilise some of the caravan park cabins for this purpose.

Make your own art

Hopefully, visitors will be inspired by the Artists in Residence, and want to become creative themselves. SAM could provide an opportunity for visitors to make their own art. This opportunity could be delivered in a programmed and un-programmed manner, within the Artist's Studio.

Programming could offer workshops or simple demonstrations and assistance as required. Non-programmed opportunities could provide simpler ways to perform less skilled approaches, and approaches not creating a risk to the building and its contents.

Figure 5.9 Make your own art could feature programmed, facilitated sessions such as making simple ceramics



Figure 5.10 Make your own art could share Indigenous art-making skills



Children's Gallery

A children's gallery is an essential component to attracting young families and giving young children an opportunity to independently make their own art, or make it with friends or family members. The children's space will create an opportunity for drop in art play for parents with children and with the supervision of a facilitator.

The room would be decorated to reflect the young age group and help establish a creative and fun environment. The opportunities to make art here would be relatively clean and not involve liquids. We recommend a space of 100m².

Figure 5.11 Children's Gallery induced parent-child interaction and child self expression



The Mystery Trail

The Mystery Trail could be a challenge route specifically designed for young children. A challenge could be established and the route and its outdoor artwork / sculpture could provide clues that combined, reveal the mystery.

It is here that visitors could learn about the significance of 'Country' to the Indigenous people. This could be done via independent or Indigenous guided experience.

The Mystery Trail could interpret a local Indigenous story and the natural landscape via outdoor sculptures. Children could climb on the sculptures to find the hidden clues. Each sculpture could have its own interpretation for visitor use, regardless whether they are on the mystery trail or not.

The experience should be educational, and there could be two different levels of challenges – one for 5-7 and one for 8-10 year olds. The experience should take approximately 30 minutes, and not be less than 20 minutes. The route could take children through bushland to the Goulburn River, so that the River becomes the ultimate focus of a visit to SAM.

The Mystery Trail could be a chargeable experience, where the charge provides participants with a kit to help them find and decode the clues. The kit could include a map, compass, magnifying glass and other cost effective elements that help find the clues.

Successful participants could receive a certificate, prize (eg fridge magnet) or naming on the SAM website / Facebook page.

Figure 5.12 The Mystery Trail could be undertaken solo, with family or friends.



Figure 5.13 Examples of the use of nature



Figure 5.14 Example of local Indigenous artwork that could be adapted into a larger format for the Trail



Figure 5.15 The Mystery Trail would be a challenge that children want to solve



Community development facilities

Community development is central to the purpose of a new art museum. Stakeholders were particularly keen for a new art museum to play a more active role in building the capacity of local artists.

This need was particularly strong within the local Indigenous sector, which stressed the opportunity for education to offer healing, personal growth, professional and communication development, concurrently with the development of artistic skills.

There was also a strong undercurrent for a new art museum to provide opportunities for people to mix and socialise to welcome new arrivals. This was particularly strong from the Indigenous sector, who stressed the importance with a new art museum of the welcoming opportunity, building relationships, collaborating and sharing different ways of seeing the World across ages and cultural backgrounds.

A set of spaces are proposed to provide various forms of community development. These spaces have been located so that they can be accessible outside normal Museum hours.

Workshop space

Workshops that bring people from various cultural backgrounds in contact with art making and the collection have already proved popular at the current SAM. It is intended that similar workshops will be run where “people can make their own art” on a more regular basis drawing participants from all age groups, from the broader community, engaging the Artists in Residence and local artists as instructors in these enjoyable and socially engaging, educational activities. There could also be for formal training opportunities for artists in to develop artistic and business skills, and partnerships to be developed with existing tertiary institutions.

The workshop space could also be made available for small groups wanting to rehearse for performing arts events, which could later take place in the Great Hall.

The workshop space could be adjoining the Artist in Residence studio so that the two could be opened up to double the size of the space.

Meeting Place / Community Gallery / Friends Lounge

A meeting place is intended to provide a space for organisations such as Friends of SAM, the Shepparton Festival and the Shepparton Piano Competition and other relevant organisations to hold formal meetings.

It will also be designed as a community gallery where groups such as the Splinter Art group and Shepparton Textile Artists can hang exhibitions and where art that has been made in the workshops can be curatorially presented. The space will be accessible outside normal museum hours and booked for activities through central administration.

It is also envisaged that a small lounge area could be provided for the Friends of SAM.

Charges to cover management of the room could be applicable.

Auditorium

An auditorium for up to 80 people would also operate as a lecture theatre where Artists in Residence, visiting artists and scholars can contribute to a program of public lectures. The Auditorium could also show art films and potentially

host small festivals of film relevant to different ethnic groups. It could also function as a large community meeting venue.

Gallery Kaiela

Gallery Kaiela is a locally-based Indigenous community arts organisation already established and running successfully, with some 60 local artists participating. The current SAM provides opportunities and ongoing support to Gallery Kaiela in relation to both training and development of programs and artists – particularly in relation to working with schools.

A permanent home could be established at the new art museum that would enhance the experience of the Museum and acknowledge the second largest Indigenous community in Victoria. The New Gallery Kaiela would have a dedicated entry of its own and be designed for a footprint of 150m² to support a workshop, studio and retail / gallery display area. Gallery Kaiela would pay rent and a contribution to utilities and cleaning, and would continue to operate as an independent entity, with a number of partnerships with the new art museum.

Figure 5.16 Moving Gallery Kaiela to be a part of a new art museum could integrate many aspects of local Indigenous art making



Figure 5.17 Examples of local Indigenous art sold through Gallery Kaiela



Cafe

A museum café would be established that:

- provides a major meeting point for Shepparton locals;
- offers quality food and beverages;
- is restaurant and function licensed;
- is designed to actively encourage a gallery experience using high impact marketing displays to encourage repeat visitation to the new art museum.

The museum café could be located downstairs so that parents could let their children maximise the adjacent outdoor play space while still viewable and

under supervision – increasing parental relaxation and tendency to stay longer and eat / drink more.

The café could be focussed on a particular cuisine, such as Middle Eastern or North African and feature Indigenous cooking.

The café would be leased to a suitable operator. The operator would be responsible for marketing, bookings, operations, cleaning and security. It is also proposed that the lease to the operator, include both a fixed rental and rental as a share of sales.

It is also proposed to have a SAM themed function space / gallery. The Great Hall space could provide views of Victoria Park Lake. During the daytime the operator could close the doors into the Great Hall and still operate the outdoor area as additional café seating area – ideal for adults seeking a more private meeting space.

The café is positioned adjacent to a kitchen large enough to serve large functions in the Great Hall. Service to the Great Hall would be via the café, over a bar, and also by service staff serving drinks and canapés for when catering budgets allow.

Back of house

Back of house is the term used to describe areas that assist a new art museum to operate and that the public cannot access.

Loading

Loading in a high profile site will always to be visible to some degree, as both it and the entry must be on the road-side of the building. How the building is designed in detail will prevent one from being visible from the other.

The museum is designed so that loading can take place at any time of day. Once unloaded, works are moved to the storage area. When an exhibition is being installed in any of the galleries the works can be delivered to that gallery in crates outside of museum opening hours.

Once in these galleries, the works can be installed while the museum is open to the public, without the public being aware of the installation taking place. Installation of works in the central core space can only take place outside of public hours. This is acceptable, and most galleries have spaces in them that can only be worked in outside of opening hours

(like the entry spaces at NGV Contemporary and NGV International).

Storage facility

If the entire collection were to be stored a new art museum would require approximately 275m² of core storage area, comprising:

- 190m² objects (excluding ceramics on display);
- 48m² hanging racks;
- 7m² framed works;
- 5m² plan cabinet (flat paper works);
- 8m² large flat works (could hang if there was space);
- 4m² objects (could go on shelves if there was space).

Storing the offered Carrillo Gantner Indigenous collection (when not on exhibition) would require up to 300m². Another 100m² could be required for growth of the collection. An additional 85m² would be required for ancillary needs.

Storage could be undertaken on-site or offsite. The most obvious off-site storage could be adapting the existing SAM building. The building has the relevant size, security, and climate control in place, and

there is enough space to enable long term collection growth.

The advantage of off-site storage is reduced capital cost for a new art museum building, particularly if the current SAM building is adapted and repurposed for this use. However, there may be other more appropriate and commercially beneficial uses for the current SAM building, and its reuse was not a prescribed part of this project. The long-term disadvantage of this option is that the transportation of the collection between two sites increases risk to the collection (damage or loss) and introduces higher operational costs.

Consequently, most galleries and art museums strongly recommend storage on-site. So a storage area for the permanent collection is proposed as part of a new art museum. Note that the storage area does not need to accommodate all of the current ceramics collection, as much of this is on permanent display in the glazed wall. There is also a separate space for crate storage. This means that 600m² is more than adequate.

The store has been located on the second level accessible by the service lift. This allows for efficient operation of the building. It also gives the public

ease of access to it, for the conducting of pre-booked storage facility tours.

Conservation and preparation area

The conservation and preparation area has been located next to the large storage of art space. It is directly accessible to the gallery areas so that works can be prepared in this space prior to exhibitions. . Works to be loaned from the collections would also be packed in this space.

This dry space needs to be clean and dust free where a visiting conservator could undertake minor restoration or mounting and framing of works of art.

Inside the room the fit out would include dedicated lighting, appropriate and purpose built benches, large drawers for materials, a large movable table with lockable casters and trolleys to move art works with as well as trolleys for the movement of crates.

Other Back of house functions

The store on Level 1 is for furniture and moveable plinths.

The staff offices and staff room are located on Level 4, giving the gallery staff an ideal working environment. This area is accessible by lift, or via

the grand and generous staircase that rises up through the Great Hall.

Ground Level has dedicated toilets and a dedicated kitchen adjacent to the café and function space with the enclosed outdoor child play area.

5.6 Capital costs and funding

Development assumptions

Assumptions supporting building development costs were established using standard industry square metre pricing. These assumptions are presented in **Attachment F**. Costings for specific fit out elements were checked with suppliers (see **Attachment F** for detail on collection storage pricing). The development costs assume:

- Externally provided project management;
- Extra over regional development costs are valued at 10% of construction cost
- Construction will commence within three years and be completed as a turn key within two years
- There is no specific grant leverage for some development costs (such as energy saving, water saving or waste managing initiatives), meaning if this is achieved using the \$810,000 allocated this could save the project costs.
- SAM staff will assist with transfer of the operation to new premises (though removalists will undertake the heavy work)
- SAM staff redundancy is covered by Council's existing allowances

- There is no cost associated with the Shell lease area, as closure was forecast as a separate initiative to this project
- The cost of transferring and establishing the Shepparton Visitor Information Centre is not costed in this budget
- There is no cost associated with making good the building space taken up by the existing SAM
- Transfer of any art donations into a new art museum building, and insurance while in transfer, will be covered by the donor
- Special insurance for transferring the existing SAM collection will be covered by existing policies

Perhaps the most speculative assumption used to formulate the development costs is the price per square metre to build the exhibition spaces. Prices typically range between \$3,000/m² and \$4,000/m². However, some recent gallery developments in metropolitan areas have spent as much as \$4,500/m².

We have chosen a rate of \$3,500/m² as a 'middle ground' proposition that we believe can be justified for a new art museum whose experiential focus is

not entirely exhibitions, but a blend with more interactive and immersive experiences.

Development costs

The development has been costed at \$34.5M, excluding gst. **Table 5.1** provides a summary of development costs by major source, and proportions of the total cost.

Attachment F provides a detailed breakdown of these costs over several pages.

While the development requires \$34.6M, **Section 5.7** identifies an operating deficit and a recommendation for the SAM Foundation to raise approximately \$8M to support an investment account, from which drawings would support the deficit. Therefore, the total development cost to be able to activate a new art museum is \$42.6M.

Table 5.1 Summary of development costs

Major cost elements	Cost	% Construction cost	% Total cost
Building – Ground level	\$3,146,000	14%	10%
Building – Level 1	\$2,315,000	10%	7%
Building – Level 2	\$1,675,000	7%	5%
Building – Level 3	\$1,050,000	5%	3%
Building – Level 4	\$920,000	4%	3%
Building – Level 5	\$480,000	2%	1%
Total building cost	\$9,586,000	42%	29%
Internal building fitout costs	\$3,380,000	15%	10%
Building – extra overs	\$6,645,400	29%	20%
Outdoor areas	\$2,950,000	13%	9%
Transfer of old SAM to new art museum	\$100,000	0%	0%
Preopening / launch marketing	\$150,000	1%	0%
Total construction cost	\$22,811,100	100%	69%
Project Management	\$750,000	3%	2%
Extra over regional development costs	\$2,281,110	10%	7%
Architect and consultants	\$4,459,570	19%	13%
Development and building applications	\$50,000	0%	0%
Contingency	\$3,074,234	13%	9%
Total cost	\$34,566,569		100%

Funding development costs

Figure 5.18 presents funding sources as:

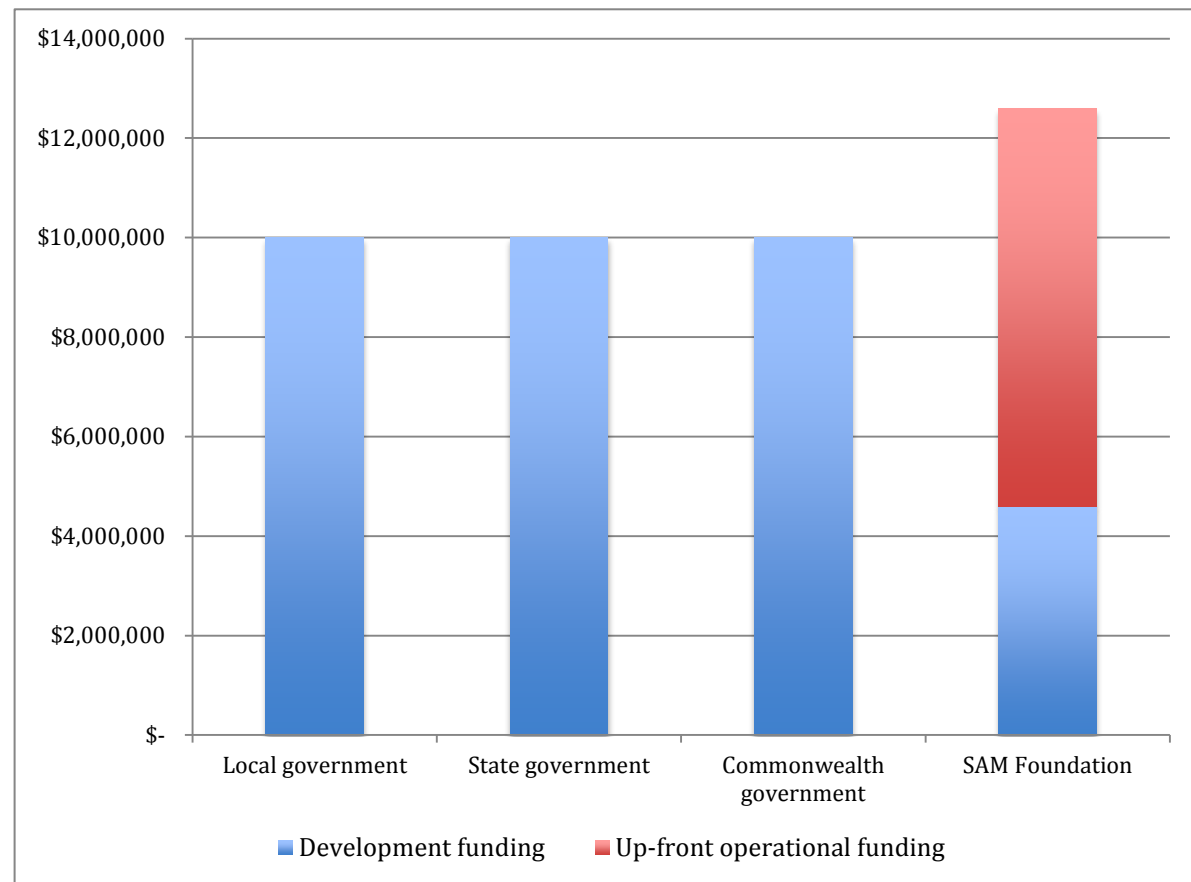
- the three levels of government each providing \$10M for development; and
- the SAM Foundation providing \$12.6M, of which \$4.6M goes to development and \$8M goes to an investment fund.

Funding support must be timed so that all grants run on similar if not the same timeframes. The case for development funding starts with Shepparton Council, who would need to borrow \$10M.

Council's usual loan structure is a half-yearly interest and principal payment. The principal payments increase as the interest amounts decrease over the life of the loan. Council would budget for each principal and interest payment on an annual basis (the principal payment while not in the operating budget would be taken out of any surplus before the capital budget is developed).

Council can access debt for a \$10M loan facility at between 5.2% and 5.4%. Assuming a 15 year facility, total interest repayment on top of the principal repayment would be approximately \$4.7M, meaning a total cost of \$14.7M.

Figure 5.18 Proposed funding of \$42.6M cost to develop and activate the proposed new art museum for Shepparton



5.7 Operating costs and funding

Visitation forecast

To develop operating forecasts, we first forecast visitation and visitor mix. **Attachment G** provides an account of the approach used and the detailed forecast visitation. We believe that by Year 5 a new art museum in Shepparton could generate visitation of approximately 100,000 per annum, with a higher proportion of locals to tourists, but with most medium term growth coming from tourists. Further, while the key initial markets are likely to be cultural tourists, it will be Grey Nomads and young families that generate long-term growth.

The following account of potential visitation is lifted from **Attachment A5-6** at the request of Greater Shepparton City Council . This information is more speculative than **Attachment G**, and not entirely consistent with the final forecast provided in **Attachment G**.

Table 5.2 A new art museum as a tourism “success” – tourists to Shepparton visiting old and new art museum (note this is not the proposed forecast, but a speculation from an early report, inserted at the request of Greater Shepparton City Council)

	Share of domestic overnight visitors who visit SAM	Estimated domestic overnight visitors	Share of domestic day trip visitors who visit SAM	Estimated domestic day trip visitors	Share of international visitors who visit SAM	Estimated international visitors	Total tourist visitors to SAM
Current SAM	2.7%	6,400	1.0%	6,600	43%	4,400	17,400
New art museum	10.6%	25,200	6.4%	44,600	50%	5,200	75,000

The current SAM has a far smaller role in tourism to Shepparton than museums and art galleries have in other comparable regional Victorian cities. If a new art museum meant that tourism to Shepparton received the same share of overnight domestic, domestic day trip visitors and international visitors going to museums and art galleries as the average of Benalla, Bendigo and Ballarat this would provide dramatically increased tourist visitation to SAM. If, in line with SAM survey results in **Table 5.2**, an assumed 60% of the increased visitation to a new art museum was incremental tourism to Shepparton then this translates into a noticeable lift in visitation to Shepparton from the new art museum.

Table 5.3 provides a context to what visitation to a new art museum as a tourist “success” would look like by comparing the resulting visitation Greater Shepparton City museums and art galleries with the current visitation to museums and art galleries in the other regional cities.

Notes: TRA Regional Expenditure profiles report that the average visitor to the Goulburn region spent \$334 on a domestic overnight visit, \$98 on domestic day trip and while this data is not published for international visitors to Goulburn, the average spend in Bendigo region is \$500 by an international visitor.

Under the conservative assumptions above the estimated boost to annual tourist spending in Shepparton is \$6.25 million due to a new art museum.

To provide a context to what visitation to a new art museum as a tourist “success” would look like, **Table 5.4** compares the resulting visitation Greater Shepparton City museums and art galleries with the current visitation to museums and art galleries in the other regional cities.

Notes: Population statistics come from the ABS Census 2011 by local government area.

Table 5.3 Impact of a new art museum as tourism “success” – on annual tourist numbers & spend in Shepparton (note this is not the proposed forecast, but a speculation from an early report, inserted at the request of Greater Shepparton City Council)

Visitation type	Increase in visitors to Shepparton	Increase in visitor expenditure in Shepparton
Domestic overnight tourism	11,300 over the base of the average of the last five years of 238,000 (4.7%)	\$3.8 million (4.7%)
Domestic day trip visitors	22,000 over the base of 675,000 (3.3%)	\$2.2 million (3.3%)
International visitors	500 over the base of 10,300 (4.9%)	\$0.25 million (4.9%)
Total	33,800 from 923,000 (3.8%)	\$6.25 million (4.1%)

Table 5.4 Comparison of a new art museum as a tourism “success” – with visitation to museums and art galleries and the population of other key Victorian regional cities (note this is not the proposed forecast, but a speculation from an early report, inserted at the request of Greater Shepparton City Council)

Victorian regional cities	Tourist visits to Museums and Art Galleries	Population	Ratio of tourist visits to museum and art galleries to population
Greater Shepparton City (current)	17,400	60,448	29%
Greater Shepparton City (a new art museum tourism “success”)	75,000	60,448	124%
Bendigo	178,400	100,617	177%
Ballarat	147,800	93,502	158%
Benalla	21,500	13,648	158%

Even an increase in Shepparton to the average of tourist visitation to museums and art galleries of the three cities means that relative to city population tourist visitation to Shepparton museums and art galleries would continue to trail that of the other three regional cities. This reflects that the underlying tourism intensity of Shepparton is lower than the three regional cities that share a very similar profile of the tourists they receive.

Again comparisons are made with the three other inland regional cities of Ballarat, Bendigo and Benalla. Greater Shepparton has a population of around two thirds that of Ballarat or Bendigo and over four times that of Benalla.

Shepparton has a strong Aboriginal heritage that continues to today (see **Table 5.5**). While it is understood that the Census estimates of people with Aboriginal heritage understates the true share as people under report to Census collectors, it is the case that Shepparton has nearly three times the share of Aboriginals in its population than the average of the other three regional cities. Compared to Victoria as a whole Shepparton has around five times the share of Aboriginals in its population.

Table 5.5 Comparison of languages spoken within the Region and comparable regional cities

LGA	Aboriginal	Speak English not well or not at all	Speak other language than English at home	Migrant since 2000
Ballarat ©	1.1%	0.6%	4.0%	2.7%
Benalla (RC)	1.1%	0.3%	2.9%	1.4%
Greater Bendigo	1.3%	0.5%	3.0%	2.0%
Average of 3 other cities than Shepparton	1.2%	0.5%	3.5%	2.3%
Greater Shepparton	3.3%	2.9%	12.3%	5.3%

Consultations highlighted that Shepparton has a high proportion of people who don't speak English well or at all. Shepparton is particularly disadvantaged by having nearly six times the average share of the other three cities in people not speaking English well or at all.

Similarly, Shepparton has over three times the share of the population who speak other languages than English at home.

Shepparton also has more than double the share of migrants since 2000 in its population than the other three regional cities

In July 2014, unemployment in the Shepparton region was 9.2%, well above the regional Victoria average of 6.9%. Unemployment in the Ballarat and Bendigo regions was dramatically lower at 4.1% and 6.2% respectively. While unemployment in Shepparton in July 2014 was less than for Geelong at 10.5% and Warrnambool and the South West at 9.5%, Shepparton's unemployment has been consistently high for a number of years.

The August 2011 Census recorded that Shepparton was more reliant on Manufacturing for employment with 12.7% of all jobs due to this industry. As Australian based manufacturing has faced continuing

pressure from imports, manufacturing employment levels have fallen in most areas of Australia. To be highly reliant on manufacturing employment is, as Geelong has recently found, to be a major risk factor for a regional economy. The other inland cities of Ballarat (10.9%), Benalla (11.8%) and Bendigo (10.3%) have lower reliance on manufacturing employment.

The 2011 Census also found that tourism provided 5.6% of total jobs in the Greater Shepparton City, a lower share than in Ballarat (8.7%), Benalla (6.9%) and Bendigo (7.2%). This highlights that Shepparton City could reduce unemployment noticeably by increasing tourism to the average of the three other regional cities

Current financial performance

Detailed financial analysis of the current SAM was undertaken, along with an assessment of indirect support provided by Council. Council currently underwrites direct operating costs by approximately \$1M per annum in cash, and a further \$200,000 – 250,000 per annum in indirect support of the operation.

To build revenue forecasts, a changing structure and a set of operating assumptions were constructed for a new art museum (see **Attachment G**).

The major source of ongoing revenue supporting the forecast was support from Shepparton Council, in the form of:

- \$1,000,000 in base support, indexed at 3% or current CPI per annum (whichever was higher);
- rent free use of the land and building as long as its principal use was as an art museum building owned by the Council;
- coverage of depreciation of the building, and associated major assets fixed to the property.

New grants were treated as speculative, and were left out, considered as financial upsides, should they be secured at all. Council may decide to rent out the former SAM space as office, and write off this income against its financial contribution to SAM.

Expenditure assumptions are also documented in **Attachment G**.

Forecast profit and loss

Table 5.6 provides a 10-year forecast for a new art museum. The forecast was built on the assumptions that:

- Operational revenue would increase by 5% per annum;
- Indirect revenue would increase by 4% per annum;
- Direct expenses would increase by 3%;
- Indirect expenses would increase by 2.5%.

Detailed breakdown can be found in **Attachment G**.

The forecast suggests that in Year 3, when the business is fully implemented and stabilised:

- Revenue will be approximately \$2M
- Direct expenses will be approximately \$0.55M
- Indirect expenses will be approximately \$1.85M (twice total revenue)
- To break even in Year 3, the business will need to find another \$319,492 to fund the Year 1 deficit

Though the full time staff structure can be considered reasonably lean and efficient, it is this high cost that prevents the business from breaking even on its own.

Table 5.6 Profit and Loss forecast for a new art museum in Shepparton (Years 1 – 10)

Forecast	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue										
Direct Revenue	\$455,361	\$530,514	\$628,477	\$659,901	\$692,896	\$727,541	\$763,918	\$802,114	\$842,219	\$884,330
Indirect Revenue	\$319,609	\$319,609	\$319,609	\$332,393	\$345,689	\$359,517	\$373,897	\$388,853	\$404,407	\$420,584
Total Revenue	\$774,970	\$850,123	\$948,086	\$992,294	\$1,038,585	\$1,087,057	\$1,137,815	\$1,190,967	\$1,246,627	\$1,304,914
Expenses										
Direct Expenses	\$417,235	\$474,040	\$554,719	\$571,361	\$588,502	\$606,157	\$624,341	\$643,072	\$662,364	\$682,235
Indirect Expenses	\$1,677,226	\$1,757,166	\$1,857,642	\$1,904,083	\$1,951,686	\$2,000,478	\$2,050,490	\$2,101,752	\$2,154,296	\$2,208,153
Net Profit / Loss	-\$1,319,492	-\$1,381,083	-\$1,464,276	-\$1,483,150	-\$1,501,602	-\$1,519,577	-\$1,537,016	-\$1,553,857	-\$1,570,033	-\$1,585,474

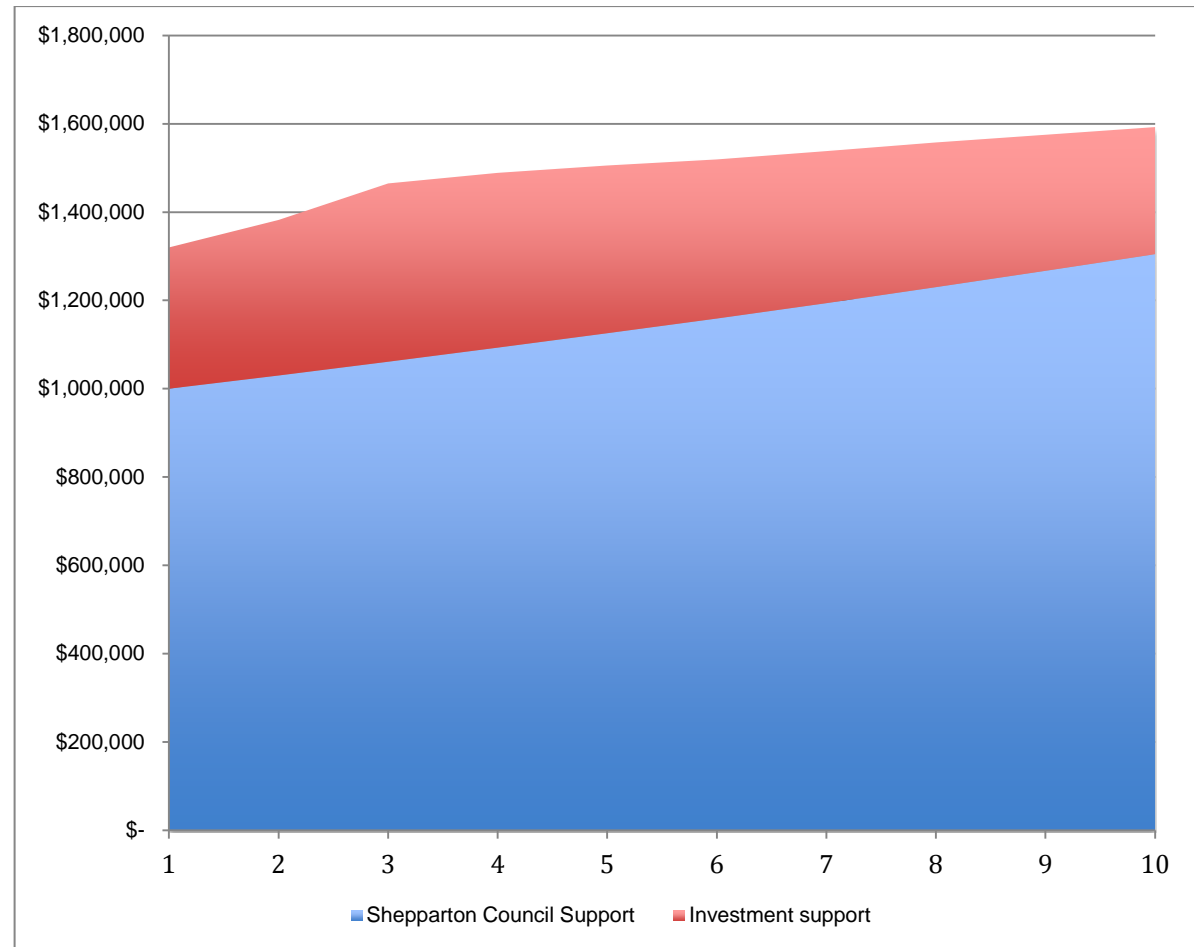
Financial feasibility

A new art museum in Shepparton could be feasible if an additional income of approximately \$450,000 per annum can be secured. Operational business revenue cannot achieve this, and grants, sponsorships and donations should be used as value adding rather than gap filling. Secure approaches to break even are:

- Increasing the Council contribution – by combining a financial argument that indirect support of \$250,000 is no longer required, that there is an upside of commercial use of the former building, and that a new Visitor Information Centre need not be built (though Council will continue to be responsible for its operating costs)
- The SAM Foundation establishes an investment account of approximately \$8M that can yield a minimum return of 4% per annum, which is drawn down to fund the deficit.

Figure 5.19 presents the relative contribution of the fixed / indexed Council support and the investment account. Though the Net Loss increases marginally each year, the draw on the investment account decreases over time.

Figure 5.19 Proposal to fund the deficit using indexed Council support starting in Year 1 at \$1M, supported by an investment yielding 4% per annum over 10 years



Ultimately, the financial feasibility of a new art museum for Shepparton rests with a partnership between Council and the Foundation, with:

- Council being prepared to fund
 - the \$14.7M development contribution over 15 years
 - \$1M annual operational support package (indexed for CPI)
 - peppercorn rent for use of the building and immediate surrounding area; and
 - loan of the collection to the new company to manage, conserve and exhibit; and
- The SAM Foundation being capable of raising \$8M over 2-3 years to operate an investment account that supports the operating deficit.

6. Benefits

6.1 Introduction

The net benefits after costs to the Victorian community were assessed using cost benefit analysis. This analysis is attached to this report.

A cost benefit analysis approach requires an answer to the key question of: 'What is the community's willingness to pay for a new art museum and does this exceed the costs to the community?' Ideally, assessing the community's willingness to pay for a new art museum requires estimates of dollar values at three steps that can be summed to provide an overall measure of community willingness to pay for a new art museum in Shepparton. However, in practice identifying the dollar value of some benefits is problematic and they can only be assessed qualitatively and their relative significance described.

The cost benefit analysis was based on the "Economic Evaluation for Business Cases Technical Guidelines" from the Victorian Department of Treasury and Finance (August 2013 edition). These technical guidelines are drawn up to help the State Government decide whether or not to invest State Government resources in a wide range of projects including those

like a new art museum. The core visitation benefit is assessed using a Travel Cost Model to estimate willingness to pay to visit.

The cost benefit analysis compares the assessed benefits that could be valued in dollar terms with assessed costs to the community using an appropriate discount rate to derive an estimate of net present value excluding non-quantifiable benefits.

As the net present value of the recommended option is \$9.15M after its first ten years of operation, the project provides an increase in welfare to the Victorian community, even without including the significant non-measurable benefits. Of these total community benefits a very high share goes to the local Shepparton community.

6.2 Economic benefits

Summary of economic benefits

The economic impact of a new SAM was found to be strongly positive for Victoria as a whole and to be a far superior option to the do-nothing-option of retaining the existing SAM. This conclusion followed use of a detailed cost benefit analysis to test whether the project added to the welfare of the Victorian

community. Cost benefit analysis is the method recommended by Victorian Department of Treasury and Finance for assessing major project investments.

While some benefits from the new SAM could not be monetised and would be additional, the cost benefit analysis found a positive net present value of the project at the end of ten years of operation after all costs of \$9.15m. As this is a net community benefit and well above the estimated net cost to the Victorian community of the do-nothing-option of the existing SAM of a negative \$10.73 million, the cost benefit analysis strongly supported the project. The net benefit also becomes more strongly positive over a longer period than 10 years. The key benefits from the new SAM are to visitors to the new SAM who are residents of Shepparton and neighbouring areas. Visitation benefits were estimated using a travel cost model as explained in more detail in the economic evaluation attached to the main report. The model used recognises that art galleries like major national parks normally have free access and a key measure of willingness to pay for the facility is the number of visitors and the distances and hence the cost of travel to visit. In developing the travel cost model it was calibrated against visitation data over recent years from the existing Art Gallery of Ballarat and Benalla

Art Gallery as a check on the validity of the methodology and both of these galleries were found to provide greater community benefits from visitation than the existing SAM. Reflecting conservative visitation forecasts within the financial modelling and cost benefit analysis, the positive net present value for a new SAM over its first ten years was estimated on the basis of annual visitation forecasts slightly higher than the visitation performance in recent years of the Benalla Art Gallery and below that of the Art Gallery of Ballarat.

Cost benefit analysis includes the economic value from a whole of State perspective of construction benefits, however, there is also interest in this dimension of the economic evaluation as it provides a larger and more short term regional economic impact. Greater Shepparton City Council staff used REMPLAN modelling to estimate the economic benefits for the region of the construction stage. It is recognised that the input-output estimated impacts derived from REMPLAN for construction are more relevant to Shepparton than most other areas of Australia due to the comparatively depressed state of the Shepparton region economy. This reflects that construction of a new SAM will have less significant crowding out of other regional economic activity than

a similar construction project in a region with lower unemployment. It is estimated that 80% of a total \$34.5 million construction cost is likely to flow to businesses based in Shepparton. This equates to a direct increase in output of \$27.6 million and a total output impact of \$58 million after allowing for all multipliers over the two year construction period. This increase in output is estimated to directly create the equivalent of an average of 36 jobs and a total of 90 jobs after all multiplier effects for the duration of the two year construction period.

The cost benefit analysis takes a more general approach than focussing on directly measuring tourism benefits to Victoria or Shepparton from the existing or potential new SAM. This reflects that regional tourism analysis is not recommended by the Victorian Department of Treasury and Finance for the overall economic evaluation of major projects. Nevertheless, while the net tourism benefits for the State of Victoria from a new SAM are small, there is understandable local Shepparton region interest in estimates of the economic value of tourism benefits to the Shepparton region. In practice, the tourism benefits for the Shepparton region from a new SAM are comparatively modest, owing to Shepparton's access disadvantages compared to

regional cities closer to Melbourne within easier day trip distances or that lie beside significant national highways. The major benefits of a new SAM go to locals and residents of nearby areas as reflected in the cost benefit analysis. Of forecast visits to the new SAM, in year 1 79% are expected to be from Shepparton locals or from nearby day trippers, while in year 10 of the new SAM, 71% of visitors are expected to be from local residents or nearby day trippers. Assuming that 50% of additional overnight tourists who visit the new SAM compared to those that visit the existing SAM come to Shepparton because of the new SAM, then the new SAM brings an additional 3,000 overnight visits to Shepparton in Year 1 and a more significant additional 10,500 additional overnight visits to Shepparton by year 10. If it is also assumed that the overnight visitors who come to Shepparton because of the new SAM have the same average length of stay as existing overnight visitors, then this increases visitor nights in Shepparton by 7,000 visitor nights or just over 1% in Year 1 and 23,500 visitor nights or 4% in Year 10. Finally, if it is also assumed that the overnight visitors who come to Shepparton because of the new SAM have the same average spend as existing overnight visitors, then this increases overnight tourist

spend in Shepparton by \$900,000 in Year 1 and by \$3.1 million in Year 10. The number of tourism related jobs created by the new SAM is estimated on the basis of the Victorian regional tourism satellite account and regional expenditure per tourism job estimates. The new SAM is estimated at Year 10 to create 23 direct tourism jobs and 46 total (direct + indirect) tourism jobs. As was expected the local job impact during construction is higher than the ongoing regional job impact of a new SAM from tourism benefits.

Benefits by KPI – Shepparton gains a new iconic attraction

This source of benefits is estimated to provide 45% of total benefits from the project.

KPI 1: Providing a gain in net welfare to the people of the State of Victoria

This is the major key performance indicator for the overall project. The revealed preference model provided in the cost benefit analysis will allow updated estimates to be prepared of consumer willingness to pay for the new art museum, as visitation data becomes available from operations.

This will require professional sampling of all visitors to estimate the origin of all visitors, to ascertain whether they are on day or overnight trips and if travelling overnight if staying in Shepparton or elsewhere. This surveying should also ask if the visit by tourists to Shepparton is due to visiting the SAM or other reasons. This information will also be essential information for marketing purposes but is critical to evaluating the overall cost benefit return of the project as delivered.

The KPI targets for the net benefit to the community for the first 10 years are set out in the cost benefit analysis (**Attachment H**).

KPI 2: Providing a direct boost to the economy through construction

The construction of this project will be a major economic generator over the two year construction period.

Using the REPLAN methodology, the Investment Attraction Department of the Greater Shepparton City Council provided the following estimates of economic impact due to construction. While this economic impact is beyond the traditional cost benefit analysis as recommended by the Treasury and Finance Guidelines, it is recognised that the input-output

estimated impacts from construction are more relevant to Shepparton than most other areas of Australia due to the depressed state of the Shepparton regional economy. This reflects that construction of a new art museum will lead to less significant crowding out of other regional economic activity than would a similar construction project in a stronger regional economy.

Impact of construction on output

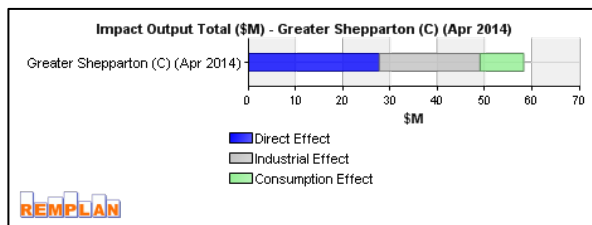
It is estimated that 80% of a total \$34.6 million construction cost is likely to flow to businesses based in Shepparton. From this direct increase in output of \$27.6 million it is estimated that the demand for intermediate goods and services would rise by \$21.3 million. This represents a Type 1 Output multiplier of 1.773. These industrial effects include multiple rounds of flow-on effects, as servicing sectors increase their own output and demand for local goods and services in response to the direct change to the economy.

The increases in direct and indirect output would typically correspond to the creation of jobs in the economy. Corresponding to this change in employment would be an increase in the total of wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on

consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated at \$9.2 million.

Total output, including all direct, industrial and consumption effects is estimated to increase by up to \$58.1 million. This represents a Type 2 Output multiplier of 2.107.

Figure 6.1 Impact of construction on output



Impact of construction on Employment

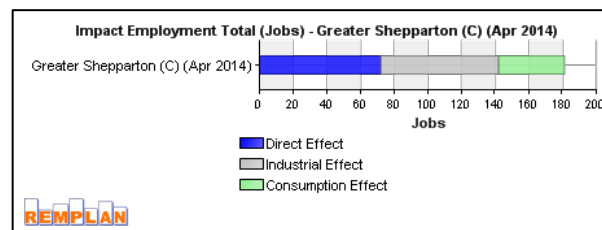
From a direct increase in output of \$27.6 million we would expect the corresponding creation of direct jobs to be an estimated at 72 jobs. From this direct expansion in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the gain of a further 70 jobs.

This represents a Type 1 Employment multiplier of 1.972.

The increase in direct and indirect output and the corresponding creation of jobs in the economy are expected to result in an increase in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated to further boost employment by 39 jobs.

Total employment, including all direct, industrial and consumption effects is estimated to increase by up to 181 jobs. This represents a Type 2 Employment multiplier of 2.514.

Figure 6.2 Impact of construction on employment



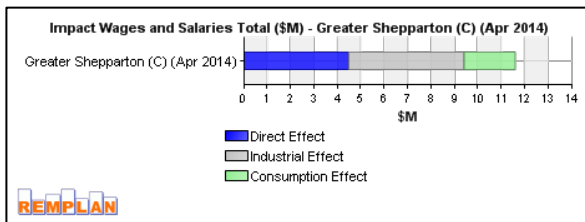
Impact of construction on Wages and Salaries

From a direct increase in output of \$27.6 million it is estimated that direct wages and salaries would increase by \$4.5 million. From this direct expansion in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in the gain of a further 70 jobs and a further increase in wages and salaries of \$4.9 million. This represents a Type 1 Wages and Salaries multiplier of 2.106.

The increase in direct and indirect output and the corresponding creation of jobs in the economy are expected to result in an increase in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further boost employment in sectors such as retail therefore further increasing wages and salaries by \$2.2 million.

Total wages and salaries, including all direct, industrial and consumption effects is estimated to increase by up to \$11.6 million. This represents a Type 2 Wages and Salaries multiplier of 2.596.

Figure 6.3 Impact of construction on wages



Impact of construction on Value-Added

From a direct increase in output of \$27.6 million the corresponding increase in direct value-added is estimated at \$8.8 million. From this direct expansion in the economy, flow-on industrial effects in terms of local purchases of goods and services are anticipated, and it is estimated that these indirect impacts would result in a further increase to value-added of \$8.5 million. This represents a Type 1 Value-added multiplier of 1.969.

The increase in direct and indirect output and the corresponding boost to jobs in the economy are expected to result in an increase in the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption

effects under this scenario are expected to further boost value-added by \$5.1672 million.

Total value-added, including all direct, industrial and consumption effects is estimated to increase by up to \$22.5 million. This represents a Type 2 Value-added multiplier of 2.556.

Figure 6.4 Impact of construction on value added

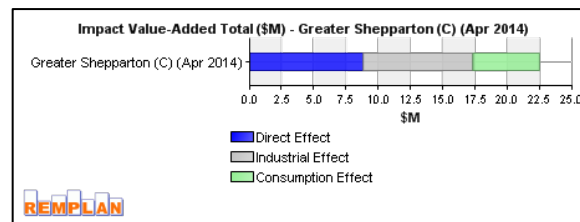


Table 6.5 Summary of economic Impact of construction

Impact Summary	Direct Effect	Industrial Effect	Consumption Effect	Total Effect	Type 1 Multiplier	Type 2 Multiplier
Output (\$M)	\$27.600	\$21.324	\$9.220	\$58.143	1.773	2.107
Employment (Jobs)	72	70	39	181	1.972	2.514
Wages and Salaries (\$M)	\$4.459	\$4.931	\$2.184	\$11.574	2.106	2.596
Value-added (\$M)	\$8.791	\$8.515	\$5.167	\$22.473	1.969	2.556

KPI 3: Providing a new reason for tourists to visit and stay longer

The economic evaluation highlighted that this project would produce a small but worthwhile increase in tourism to the Shepparton region, off its current low base.

If, as is assumed in the economic evaluation, 75% of the additional tourists who visit a new art museum are incremental tourists to Shepparton, this would increase total tourist visits to Shepparton by around 40,000 per annum or 6%. This would also increase visitor spending by around \$5 million per annum.

One of the key distributional impacts with a new art museum is the potential for creation of a number of jobs in tourist servicing. Around 5% of Shepparton’s current employment is based around tourist spending (ABS Census 2011, Table Builder). While tourism

employment is sometimes criticised as low wage and part time, this ignores that tourism jobs are:

- Often the first jobs for young people – providing training in employment skills
- Often the first job from unemployment
- Sometimes high income for managerial roles and for some of the many tourism dependent small businesses.

Tourism Research Australia data from the national surveys alongside the more accurate data recommended from the new art museum will allow monitoring of performance against this KPI.

KPI 4: Providing an indirect boost to business and consumer confidence in the region

A key goal of this project is to help change perceptions of the Shepparton brand. Council currently has a consultancy evaluating brand awareness. It is recommended that this KPI be measured by future surveys of the Shepparton brand asking about the influence of the new art museum in changing perceptions.

KPI 5: Providing a catalyst for further investment in tourism

A key aspect of changing perceptions of Shepparton is that the new art museum encourages a range of related tourism industry investment.

Current average tourist accommodation occupancy rates in Shepparton are low, with supply dominated by older style 2-3 star motels. There is potential for a new art museum to foster increased investment in upmarket properties over time. Visitation estimates in the economic evaluation suggest that in the first year of the new art museum, overnight visitors to Shepparton who visit SAM will increase by 6,000 or nearly 50% compared to overnight tourists to the current SAM. By the 10th year of operation, the increase in overnight tourists to Shepparton who visit SAM is nearly 20,000 or over 150%.

Monitoring KPI 3, along with monitoring Shepparton tourist accommodation and tourist attraction investment, will monitor this KPI.

6.2 Cultural life of the community is enriched

This source of benefits is estimated to provide 40% of total benefits from the project.

KPI 1: Providing a meeting place for the multi-

Cultural community

The new art museum is designed to become the key meeting place in Shepparton. Some 80,000 visitors are forecast to engage in social activities, made up of:

- 70,500 visitors to the lakeside café;
- 6,500 visitors to functions
- 3,000 visitors to community meetings in the gallery meeting room and Friends of SAM lounge
- 800 visitors to lectures in the auditorium

These meeting spaces will fuse socialisation, business, art and the natural environment of Shepparton, to provide a major asset for the city to become recognised as a key part of the city's quality of life.

KPI 2: Providing increased recognition of Indigenous art

The new art museum has been offered, as a donation, one of the largest collections of Indigenous art owned in Australia. Much of the collection has not been publicly viewed before.

The establishment of the Homecoming Gallery is designed to exhibit some of this collection, and interpret its significance from an Indigenous perspective. Members of the Yorta Yorta Nation

through Gallery Kaiela could be involved in the interpretation of the collection.

This KPI could be measured through visitation and visitor monitoring, revealing the impact of sharing and interpreting the collection.

KPI 3: Developing Indigenous arts industries in the region

There is significant opportunity for a new art museum to partner with the tertiary education sector. Artist training is forecast to reach approximately 3,400 people through:

- The integration of Gallery Kaiela with a new art museum would increase the reach of GK's training programs.
- The University of Melbourne forming a partnership with the new art museum involving: an internship program; a residency program; symposiums on relevant topics in the auditorium; research; and relationship development with local Indigenous representatives.
- La Trobe University forming a partnership with the new art museum involving an Indigenous / nature course off-site.
- The Mystery Tour would take visitors into the surrounding bushland and Goulburn River edge.

- The new art museum could also establish a link to the development of an Indigenous tour that uses the multi-use trail network to access country and Indigenous sites. This could be a separate experience run by a separate Indigenous business, promoted at a new art museum.

KPI 4: Integrating Indigenous and non-Indigenous art

The new art museum would have gallery spaces for the exhibition of Indigenous and multi-cultural artwork related to the region's population, and a Community Gallery for local art.

The Artist in Residence Program would source Indigenous and non-Indigenous people from various multi-cultural backgrounds, to produce art within the art museum. Visitors would be able to interact with these artists, to gain a first hand interpretation of their art and culture.

6.3 Shepparton becomes a State leader in Indigenous culture and art and art education for young Australians

This source of benefits is estimated to provide 15% of total benefits from the project.

KPI 1: Attracts major philanthropic donations

Attracting major philanthropic donations is a key objective of the changes to governance and funding responsibilities.

The philanthropic donations will be to:

- Support the capital cost of construction;
- Support the ongoing operating costs of the new art museum; and
- Provide donations and loans of privately held art works.

An early key measure of performance against this benefit, is the promised donation of the Carrillo Gantner Indigenous art collection.

KPI 2: Provides popular educational experiences in Indigenous art

The new art museum proposes to incorporate Indigenous art, Gallery Kaiela and explore the possibility of a Discovery Trail through the surrounding area, to reveal local Indigenous stories relating to the landscape.

KPI 3: Providing popular educational experiences in art education for the young

Several experiences have been specifically designed to meet the needs of young children, particularly:

- The Children's Gallery
- Make Your Own Art
- The Discovery Trail

These experiences have been market tested and refined using an online survey with mothers of these young children, first with a sample of 500 online, and then with several focus groups.

The performance of this KPI will be measured by surveying the age of visitors to more accurately report visits by children, as well as surveying children to report how they enjoy their visit and what they found stimulating. This information will be a core input to refining the experiences offered to children over time.

The proposal is largely consistent with the Victoria Lake Precinct Masterplan

Significant tailoring of the proposal has been done to make it largely compliant with the Lake Victoria Master Plan. This compliance will ensure there is broad appeal from the community and development approvals are relatively straightforward to achieve.

This is not a KPI, but it is an additional benefit of the project.

7. Risks

7.1 Governance best practice not implemented

Section 5.2 presented a proposed governance model for a new art museum in Shepparton. The model is based on an independent not for profit company limited by guarantee. Establishing the model is a fundamental part of the proposal, as it is critical to securing private sector financial support and the significant donation of the Carrillo Gantner collection. The model is also very important to State government's expectations for an operation that is run in a more innovative and business-like way to drive more captivating experiences, increased visitation and greater economic and social benefits.

7.2 Capital investment failure

Section 5.6 identified the project requires \$42.6M in development funding, and stressed that to fund development requires:

- all three levels of government would be required to provide significant funding; and
- funding support must be timed so that all grants run on similar if not same timeframes.

Section 5.6 presented a proposed funding mix across all three levels of government, with an optimum mix requiring:

- \$10M from Shepparton Council
- \$10M matching funding from the Commonwealth; and
- \$10M from the State government; and
- \$12.6M from the SAM Foundation, of which \$4.6M is needed for development and \$8M is needed as an investment account to offset the forecast operational deficit

This mix was proposed to minimise the amount that Council needed to put in, and permit Council to support the project through ongoing operational financial support that is essential for the feasibility of the project. Council will need to be very efficient in determining its contribution and applying for the State and Commonwealth funding in time for them to be synchronised – otherwise the project may not have sufficient funds to proceed – a situation that befell Newcastle Council's plans to expand its Art Gallery in 2013/14.

7.3 Visitation forecasts not met

The critical assumptions about forecast visitation are appropriately conservative. The key forecasts are that:

- A new art museum, in its first year (2018-19), has 25% fewer visitors than the Art Gallery of Ballarat had over the four years ending 2012-13 (this is conservative given the iconic nature of the new art museum in Shepparton building proposed and its locational advantages)
- A new art museum has a larger share of its visitation in 2018-19 from local residents than did Benalla Art Gallery or Art Gallery of Ballarat over the five years ending 2013-14, reflecting that
 - Benalla has a much smaller resident population than Shepparton and much better access by interstate and overnight domestic tourists travelling along the Hume Highway
 - Ballarat has much easier access for day trip visitors from Melbourne and Geelong, as well as a stronger base of established attractions for local residents
- A new art museum builds its number of tourists at a healthy rate after opening (7% pa) as word

spreads about the facility and its experiences, even as the number of local visitors grows only very slowly (less than 2% pa).

If instead a 25% lower increase in local and tourist visitation over the existing SAM is assumed, this reduces total visitors in Year 1 from 87,000 to 74,000. This also reduces the net present value of total willingness to pay by 16% or around \$550,000 in the first year and the same percentage in year 10. Applying a 16% reduction to the \$33 million in willingness to pay leads to a reduction of \$5.3 million in the net present value of monetisable benefits. The overall project monetisable net present value also falls by \$5.3 million to \$3.85 million, so the project remains worthwhile even if it sustains a 25% lower level of growth in visitation than forecast – even without considering the value of non-monetisable benefits.

A related risk is that the Visitor Information Centre (VIC) is not located adjacent to the new art museum. The forecast for tourist visitors are predicated on the basis that the VIC is located very near the new art museum and helps draw tourists to the new art museum. If the VIC is remote to the new art museum, tourist visitation to the new art museum will be lower by around 10,000 or 38% in year 1 and 15,000 or 32% in year 10. While this change will not

significantly change the net present value of the project it will significantly reduce the tourism benefits to the Shepparton economy of a new art museum.

Owing to the use of 4% discounting, changes in the real terminal value of the building after ten years have a smaller impact on project viability. The net present value of the project falls from \$9.15 million to \$2.40 million, if a \$20 million real terminal value is assumed instead of a \$30 million real terminal value of the building in the 10th year before discounting. So, even with a one third fall in the real terminal value of the building after the 10th year the project remains worthwhile.

7.4 Funding the operating cost on an ongoing basis

Section 5.7 identified that assuming Shepparton Council provides an annual operational contribution of \$1M (indexed to CPI), the operation would still require approximately \$450,000 per annum to break even.

Section 5.7 presented a model of an \$8M investment account, earning 4% that would sufficiently cover the deficit. The challenge is for the SAM Foundation to raise this much money prior to operational

commencement. Compounding this challenge even further, is the risk that the State and / or Commonwealth governments want to see evidence of this capability (or significant and convincing progress towards it) prior to approving development funds.

Assuming the funds were raised, it would be the responsibility of the Foundation to manage the funds and ensure they were capable of providing the forecast financial support.

The other way to reduce pressure on the deficit, is for the business to:

- grow further in its paying visitor base;
- attract additional sponsorship and donations;
- attract grants that have a marginal return (and don't just pay for additional costs); and
- raise prices where there is suitable price elasticity.

Once an investment account is established, the SAM Foundation would of course continue to raise revenue for the operation. This activity could assist to fund additional marketing activity and product enhancement that could generate further growth and financial return to the business.

7.5 Shell lease and remediation requirements not met

The proposed site straddles public land that is currently leased by Council to the private sector (Shell), as use as a service station and kiosk / café. **Figure 7.1** presents the location of the lease area. The 30-year lease is due to expire 31/5/2017.

Council's property management staff have advised that Council does not intend to renew the lease, and have advised Shell of this. The same staff could not advise whether Council was prepared to shorten the lease period.

Consequently, the earliest that a new art museum could commence construction on this site is July 2017, in 2.5 years time. At the end of the lease period, an environmental assessment would normally be undertaken, to confirm the condition of the site and its suitability for ongoing public uses.

A related issue with this timescale is that a condition of funding from the Commonwealth National Stronger Regions Fund is that funded projects must be completed by end December 2019 – implying that a construction period that begins in July 2017 will have limited room for delays in construction.

Figure 7.1 Location of Shell lease area, directly where the new art museum building is proposed



7.6 Complications with environmental and planning approvals

The Victoria Park Landscape Masterplan Review 2007 provides the overall strategic landscaping and planning for the area. The vast majority of the land, with the exception of a small portion in the south east corner of the park, is a designated floodplain and as such is zoned Urban Floodway. The extent of permanent structures within the floodplain should be limited and permanent development of buildings should be located outside the floodplain area. There are to be no more buildings built in the area, but a new building can be built if other buildings are removed to produce minimal net difference.

Although the site is Council land, the Catchment Management Authority is the floodplain manager, so any development in the area must be approved by them. The approval process may seek to adjust building floor levels and even orientation of the building so that it does not obstruct the conveyance of flood water. The proposed Aquamoves redevelopment and Masterplan went through extensive flood modeling to ensure that buildings did not impact the conveyance of floodwater.

The proposal to build a multi-story tower building has reduced the footprint of the building to a very modest 1,260m². This is much more likely to be acceptable to the CMA than a two story building covering twice this area, but will nonetheless require close workings between Council and the CMA early in the Project.

Any environmental approval for the Proposal would also need to gain heritage approval through the preparation of a Cultural Heritage Management Plan. Given the nature of use and proposed design, this is not considered to be a significant issue. Council's heritage advisor would assist the proponent minimise impacts.

There would also need to be a Traffic Impact Assessment undertaken, for approval by Vic Roads. Traffic lights may need to be installed on the road junction of Goulburn Valley Highway and Fitzjohn Street.

If more contemporary forms of signage/ animation or electronic signs form part of the final design, then an amendment will be required to the local regulations.

Council's Project Management Manager is comfortable that approvals will be achieved in

approximately one month, so approval delays are not considered a risk.

7.7 Risk Management Strategy

With reference to the previous subsections, **Table 7.1** presents a risk management strategy for:

- identifying the likelihood of the risk occurring
- identifying the extent of the impact if it was to occur; and
- identifying potential mitigative measures.

Table 7.1 suggests that the three risks of greatest likelihood and consequence are (in order of scale):

1. Unable to fund the operating cost on an ongoing basis
2. Governance model not implemented
3. Capital investment failure

It is recommended that Council use **Table 7.1** to further develop a more comprehensive risk management strategy for these three risks, as soon as possible.

Table 7.1 Risk management strategy to support a new art museum for Shepparton

Risk	Probability	Significance of risk to project	Proposed mitigative measures
Governance model not implemented	Possible	Extreme	<ul style="list-style-type: none"> Conduct workshop with Councillors to explain the rationale for a new model, hear and address concerns Prepare and submit strategies to mitigate Councillor concerns (eg. Draft Constitution governing the management of the publicly owned collection)
Capital investment failure	Possible	Extreme	<ul style="list-style-type: none"> Review timing of grant decision making and schedule into Staging Plan Liaise with funding application body to fully understand their requirements Use suitable expertise to prepare applications Work closely with relevant elected members to advocate this project within governments
Visitation forecasts not met	Unlikely	Moderate	<ul style="list-style-type: none"> Work closely with Council's tourism team to resolve the successful integration of a visitor information centre within the new complex that meets both parties needs Engage a commercially orientated Museum Director, Business Development Manager and Marketer Prepare a Sales and Marketing Plan and Budget focussed on the target markets Implement constant visitor monitoring system to monitor key profile information, satisfaction with various experiences and unmet needs
Unable to fund the operating cost on an ongoing basis	Likely	Extreme	<ul style="list-style-type: none"> Establish an investment account capable of generating funds to meet the deficit Nurture relationships with philanthropists and sponsors to generate additional funds for product reinvigoration Investigate potential for short term loans to cover any gap that could be repaid with future investment fund and / or donations
Shell lease and remediation requirements not met	Possible	Moderate	<ul style="list-style-type: none"> Locate the proposed building away from the fuel storage tanks, and avoid any other significant services or infrastructure being located in the area Council property services research precedents encountered by other Councils and determine whether to fight the issue or accept Shell position asap Consider using public campaign to 'name and shame' Shell position Negotiate with Shell as part of approval for a replacement service station site
Complications with environmental and planning approvals	Unlikely	Minor	<ul style="list-style-type: none"> Conduct preliminary assessments with relevant approval expertise using scope from Business Case, and determine any issues and potential mitigative responses Write into design brief issues and mitigative measures so proponents have time to adapt a proposal that minimises issues Conduct community consultation in early phases to explain proposal, potential issues and their potential mitigation, and to seek feedback

8. Proposed path to implementation

8.1 Key milestones

Figure 8.1 presents a summary of the proposed path to implementation. The pathway is structured to separately depict tasks relating to four major strategies:

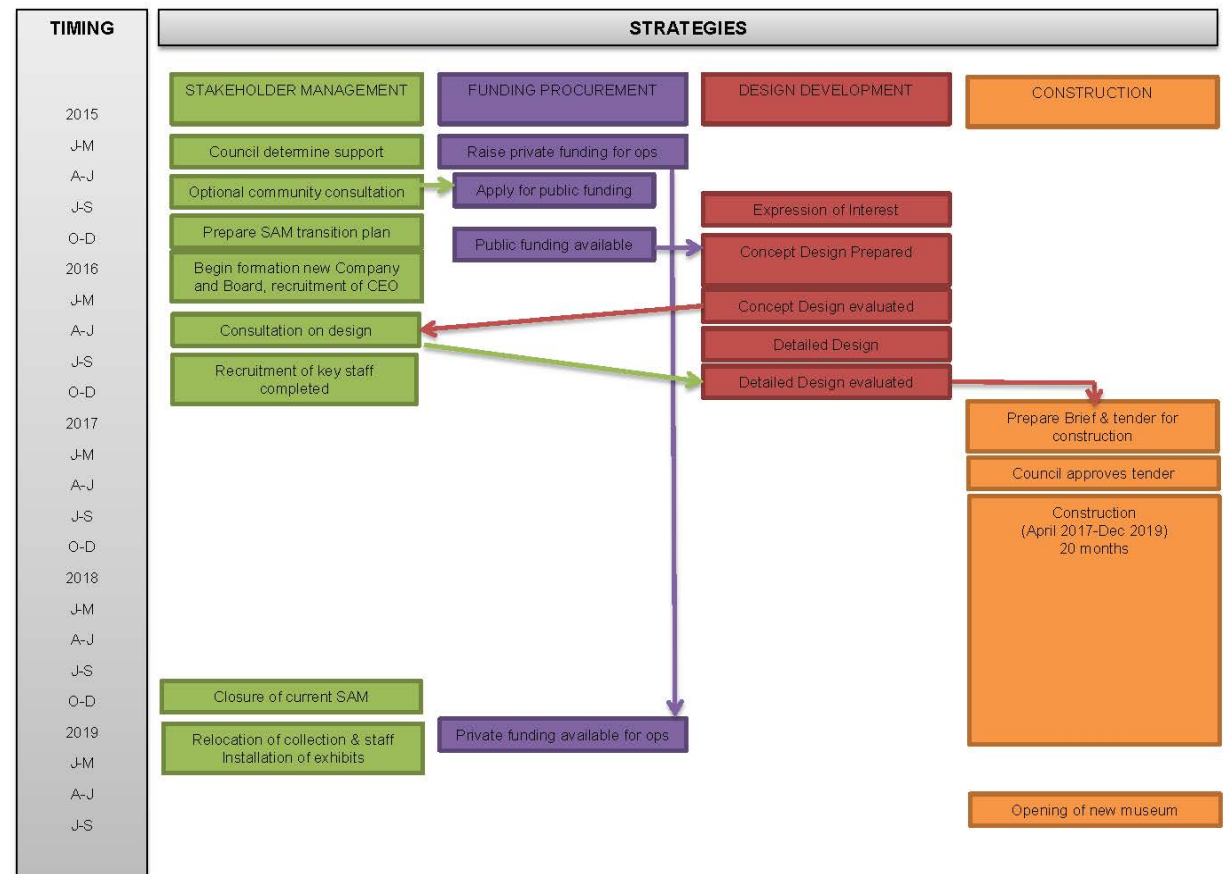
1. Stakeholder management
2. Funding procurement
3. Design Development
4. Construction

Milestone – Council approval to proceed

Stakeholder management is primarily focussed on determining Shepparton Council support for the project, and this is the first critical milestone to be achieved. Support would involve approval to:

1. Proceed to develop a new art museum and establish a separate governance structure
2. Provide development funding
3. Provide ongoing operational funding
4. Provide peppercorn rent for a building and surrounds in the location proposed
5. Loan of the art collection to the new entity

Figure 8.1 Proposed path to implementation for a new art museum in Shepparton



This milestone needs to be achieved by the end of May 2015, to permit time to prepare State and Commonwealth funding applications.

Milestone – procurement of State and Commonwealth funding

Funding procurement would be concurrently focussed on sourcing funding for development and funding for supporting ongoing operations.

The State government funding currently does not have a fixed entry and announcement point, unlike the Commonwealth’s National Stronger Regions Fund – (NSRF). Applications for the second round of the NSRF are open between 1 May and 31 July 2015. So the 31 July is a critical milestone for submission. It makes sense to concurrently prepare submissions for the State and Commonwealth programs, and these should start no later than June 2015.

Milestone – procurement of an investment fund to support operations

In **Section 5.7** of this report, it was recommended that the SAM Foundation generate an investment account valued at \$8M to fund the deficit of the ongoing operation. It is understood that approximately \$3M is tentatively available and that raising \$4-5M is quite

achievable. Raising the additional \$8M will require significant effort and coordination. There are probably two milestones needed:

1. Formal confirmation of \$4-5M secured funds by July 2015, so that this can be incorporated into funding applications to the State and Commonwealth programs
2. Formal confirmation of a significant amount of \$8M towards the end of 2017

Milestone – Establishment of new Company and Board

The confirmation of an investment account capable of supporting the new operation would trigger the formulation of a new Not for Profit Company limited by guarantee, Board of Management and transition plan. The Company should be formed in 2016, so that there is sufficient time to formulate and implement a transition plan. The Plan should capture elements such as the establishment of new financial and operating systems, staff recruitment and training, movement of the collection and preopening marketing.

After the Company has been activated, there is merit in contemplating a staged recruitment of a new team

to plan and implement the transfer of the current SAM to the new art museum.

During this period, there is also merit in closing down the current SAM 6 – 12 months ahead of opening of a new museum. This closure would enable staff to focus on the establishment of company policy, procedures, accounting and business systems, final recruitment phasing and plan the opening exhibits, programs, retail strategies and publications.

Milestone – approval to construct

Following receipt of the detailed design, various environmental approvals need to be procured before construction can commence (see **Section 7**). In addition, the lease to Shell needs to be terminated and the site remediated and made safe for public use. These combined milestones need to be completed by June 2017.

Milestone Opening of a new art museum

A construction period of 20 months has been proposed to ensure public funds are spent and reconciled before their deadlines. Assuming construction starts in April 2017, construction should be completed by the end of December 2018. This date would trigger the two month transfer of the SAM collection to the new Company and the new building, along with the installation of operating systems, as well as the establishment of the exhibition areas and supporting visitor experiences.

This milestone implies preopening marketing starting in Dec 2018 for opening and launch in March 2019.

8.2 Detailed tasks for Council decision and design strategies

Shepparton Council’s Manager Major Projects prepared further detail on tasks to construction commencement, as shown in **Table 8.2**. The suite of tasks does not include the procurement of funding.

Once Council makes a decision on whether to proceed, and what degree of consultation to engage with, a project planning Gant Chart timeline would be built to link up dependent tasks and establish a critical path to completion.

Table 8.1 Detailed tasks for Council decision and design strategies

Task	Days
MILESTONE: Council approves Feasibility Study and decides whether to proceed to consultation	5 weeks
Community Consultation Period - if required (minimum 4 weeks)	28 days
Council Review Community Consultation	5 weeks
Modify Proposal as per community feedback	30 days
MILESTONE: Preparation of EoI Documentation and Approvals	6 weeks
Expression of Interest for Concept Design from Architect	21 days
Evaluation and Reward of Tender for Concept Design	28 days
Concept Design Prepared (including public consultation)	90 days
Concept Design Received - Review by PMO	1 month
Council Review Concept Design	1 month
Public Consultation on Concept Design	21 days
Preparation of Brief for Detailed Design	6 weeks
Tender for Detailed Design	21 days
Evaluation and Reward for Tender for Detailed Design	28 days
Detailed Design and Costing Summary Received - Review by PMO	4 weeks
Council Review Detailed Design and Costing Summary	4 weeks
Preparation of Brief for Construction	6 weeks
Tender for Construction	4 weeks
Evaluation and Reward for Tender for Detailed Design	4 weeks
Council Review Detailed Design and Costing Summary	4 weeks
Construction begins	3 months

8.3 Key time-based risk points in implementation

The milestones need to be met for the project to stay on time and on budget. In addition to the risks identified in **Section 7**, there are several timing risks to the project that need to be considered before commencing implementation. Two timing risks deserving serious thought early on are:

1. The extent of community consultation associated with the project and the extent that the project scope is altered to accommodate the feedback
2. Delays in decision making by Council

The proposed path to implementation proposes two locally-orientated rounds of consultation – one on the conceptual design, and an early optional round following Council’s decision on whether to proceed with the project or not. The optional consultation may help to share the proposal more widely than has been done to date, but would put timing stress on putting together funding submissions for State and Commonwealth programs. We recommend starting consultation on conceptual design and then running briefings thereafter triggered by milestones.

The path to implementation incorporates standard Council decision making process of consideration by Council’s Executive, a Briefing to Council and then a decision at a formal Council meeting. Sometimes Council is unable to make a decision because of insufficient information or significant debate requiring more time. We recommend making the briefings and Council reports to be made as clear and succinct as possible, so there is ample time for questions and answers. Delays to the decision making process – particularly in the first few months, are a risk to the project, because there is no third round of Commonwealth funding announced yet – so missing the second round may mean missing sufficient funding altogether.

This ends our Business Case.