

ATTACHMENT TO AGENDA ITEM

Ordinary Meeting

17 February 2015

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Business Case for a new art museum in Shepparton

Executive Summary
28 January 2015

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Executive Summary

A. Context

Background to the Shepparton Art Museum

The Shepparton Art Museum (SAM) is significantly constrained by its location and building. It is not located on a major thoroughfare, and passing trade is minimised as a result. The building is small which limits operational flexibility and the opportunity to present larger exhibitions and provide social and engaging spaces for activity. Demand cannot be met for more interactive experiences, larger exhibitions, functions and events and the existing building cannot be expanded to meet these unmet needs.

The current SAM is owned and operated by the Greater Shepparton 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. Council currently subsidises SAM by approximately \$1M in cash and \$0.25M in kind, per annum.

The recently established 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 current governance model for the existing SAM with strong City Council oversight is not best practice for encouraging innovative SAM management or grants of art or funding for new acquisitions from private benefactors. Problems with the existing governance model have come to a head with the provisional offer of a major Indigenous art collection, if the current governance model is overhauled.

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.

Art museums in other regional areas of Victoria, attract higher visitation and make a greater contribution to the local economy.

Project Drivers

The City of Greater Shepparton is a vibrant, diverse community located approximately two hours north of Melbourne, in the heart of the Goulburn Valley. The city has a population of about 61,000 and covers an area of 2,421 square kilometres. It is the fourth largest

provincial centre in Victoria and one of the fastest growing regions in Victoria. The major urban centres of Shepparton and Mooroopna are located at the confluence of the Goulburn and Broken rivers and at the intersection of the Goulburn Valley and Midland highways. Its greatest natural assets lie largely untapped, located in the green belt along the Goulburn River which runs right through the heart of the CBD. A major new public cultural facility located in close proximity to the river will **strengthen the environmental base** giving new visibility to the opportunities which the river and its surrounds present.

The city's population is almost evenly split between the main urban centres of Shepparton and Mooroopna (53%) and the surrounding rural areas, including the smaller townships of Tatura, Murchison, Dookie, Merrigum, Congupna, Toolamba, Undera, Katandra and Tallygaroopna (47 per cent). This split reflects the wide range of lifestyle choices available across the municipality, from small urban blocks close to high quality amenities, through to large working orchards and farms. The dispersion of the population and the recent extension of retail zones within Shepparton in each direction has resulted in the CBD struggling to compete and vacant retail spaces have

rapidly grown. A major new facility in central Shepparton has the potential to draw people back into the CBD and surrounds and lead a revitalisation of the city of Shepparton. This would **strengthen the economic base** of the city.

Greater Shepparton's diverse and multicultural composition is one of its key qualities, with approximately 11% of residents born overseas. Significant populations have settled in the region from Italy, Turkey, Greece, Albania, Netherlands, United Kingdom, Germany, India, New Zealand, Philippines and Iraq. More recently, families from the Democratic Republic of Congo, Sudan and Afghanistan have moved to the area. The new SAM project provides a substantially expanded capacity in providing a space for the bringing together and shared use by diverse cultural communities through the celebration and enjoyment of the visual arts. In this way the project will **strengthen the social base of the region**, providing one of the only (under cover) public spaces where all people can learn, share, and express themselves.

Greater Shepparton also has a significant Aboriginal population with a strong history of indigenous

advocacy and leadership both nationally and internationally. The City's Indigenous population is the largest in regional Victoria, with an estimated 3.5% of residents having Indigenous heritage. This project identifies New SAM as being the only regional Art Museum with a specific collection of contemporary Aboriginal art, and also has included in its scope a temporary exhibition gallery devoted to exploring art of the diverse cultural groups of the region. The New SAM project will dramatically **strengthen the regions capability to engage with the ongoing journey of reconciliation** and cultural celebration.

Approximately 4.3% of the City's population has been identified as requiring assistance with self-care, body movements or communication and Greater Shepparton is committed to providing access to services, programs and facilities for people with a disability. The new SAM will **provide a major piece of new accessible public infrastructure, facility and services**, setting a new bench mark in accessible infrastructure, so as to make the Museum accessible – particularly for people with disabilities.

Despite recent challenges, the region has a well-developed economy, based primarily on irrigated agriculture, food processing, retailing and road transport. The Goulburn Valley is responsible for

about 25% of Victoria's agricultural production and is often referred to as the "food bowl of Australia". Dairying and fruit growing are the major primary industries, with the viticulture and tomato industries also contributors. Food processing is a significant secondary industry, with over 30 major food processing related businesses located within two hours of the major urban centres.

The large volume of fresh and processed foodstuffs produced in the region generates an extremely high number of freight movements. The road transport industry which has grown up to support this freight task is a substantial contributor to Greater Shepparton's economy in its own right and Shepparton is now provincial Victoria's largest truck sales and service centre. Greater Shepparton has enjoyed industrial, business and residential growth over the past ten years and Shepparton is one of the five fastest growing inland regional centres in Australia. Large food processing and retail developments have provided increased employment opportunities and underpinned this growth.

Challenges faced in one section of the food industry, whether in farming, processing or freight logistics have a powerful ricocheting impact on Greater Shepparton as they are largely independent. There is

a growing demand for a more diversified economic base so as to create resilience in the economy. However in order to develop secondary industries the city faces a challenge in revitalising its image and lifestyle offerings. A new SAM would significantly **support planning for the servicing of forecasted growth**, but also would dramatically propel forward **the creation of greater diversity of the economic base, so as to build greater resilience** into the Shepparton regional economy.

As a regional hub, Greater Shepparton provides a range of goods and services to a catchment of approximately 160,000 people. This regional role allows the city to support a strong and diverse retail sector and attract national retail outlets which in turn, increase the attractiveness of the city as a retail destination. SAM is the only substantial visual art institution in the north centre of Victoria. The size of the current Museum is not in step with the catchment area which could be capitalised on with a stronger and expanded facility and offering. This project will provide the necessary planning to enable a new museum **to cater to a much larger number of Victorian's living in North Central Victoria.**

The city also enjoys high quality medical services and offers a range of tertiary education opportunities.

LaTrobe University's commitment to its new campus in Shepparton will further increase the range of tertiary courses available to regional students, while The University of Melbourne is committed to its only campus in regional Australia, located at Dookie. Both Universities have extended strong support for a new museum and indicated a preparedness to pursue further partnership opportunities around scholarship and program synergy. The gallery will be a **resource and destination for students** studying in the region, and create new educational opportunities tapping into the academic faculty of these universities.

Greater Shepparton continues to reinforce its reputation as a key events destination within both the Victorian and national markets. The city has a strong history of attracting major events to the region to boost the local economy. In 2012 event tourism generated an economic benefit in the order of \$50m to the region. In 2011/12, the total tourism and hospitality sales in City of Greater Shepparton was \$194.5m, the total value added was \$96.3m. The major tourist attraction in Shepparton is SPC Ardmona Factory Sales which buses shoppers in from across Victoria and caters to a strong contingent of grey nomads passing through the region. The tourist market is split almost in half between those visiting for

holiday or leisure and the visiting friends and relatives market. The strength of the visiting friends and relatives market present a wonderful opportunity for economic boost to the region if these visitors could be converted into residents. A new museum provides a gigantic step forward in the improvement of cultural infrastructure, **a necessary step in Shepparton's ability to turn visitors into residents and ultimately investors.**

A new museum provides a substantial opportunity for the City and region to reshape its image and brand, and develop its market position as a regional destination for visitors, settlers, students and investors. The project will create jobs both within the operation and related businesses servicing a dramatic increase in visitation, with a ripple on effect. The full economic impact of a new museum and **its capacity for job creation has been investigated** as part of this feasibility study.

Further than this, a benefactor (Carrillo Gantner) has offered to donate a significant part of his collection to SAM. The Collection includes an extensive array of Indigenous artworks from across Australia.. The Indigenous collection would distinguish SAM from regional art museums in Victoria, and provide a major resource from which to attract visitors.

The collection donation is likely to trigger significant financial donations from various benefactors, given in order to assist accommodate and present it.

Other potential financial donors have joined this view.

The collection donation will only be offered to an art museum that has independent governance and the capacity to showcase works. If achieved, the collection donation is likely to trigger other artwork donations of Indigenous art, and lead to the new museum holding the most significant collection of Indigenous art in a regional area of Australia. This potential coupled with the social and cultural history of Indigenous people connected to this part of the Goulburn River and surrounds is an extraordinary opportunity that can only be realised through the delivery of a new art museum.

The Problem

The first problem is that Shepparton is an economically disadvantaged region. This is reflected in high unemployment and youth unemployment rates. It is also reflected in rankings on measures of economic disadvantage from the Australian Bureau of Statistics in comparison to other cities in regional Victoria.

It was also recognised that the market mechanism on its own will not restore Shepparton prosperity. Further cutbacks in manufacturing employment are likely.

While market forces ensure lower cost housing due to a weak local economy 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.

The second problem is that Shepparton has greater social problems than other comparable regional cities. This is reflected in the social problems that accompany unemployment, but extends to more specific social problems within the largest Aboriginal community in regional Victoria and a large community of recent migrants from non-traditional migrant countries often with poor English and job skills. In rankings of social disadvantage from the Australian Bureau of Statistics, Shepparton is around the 15th most disadvantaged of Victoria's 80 local government areas and far lower in this ranking than comparable regional cities.

The third problem is Shepparton's existing SAM does a poor job of attracting tourists or locals compared to art galleries in comparable cities. Part of this problem

relates to Shepparton having a lower general tourism profile than do comparable cities of Ballarat, Bendigo and Benalla, due chiefly to worse access from major population centres. Part of this problem is due to the current site of the SAM in the Council building and precinct of the city away from other major attractions. This may be a particular problem in attracting local residents to the existing SAM. The challenge in attracting tourists to the current SAM is that tourists to Shepparton are much less likely to visit art galleries and museums on their trip than tourists to the comparable cities.

The fourth problem is Indigenous art and culture lacks a strong showcase attraction in regional Victoria. With the very strong Indigenous heritage of the Shepparton region and the opportunity to acquire the Carrillo Gantner collection a new SAM has great potential to correct this problem. In doing so, this promises to improve social issues facing the Aboriginal community in this region.

Project Objectives

Project Objectives for the proposed option for a new art museum were defined by the Project Management Board as follows;

1. Activate Shepparton as a vibrant cultural destination by providing a visitor experience that reflects emerging market trends and needs/preferences of target markets.
2. Maximise direct and indirect economic benefits to the Shepparton region by increasing tourist visitation, length of stay and spending in the region.
3. Maximise social benefits to the region by inspiring civic pride, enhancing community engagement, social cohesion and educative opportunities of SAM's collections, exhibitions and program offerings.
4. Use a site that reflects the Shepparton brand and presents minimal site and infrastructure constraints.
5. Offer a Project Governance and Business Model that shares risks, financial burden and capitalises on opportunities amongst long term project partners/sponsors and be whole of life sustainable.

The joint funders of this project, Greater Shepparton City Council and Regional Development Victoria, set the following project purpose:

1. Identify available options for SAM to grow its program, collections, impact in the region and in the sphere of Australia
2. Identify and assess options for the growth of SAM, including the viability of a new facility
3. Provide recommendations to address the current constraints and limitations.
4. Provide advice on the substance and form of a new SAM and its intended and potential impact in the region.

The Brief for the Project stated that the scope of the recommended action should be ambitious and set its sights on the capacity to provide a game changing impact on the region's growth.

B. The process used to develop the business case

The process used to develop this business case is outlined in **Figure 1**. This involved preparation of three earlier reports to the Project Management Board that comprises key stakeholders and is chaired by a Council representative. In parallel with the reports, regular meetings were held with the Project

Management Board to set directions and provide feedback on these reports.

Extensive consultations were held with stakeholders in this project beyond the Project Management Board while the general community was kept informed about progress of the feasibility study through the media. 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;

Figure 1. The four-phased approach used to support the project, receiving consultation and market testing input, and signalling communication to stakeholders



- 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

Underlying this process was development, refinement and evaluation of options on the following six inter-related dimensions of this project:

1. Governance system
2. Target markets
3. Potential sites
4. Experiences for visitors
5. Design of building
6. Funding models.

The dimensions often overlapped, for example with:

- Decisions on the governance system overlapping with decisions on funding models
- Decisions on target markets driving decisions on the experiences to be designed for visitors and
- Decisions on the site and experiences for visitors guiding the design of the building

This business case is much more than design of an iconic building for Shepparton backed by a “build it and they will come” philosophy.

Research guided the short-listing of options for each of the six dimensions that were then subject to stakeholder consultation and market research.

With recommended strategies for each of the first five of the six dimensions, the recommended option was subject to costing the capital and operating subsidy required. The costing stage led to critical revisions to experiences and building design before a preferred funding option was determined.

A cost benefit analysis was then conducted on the preferred project with the recommended strategies on each of the six dimensions. This was to test whether the recommended project provided net benefits to the Victorian community.

The cost benefit analysis found a positive net present value of \$9.15 million without being able to value significant non-monetisable benefits. The recommended project also offers a far higher return to the community than the do-nothing option.

The cost benefit analysis also considered a range of risks with the recommended project. This business case discusses these risks and also recommends mitigative actions to reduce these risks.

Finally, this business case developed an implementation path to delivery of the recommended project. Critically, this implementation path features

tight timeframes for Council decision making if capital funding from other levels of Government is to be achieved.

C. Base Case - The do-nothing option

This option is the base case or counterfactual analysed in more detail in the cost benefit analysis. Reviewing the do-nothing option informed key decisions on the six dimensions of this project and in particular recommendations for a new governance system and design of experience for visitors.

This base case assumes that the existing SAM remains unchanged in its: operations; collection; governance model and site.

Valuing the do-nothing option applies the same methodology that is used to estimate willingness to pay for a new SAM. As noted in the attachment on the economic evaluation/cost benefit analysis, this methodology is also tested against the existing Art Gallery of Ballarat and Benalla Art Gallery to check its robustness. The willingness to pay by the community to visit the existing SAM is estimated at less than half the willingness to pay by the community to visit the Art

Gallery of Ballarat and Benalla Art Gallery over the four years to 2012-13.

Under the do-nothing-option 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.

The willingness of the community to pay to visit the existing SAM (as expressed in after inflation dollars) 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 net present value of the existing SAM over the first 10 years of the proposed new SAM is estimated at negative \$10.73 million. This comparatively poor return to the community highlights the need to make major changes to all six dimensions reviewed in this business case.

D. Economic Impact of a New SAM

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 \$10.73M, 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 REPLAN modelling to estimate the economic benefits for the region of the construction stage. It is recognised that the input-output estimated impacts derived from REPLAN 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 \$34.5M construction cost is likely to flow to businesses based in Shepparton. This equates to a direct increase in output of \$27.6M 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.

E: Social / Community Impact of a New SAM

A new art museum in Shepparton would generate even greater social (community) benefits than its economic benefits. Nine key social benefits generated would be:

1. Provides a meeting place; for the multi-cultural community
2. Provides increased recognition of Indigenous art;
3. Develops Indigenous arts industries in the region;

4. Integrates Indigenous and non-Indigenous art;
5. Helps Shepparton become a State leader in Indigenous culture and art and art education for young Australians;
6. Attracts major philanthropic donations;
7. Provides popular educational experiences in Indigenous art;
8. Provides popular educational experiences in art education for the young; and
9. Is largely consistent with and adds value to the Victoria Lake Precinct Masterplan.

Provides 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.

Provides 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.

Develops 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.

Integrates 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.

Helps Shepparton become 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.

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.

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.

Provides popular educational experiences in art education for the young

Several experiences have been specifically designed to meet the needs of young children.

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

Is largely consistent with and adds value to the Victoria Lake Precinct Masterplan

Significant tailoring of the proposal has been done to make it compliant with the Lake Victoria Master Plan. Value adding is achieved through the activation of the southern end of the Precinct and the replacement of aged public amenities with amenities within the new art museum.

F. Recommendations

This business case recommends that a new Shepparton Art Museum (SAM) is a feasible project if developed with the proposed strategies.

The new Art Museum recommended in this Business Case;

- Meets important social, cultural, community and economic needs;
- Is supported by strong strategic and policy merit;
- Optimises value for money from a whole of life perspective; and
- Is achievable i.e. it can be delivered on-time and on-budget and will realise the intended benefits it sets out to achieve.

Vision and objectives for a new Art Museum

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 to be included in the Art Museum - providing opportunity for visitors to access this service and learn more about the region's offering.
8. Operate as a break even business, with financial support from agreed pre-set local government and SAM Foundation resources.

New Governance model

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 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.

This recommendation is a necessary condition for project feasibility. Unless the Council endorses the Company limited by guarantee model, the recommended project cannot proceed.

The Company would be run by a Board of Directors, who in turn would be supported by the Art Museum Director, staff and several management committees. The honorary non-representational skills based Board would oversee two Management Committees focussed on:

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

The Company could lease the land and building from Council at a peppercorn rent (part of Council's contribution).

The current SAM public collection would be loaned to the Company to look after and exhibit, and specific requirements would be written into the Company Constitution. Donors could choose to donate significant art to the public collection or a new collection established and owned by the Company.

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
- The Shepparton Motor Museum
- Friends of SAM
- Shepparton Festival
- The Australian National Piano Awards
- Shepparton Textile Artists
- University of Melbourne
- La Trobe University

Target markets

It is recommended to focus the development and marketing of a new art museum to attract and satisfy four target markets:

1. Cultural opinion leaders

2. Grey Nomads
3. Young children and parents and grandparents of young children
4. Students in upper primary and lower secondary schools

These markets have been further described in the Report. The proposed experiences have been developed with these target markets in mind, and market tested to confirm they have maximum appeal.

New site

It is recommended to locate a new art museum adjacent to the Goulburn Valley Highway within the south-eastern corner of Victoria Park. 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.
- An opportunity to bring the Shepparton Visitor Information Centre back to the site and collocated within the new art museum, to generate synergistic awareness and visitation.

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. Artists in Residence buildings could be placed within the area currently operating as a caravan park. This site allows for the possibility of a dedicated art museum train stop.

New iconic building

It is recommended to construct an elevated multi-level building. A multi-level building 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 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.
- A permanent home for the Visitor Information Centre and Gallery Kaiela.

A multi-level building that spans five stories 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.

A multi-level building would include sustainability initiatives to harvest and reuse water and reduce energy use typically associated with an art museum.

1.

Artists impression of how the new building could fit into the site



Artists impression of how the new building could fit into the site



New experiences based on vision

The distinctive experiences of a new Art Museum for Shepparton can be understood within the following four Visions.

Vision 1: A Museum with Artists at the Centre

Artists will be central to a new Art Museum for Shepparton; visible, present and active in the building year round.

A new Art Museum in Shepparton will bring contemporary artists from the world to make art, exhibit, teach connect and share with the people of the region and the Museum's collection. The exhibition program will focus on living artists who can come and engage with the Museum contributing to the broader programming and experience of visitors. Specifically artists with capacity for connection to the Aboriginal heritage and cultural diaspora of Shepparton will be engaged to produce art and exhibitions for the Museum.

Their work and the visitor experience of their work will be supported by studio space to cater for an artist in residence program, from which exhibition and public programming will be generated, and new work for the collection produced. Visitors will be able to take

workshops with resident artists, watch artists at work to finished outcome, meet and engage with them in informal and formal formats. A small black-box space will be utilised for residency outcomes, which are exploratory and enable artists to experiment with audience response, engagement and use the exhibition space for evolving outcomes. For the audience the artist is active and available, someone to meet, talk with, assist with their work and no longer an invisible, enigmatic presence within the Museum. Cognisant of different practise and artists' preferences, the studio and black box spaces are designed for dialogue between artists and audiences.

Day to day, audiences are able to engage with the artwork and artists at work in the Museum in a range of ways choosing the form of their own involvement, from looking at art, watching artists at work, talking with artists, assisting with projects or making their own art in formal/ informal workshops. This vision is further activated through the inclusion of the Gallery Kaiella studio space and the local Aboriginal artists who will also be at work in this part of the Museum, making, delivering and providing self-guided programs. The vision is also enabled through the Children's Gallery – extending the opportunity of placing artists at the centre of children's visitor experience through a

facilitated children's studio/gallery curated in tandem with the main temporary exhibition galleries.

Another aspect of locating artists at the centre of the Museum will be developed with respect to the architectural experience of the Museum, the design and planning of architectural services and the engagement of artists throughout the design process of the Museum and its programs, i.e. a Museum with artists at the centre employs artists, and is designed with artists.

Vision 2: A Community Piazza

A new art museum in Shepparton will provide an architecturally inspiring community piazza, a cultural meeting place, a heart-beat for the city designed for affirming human interaction.

This Vision for an architecturally inspiring community piazza is defined by its capacity to gravitate the diverse cultural communities of Shepparton toward the one place. Located within the centre of the Museum, is the Grand Hall, designed for the coming together of people over looking the banks of the Victoria Park Lake and the shores of the Goulburn River. This Grand Hall is located right at the epicentre of Shepparton's historical development, its Aboriginal heritage and the beginnings of its agricultural life, with

water at the centre of both. Extending to the sky above the Grand Hall will form an orientation and contemplative space by day and by night, a place for exhibition openings and events. The Grand Hall together with a small theatre for conferences, film screenings and performances is designed to provide a central space for the convergence of major arts events of the region such as the Australian National Piano Awards and the SheppARTon Festival.

An important component of the realisation of the Art Museum as a community piazza is an elevated, multi-level building which will provide the first views over the natural surrounds of Shepparton and importantly faces the Goulburn River. A large, elevated outdoor Piazza on the upper floors of the building, will create this opportunity, extending this experience to meet and connect with the region, and encourage further exploration of the adjacent lake, river and bushland areas.

The Grand Hall and the Outdoor Piazza will work in concert with a further function space on the ground floor which enables the Museum to become a venue for private events and functions, weaving the Museum into the culturally significant moments of the lives of locals, and enlivening the Museum with the social

fabric of culturally specific traditions very much alive in the Goulburn Valley.

The idea of the Museum as a Piazza also extends to the Community Meeting/ Gallery space, which enables local artists to come together, meet and exhibit art, the Friends of SAM Meeting Room, and also Gallery Kaiela that will provide a meeting and making place for Indigenous artists local to the region.

Vision 3: The Experience of Transparent Collections

A new art Museum in Shepparton will radically change the way visitors can access the collection; making transparent the collection functions, and providing visitors with opportunity to experience those functions for themselves.

Traditionally collections are presented in permanent collection galleries with long term displays, or curated into shorter term exhibitions along conceptual themes, with the bulk of the collection hidden out of sight. A new Museum in Shepparton will explore a radical departure from this model, enabling the public to tell the museum what they would like to see exhibited, co-curating the collection displays. To enable this, the public will be able to access collections online, and nominate works they would like to see exhibited or

make a date to see a specific work for study. Visitors will also be able to see into collection stores as they traverse the Museum. Specifically the ceramic collection stores will form an important feature within the walls of the Museum itself. The public will be able to book tours of collection stores and request works to be made available for longer study, encouraging extended looking, learning and ultimately response to works.

The Vision for 'Transparent Collections' means that collection storage/conservation areas will be viewable to visitors of the Museum, intended to encourage deeper engagement with selective works of art. Additionally, space for the display of new acquisitions will enable the public more immediate access and dialogue on the collecting activities of the Museum, and the Museum to have collection spaces without locked in programs where it can be responsive to events and interactions.

The implication of this new model for curating with collections is radical and exciting. It will provide new modes of understanding the use of collections in meaning making, storytelling and conceptual framing. It creates a dialogue between object and viewer that is shaped much more actively by the Museum in cohort with visitors.

Further the building itself will be a building designed for the incorporation of collection artworks within its facilities, façade, corridors and orientation spaces. A playful building to be explored with art experiences at every corner.

Vision 4: A Museum for Children

A new art Museum in Shepparton will provide the first dedicated indoor and outdoor children's art spaces in regional Australia, encouraging exploration, curiosity and learning through the sensory, emotional and intellectual stimulation of children.

A new Art Museum for Shepparton will be a Museum for Children, catering visitor experiences to families with children, schools and kindergartens. Necessarily this entails a vision for art experiences that excite and engage children with art and art-making and a building and program which encourages exploration, curiosity and learning through sensory, emotional and intellectual stimulation. Experiences will include a dedicated Children's Gallery and Art Play space that is curated with artists alongside the temporary exhibition gallery. This space will be a facilitated learning and art play environment that can operate as a drop in space during opening hours.

A second outdoor clay playground will enable the exploration of clay, ochres, water and other materials used in the making of art and importantly ceramics. These programs can be extended further outside the Museum into the surrounds of Victoria Park Lake, and the Goulburn River. A major interactive sculpture that enables viewers to engage playfully and physically is intended for the exterior of the Museum, designed as an icon for children to identify with the Museum. A sculpture park could be developed around the southern end of the Lake enabling a discovery trail for families to undertake as a self-guided activity.

The facilities of the Museum are important in catering to this demographic with considerations such as furniture and floor coverings, drinking-fountains, breastfeeding facilities, lifts which accommodated prams, change rooms and a café overlooking the play area important considerations which can dramatically improve the visitor experience for this audience group.

The Vision for a Museum for Children also includes provision of experiences for school groups working with educational partners in the delivery of services that cater to curriculum needs. The Vision surrounding 'Transparent Collections' is important in this regard as it will enable educators to nominate works they wish

to study with students, and to show students behind the scenes of the Museum.

This Vision plays into the strength of current tourist services existing within Shepparton also in walking distance to the site, including Kids Town and Aquamoves. It also encapsulates the relocation of the Visitor Information Centre within the new Museum, enabling cross promotional of activities and value adding experience offerings. Importantly the vision to build a Museum for Children works in tangent with efforts to improve early learning and literacy outcomes in the region, such as being advanced by The Lighthouse Project and also family cohesion and parenting outcomes.

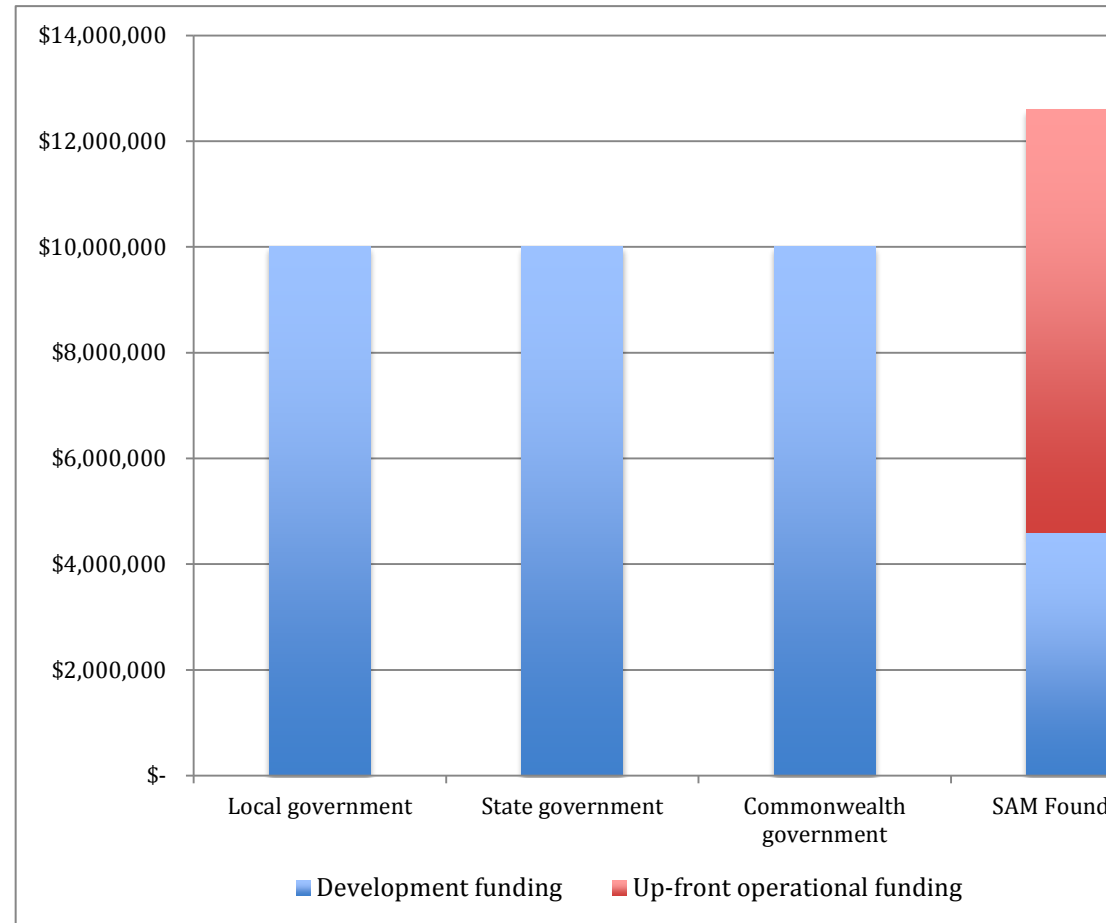
Development costs and funding

The development has been costed at \$34.5M. However, an additional \$8M is required to be established before the business can be activated, to operate as an investment account to support a forecast operating deficit. The investment would provide drawings to fund the deficit. Therefore, the total development cost to be able to activate a new art museum is \$42.5M (\$34.5M+\$8M), which **Figure 3** shows comprises:

- 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.

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 3 Proposed funding of development cost to establish and activate the proposed new art museum for Shepparton



Operating costs and funding

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.

Table 2 provides a 5-year forecast for a new art museum. The forecast suggests that in Year 3, when the business is fully implemented and stabilised:

- Revenue will be approximately \$1M
- Direct expenses will be approximately \$0.55M
- Indirect expenses will be approximately \$1.85M (twice total revenue)
- The business will make a 1.4M loss

Table 1 Profit and Loss forecast for a new art museum in Shepparton (Years 1 – 5)

| Forecast | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
| Revenue | | | | | |
| Direct Revenue | \$455,361 | \$530,514 | \$628,477 | \$659,901 | \$691,353 |
| Indirect Revenue | \$319,609 | \$319,609 | \$319,609 | \$332,393 | \$345,177 |
| Total Revenue | \$774,970 | \$850,123 | \$948,086 | \$992,294 | \$1,036,530 |
| Expenses | | | | | |
| Direct Expenses | \$417,235 | \$474,040 | \$554,719 | \$571,361 | \$588,003 |
| Indirect Expenses | \$1,677,226 | \$1,757,166 | \$1,857,642 | \$1,904,083 | \$1,950,527 |
| Net Profit / Loss | \$1,319,492 | -\$1,381,083 | -\$1,464,276 | -\$1,483,150 | -\$1,501,997 |

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:

1. 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.)
2. 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.

Alternatively a combination of both increased Council contribution and an investment stream provided by the SAM Foundation may be negotiable.

Ultimately, the financial feasibility of a new art

museum for Shepparton rests with a partnership between Council and the Foundation, with:

- Council prepared to fund
 - the \$10M development contribution (which including interest on debt equates to \$14.7M 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 look after and exhibit; and
- The SAM Foundation being capable of raising \$4.6M for development and \$8M over 2-3 years to operate an investment account that supports the operating deficit.

Greater Shepparton Council may be able to partner with the Foundation to assist them raise the funds.

G. Benefits

Summary of the project – The Investment Logic Model

Figure 4 summarises the recommended option as an Investment Logic Map. Investment Logic Maps are used by the Victorian Government to ensure that

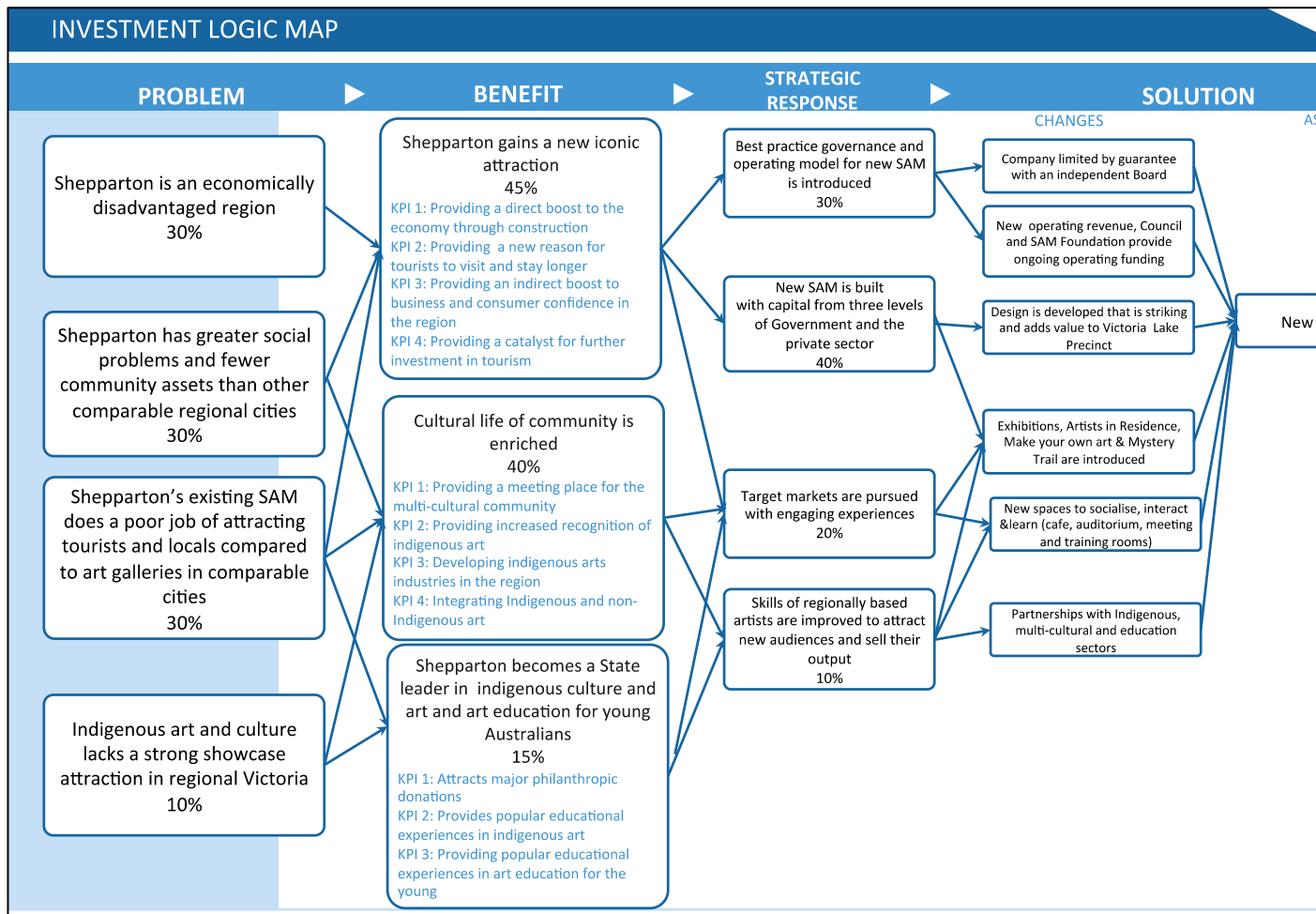
business cases provide the key information necessary for decision makers.

The Investment Logic Map provides a one page guide to address;

- the problems of the project and how benefits from the project link to the problems driving the project
- the benefits promised by the project and how delivery of these benefits will be measured along with the link to strategic responses required to deliver these benefits
- the strategic responses, changes and assets in the business case and how these relate to the benefits promised by the project.

The Investment Logic Map highlights that an iconic building is only the final element of an integrated solution that begins with changes to governance, then pursuit of particular target markets with engaging experiences, then selection of the best available site, alongside a deliverable funding model.

Figure 4 Investment Logic Map for a new Shepparton Art Museum



Outlining the benefits of the recommended project

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

- Lift community pride and optimism about the economic outlook for the city;
- Activate cultural precinct in Shepparton CBD, improve vibrancy and economic activity;
- Build business confidence, leverage private investment and future job creation in food, retail, accommodation, tourism and hospitality sectors;
- Improve the liveability of the city;
- Improve community connectiveness and social cohesion, provide a place within the mainstream for Indigenous and new migrant communities;
- Increase the number of tourists to Shepparton; and
- Increase the share of tourists to Shepparton visiting museums and art galleries.

This project provides three key benefits. For each of these benefits, this business case in Section 6 reports a benefits management plan. The benefits management plan features key performance indicators for each of the three claimed benefits as well as what evaluation techniques should be used. This approach ensures that the delivery of benefits can be monitored and evaluated.

Shepparton gains a new iconic attraction

This benefit is assessed as 45% of the total benefits from this project.

The net benefits after costs to the Victorian community were assessed using cost benefit analysis. A cost benefit analysis approach requires an answer to the key question of: 'What is the community's willingness to pay for a new SAM and does this exceed the costs to the community?' 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

was \$9.15 million 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.

Also important to a full picture of the benefits from Shepparton from a new iconic attraction are the following further benefits:

- the direct boost to the economy through construction
- a new reason for tourists to visit and stay longer
- an indirect boost to business and consumer confidence in the region

Cultural life of the community is enriched

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

This class of benefits includes:

- Providing a meeting place for the multi-cultural community
- Providing increased recognition of Indigenous art

- Developing Indigenous arts industries in the region
- Integrating Indigenous and non-Indigenous art

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.

This class of benefits includes:

- Attracts major philanthropic donations
- Provides popular educational experiences in Indigenous art
- Providing popular educational experiences in art education for the young

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.

H. Risk management strategy

Six risks have been identified that require risk management:

1. Governance model not implemented
2. Capital investment failure
3. Visitation forecasts not met
4. Unable to fund the operating cost on an ongoing basis
5. Shell lease and remediation requirements not met
6. Complications with environmental and planning approvals

Each risk was assessed in terms of the likelihood of the risk occurring and the extent of the impact (if it was to occur). 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

A risk management strategy was prepared to provide potential mitigative

measures to minimise the chances of the risk occurring, or minimise the consequences should it begin to occur.

I. Path to implementation

Figure 4 presents an implementation plan, and indicates that if commenced in January 2015 a new art museum in Shepparton could be open in March 2019. It is acknowledged that the timelines are flexible and are based on key milestones being reached. Six key milestones are:

1. Council approval to proceed by the end of May 2015. This involves approval to:
 - Proceed to develop a new art museum and establish a separate governance structure
 - Provide \$10M in development funding
 - Provide \$1M ongoing operational funding per annum
 - Provide peppercorn rent for a building and surrounds in the location proposed

| | | |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Loan of the art collection to the new entity | <p>detailed design to proceed</p> | <p>In addition to the risks identified above, there are several timing risks to the project that need to be considered before commencing implementation. Timing risks deserving serious thought early on are:</p> |
| <p>2. Procurement of development funding from the State and Commonwealth governments.</p> | <ul style="list-style-type: none"> ▪ Terminating the Shell lease and ensuring the site is remediated and made safe for public use | <p>1.The extent of community consultation associated with the project and the extent that the project scope is altered to accommodate the feedback.</p> |
| <p>3. Procurement of an \$8M investment fund to support operations. This involves the SAM Foundation:</p> <ul style="list-style-type: none"> ▪ Formally confirming \$4-5M secured funds by July 2015, so that this can be incorporated into funding applications to the State and Commonwealth applications ▪ Formally confirming the additional amount of \$8M towards the end of 2017 | <p>6. Completing construction of the new art museum within 20 months, by the end of February 2019, allowing time to transfer the Collection and set up the building for operation by March 2019.</p> <p>The milestones need to be met for the project to stay on time and on budget.</p> | <p>2.Delays in decision making by Council.</p> <p>3.Timing of State and Federal government funding requests with respect to political cycles.</p> <p>4.Timing of private fundraising commitments and actuals.</p> |
| <p>4. Establishing a Not for Profit Company limited by guarantee, Board of Management and transition plan in 2016</p> | | |
| <p>5. Securing the location ready for construction by the end of June 2016. This involves:</p> <ul style="list-style-type: none"> ▪ Securing environmental approvals for the | | |

Figure 4 Proposed path to implementation for a new art museum in Shepparton

