

## 11. REVIEW OF THE CHRISTCHURCH ART GALLERY

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The purpose of this report is to seek the Committee's recommendations on the review of the Christchurch Art Gallery. This report was before the Budget Scrutiny and Audit Special Committee at its meeting on 25 October 2002.

### BACKGROUND AND PROCESS

The review of the Art Gallery is one of a rolling programme of significant activity reviews being carried out over the next two-three years. The reviews are being carried under the auspices of the Budget Scrutiny and Audit Special Committee.

### Review Objectives

The review is to report to the following objectives:

1. *To identify the major cost (operational and capital) and revenue drivers for the next five financial years (operating) and based on these, to evaluate options to reduce costs and/or increase revenues.*
2. *To review all current and proposed contractual arrangements relating to the art gallery business to ensure that:*
  - *Options for service delivery are considered; and*
  - *Contracts are efficient and effective.*
3. *To review options for alternative levels of service and service delivery methods.*

*The review will primarily focus on the Strategic Plan for the new Art Gallery to test the issues raised above.*

### Timing and Focus of Review

The review commenced in April 2002 with the last seminar on review findings being presented in August 2002.

The review was carried out in a period when the Robert McDougall Gallery was closing and significant effort was being invested by the Art Gallery Team on preparations for the new Christchurch Art Gallery which was under construction. As such, the Review Team has not had the opportunity to review the new operation and has had to focus on the proposed operating plan, including financial planning.

The other reality accepted by the Review Team is that the Christchurch City Council has invested heavily in creating this new facility and this by itself creates limitations. It did not seem sensible at this time to suggest alternative (lower) levels of service or major changes to operations given the investment of time, effort and funds to date and the momentum the Art Gallery Team has towards successfully opening and running this major facility.

### Review Process

The stages of the review completed to date are:

1. Review Team work with the Art Gallery Team to identify issues, etc.
2. Review Team draft presentation to Budget Scrutiny and Audit Special Committee.
3. Draft presentation to joint seminars (2) of Budget Scrutiny and Audit Special Committee and Arts, Culture and Heritage Standing Committee.

The next stages are:

1. Review Team report to Budget Scrutiny and Audit Special Committee.
2. Report forwarded on to Arts, Culture and Heritage Standing Committee with Budget Scrutiny and Audit Special Committee recommendations.
3. Report forwarded to the Council for approval with Arts, Culture and Heritage Committee recommendation and Budget Scrutiny and Audit Special Committee recommendation.

#### **COMPARISON BETWEEN ROBERT McDUGALL AND THE CHRISTCHURCH ART GALLERY**

The new Christchurch Art Gallery is a significantly larger facility than the old gallery. This increase in size presents a number of opportunities for showing works, but it also provides for a significantly greater emphasis on widening the appeal and reach of the visual arts into the community. This is captured in the Gallery concept – *'The new Christchurch Gallery is for everyone'*. The increase in size also creates the opportunity to widen the range of experiences available, in particular this is reflected in the proposed café/restaurant, covered car park, greatly increased art shop and the auditorium.

The following statistics highlight the extent of the change from the old gallery to the new gallery:

	<b>Robert McDougall</b>	<b>Christchurch Art Gallery</b>
Exhibition space	850 m <sup>2</sup>	2950 m <sup>2</sup>
Number of works on display	90	600
Number of exhibitions per year	12	26
Number of travelling shows	2	7
Forecast visitor numbers	240,000	400,000
Number of staff (FTEs)	28	47

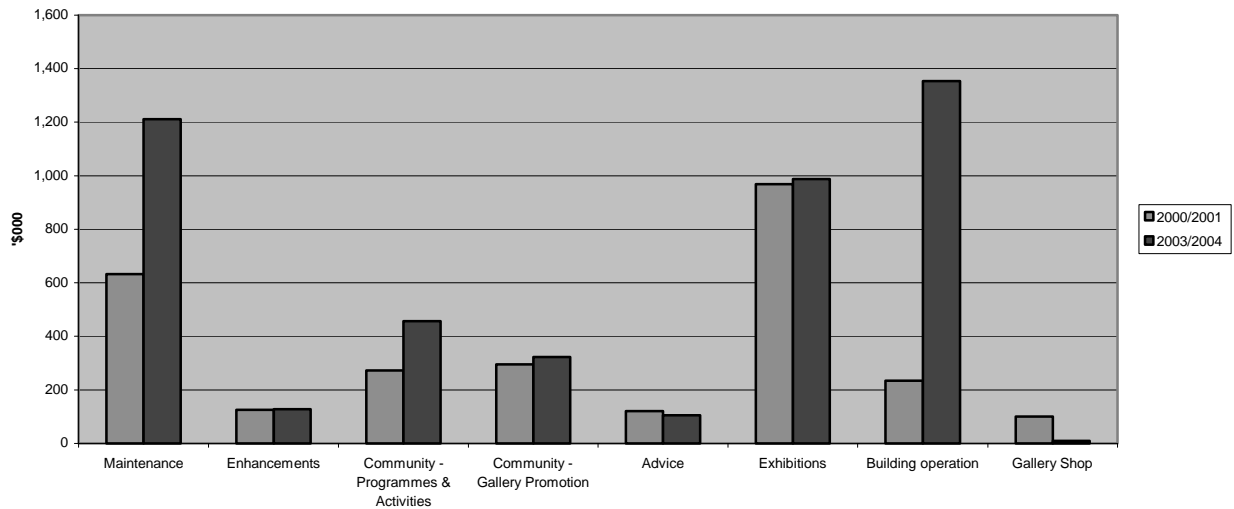
#### **Financial Comparisons**

The increase in size of facility, range of services and sophistication of plant also naturally leads to an increase in operating cost (figures based on original 2002/03 budget).

	<b>Robert McDougall</b>	<b>Christchurch Art Gallery</b>
Gross Operating Cost	\$3,182,000	\$7,018,000
Revenue	\$435,000	\$1,005,000
Net Operating Cost	\$2,593,000	\$6,013,000

The financial comparison can be further broken down to a comparison of the output costs and revenues as follows:

### Financial Comparison



The operational cost comparison highlights that:

- Maintenance costs have increased 100% reflecting the greater number of works to be presented each year and the conservation work this drives.
- Community programmes and activities output has increased 50% reflecting the increased scope of this activity with the new facility.
- Building operations show the largest increase (600%) as this output captures the costs related to the larger and higher value and complexity of the facility.
- Exhibition costs have not increased despite a 100% increase in the number to be presented each year as the cost for any exhibition will be spread over 1-3 years dependent on the level of research and coordination required. In effect the 2000/01 budget already reflected the greater level of exhibition activity.

The revenue comparison highlights that:

- There has been little allowance made for additional revenue from the increased number of exhibitions.
- Building operations revenue includes the revenue from leasing the café/restaurant, the gift shop and the car parking space.
- The Gallery Art Shop is significantly larger than the small shop at the entrance to Robert McDougall and is therefore anticipated to generate greater revenue.

### REVIEW ISSUES AND ANALYSIS

A number of issues were highlighted through the review, these are commented on below:

#### Budget Calculations

A review of the draft 2002/03 budget highlighted a number of inaccuracies as follows:

- |   |                    |
|---|--------------------|
| • Depreciation was double counted -   | \$785,000          |
| • Revenue for leases had not been fully allowed for as the leases had not been finalised -                                      | \$145,000          |
| • Some salaries were double counted -   | \$110,000          |
| • Ongoing costs for Robert McDougall Gallery were in the budget, these were already accounted for in the Property Unit budget - | \$117,000          |
| <b>Total reduction of</b>   | <b>\$1,157,000</b> |
| <b>Total rates reduction of (excluding depreciation)</b>  | <b>\$372,000</b>   |

## Gallery Art Shop

The Art Gallery Team propose to run this facility in-house using the skills and resources built up from operating the previous smaller shop at the Robert McDougall. The new art shop is significantly larger and has been positioned in the new facility to capture both gallery visitors and Worcester Boulevard foot-traffic.

The art shop will handle different types of art-related goods, including core Christchurch Art Gallery publications and merchandising (supporting exhibitions and general displays) produced by the Gallery, specialist art books not normally available in Christchurch and more general merchandising with popular appeal.

The projections for the shop are based on independent research carried out in 1998.

The proposed budget for the shop is set out below:

Sales	\$630,000
Cost of goods sold	(\$450,000)
Gross profit	\$180,000
Direct costs	(\$103,500)
Gross contribution	\$76,500
Overhead allocation	(\$73,500)
Net Profit	\$3,000

This budget highlights that after direct costs are accounted for the shop will make a positive contribution of \$76,500. If the shop was not to operate the overhead allocation would remain to be spread over the rest of the facility.

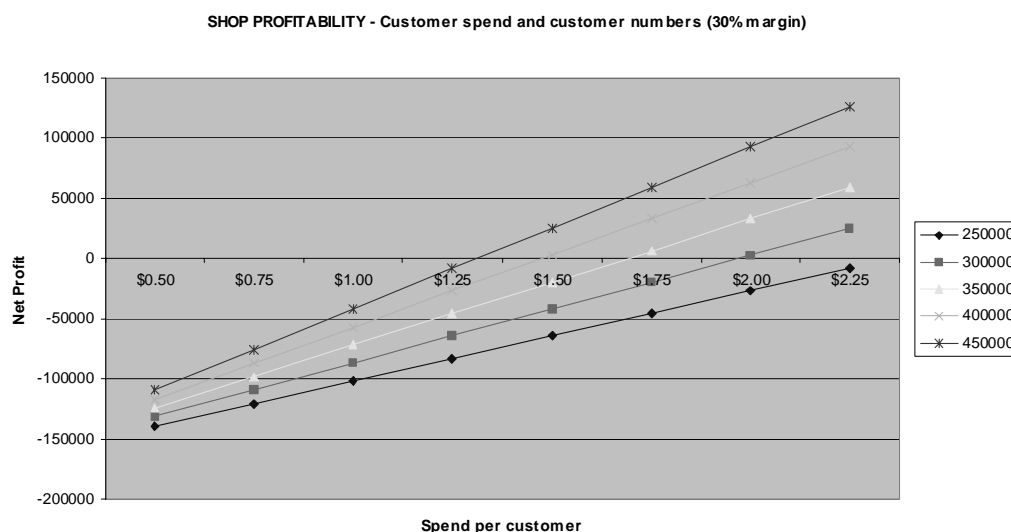
The comparison between the shop in Robert McDougall and the new art shop highlights some key issues:

	<b>YE 2000/01 Actual</b>	<b>YE 2003/04 Five Year Projection</b>
Gross revenue	\$133k	\$630k
Net loss	\$100k *	\$10k
Visitors	240,000	400,000
Spend/visitor	\$0.54	\$1.58
Gross margin	11%	29%

\* \$87,000 stock write-off.

The two key issues to highlight relate to the stock write-off and the spend per visitor. Any shop must anticipate a level of stock write-off each year. The Art Gallery produces a number of publications and merchandise. To date the Gallery has over-produced on many of these titles and the stock has consequently been heavily discounted or dumped, both of which reduce the value of expected sales. Staff are applying tighter criteria to all publication proposals in an effort to reduce the number of titles that are produced as well as the print run. The calculation for gross revenue needs to take a realistic level of stock write-off into account.

It is noted that there is an expectation for a 300% increase in the spend per visitor. This is based on the greater range of goods offered for sale and the increased profile of the shop. Analysis of the sensitivity of shop profitability to different spend per visitor and to different visitor numbers is shown in the graph below.



This graph highlights the potential risks if spend per visitor drops, or overall visitor numbers drop.

The Review Team considered options for the Council to lower the potential risk of loss of profitability. Management options considered were:

- Outsource the provision of the art shop – this was not supported as currently there are very few providers around New Zealand for this type of specialist art shop.
- Enter into a joint venture – this was considered to be a worthwhile option for future consideration. It is not practical to seek joint venture partners at this time in terms of having the facility open for operations when the Gallery opens.
- Continue with in-house operation – this was ultimately the favoured option for the time-being given practical difficulties with seeking partners. A strong management plan (merchandising) is required however to give confidence that the Art Gallery Team are managing this business venture appropriately. It is supported that this management plan be peer reviewed by a retail consultant.

## Marketing

The Review Team considers that the Art Gallery Team need to have a well-targeted marketing plan in place for the new operation. The new facility provides obvious marketing opportunities with a potential to reach into markets previously unattainable. The Gallery also has some potentially tough targets to meet for visitor numbers with the challenge likely to come 18-24 months after opening when the initial surge of interest possibly tapers off.

Key issues identified are:

- Strategy for identifying and then reaching visitor target markets – local, national and international.
- Strategy for developing and integrating the various publications and media channels (ie web site) to create a strong brand presence.
- Marketing the facility as a whole based on the range of experiences available.
- Developing partnerships with other cultural institutions to leverage maximum value for marketing spend.
- Achievement of revenue targets.

It is anticipated that a draft marketing strategy will be available shortly and the Review Team will provide comment on this.

## **Revenue Streams**

The Review Team has identified that relatively little revenue modelling has been done by the Art Gallery Team. This is understandable given the pressure on achieving core capital funding for construction of the new facility.

Areas identified as potential additional revenue sources are:

- Venue hire – the new gallery has been constructed to create the opportunity for hiring a variety of spaces. A revenue stream from venue hire should be available given the likely status of the new facility.
- Exhibitions – the number of exhibitions to be held is to double (from 12 per year to 26 per year) but the forecast for revenue from exhibitions has not altered significantly. It should be realistic to target say 20% of the total cost of international and special exhibitions as external revenue with this revenue coming from sponsorships, charges and related public events.
- General sponsorship – it is noted that sponsorship for the new gallery has tapped into the available sources to a large extent. It is critical, however, that there is an explicit strategy to achieve sponsorship on an ongoing basis.
- Conservation – the gallery has built up a skilled resource in this area. The current focus is on bringing the art stock up to presentation standard but when this peak of work is completed there may be revenue opportunities available utilising the rare skills in this group.
- Education programmes – the Art Gallery Team advise that they may be able to attract Government subsidy for some of the education programmes they are proposing to run. This is dependent on a yet to be completed Education Plan which the Review Team will provide comment on.
- Funding Committee – during the seminar sessions it was suggested that the Art Gallery Team may benefit from having the support of a separate fund raising committee. The Art Director is to report on this issue to the Arts, Culture and Heritage Committee in due course.

The Review Team concluded that there are a number of opportunities available for the Art Gallery Team to attract additional revenue over the next few years. A target of \$300,000 to \$550,000 over the next three years was considered realistic.

## **Opening Hours**

The Review Team, as part of the review process, questioned the need for a late night on Wednesdays. It was calculated that this late night attracted additional costs of around \$30,000 for the year.

The Art Gallery Team strongly support the need for a late night and have suggested that a small alteration to the daily closing time (from 6pm to 5pm) would fund the late night. This is supported by the Review Team on the basis that the success of the late night be reviewed by the Art Gallery Team in one year's time.

## **Community Programmes and Education**

The Art Gallery Team is proposing to increase spending by 60%, from \$284,000 to \$456,000, in this area in response to the historical demand for these services and as part of the strategy to reach a wider group of potential visitors.

The Art Gallery Team is still working on an Education Plan that will set out the target markets, the proposed levels of service and the opportunities for increased revenue. The Review Team will comment on this plan when it is available.

## **CONCLUSION**

This review was carried out at a difficult time, both in terms of the Review Team being able to get a real understanding of the new operation and for the Art Gallery Team who are working hard towards the opening date for the new facility.

Despite this a number of worthwhile issues have been scoped, often for further evaluation, and from a budget scrutiny perspective potential savings have been identified. To summarise these are:

- Proposed net cost           \$6,013,000
- Budget alterations         (\$1,157,000)
- Additional revenue         (\$300,000 – \$550,000)
- Revised net cost           \$4,276,000 - \$4,526,000
- Rates reduction           \$702,000 - \$952,000

To date the Art Gallery Team has been rightly focused on the major challenges of raising funding for and constructing the new building. The focus now needs to shift to successfully running the new business.

The Budget Scrutiny and Audit Special Committee resolved:

1. That the savings identified of \$1,157,000, the savings for the late night of \$30,000 and the additional revenue identified of \$300,000 to \$550,000 be included in the first three years of the draft 2003/04 Art Gallery financial plan.
2. That the Art Gallery Team complete a merchandising plan for the new Art Shop as quickly as possible, with this to be reviewed by an external retail consultant and the Review Team.
3. That the Art Gallery Team complete a marketing plan for the new Christchurch Art Gallery by November 2002 with this to be reviewed by the Review Team.
4. That the Art Gallery Team complete an education plan for the new Christchurch Art Gallery by November 2002 with this to be reviewed by the Review Team.
5. That this report, including Budget Scrutiny and Audit Special Committee recommendation, be forwarded to the Arts, Culture and Heritage Standing Committee for its consideration and recommendation to the Council.

**Deputy Chairman's**

**Recommendation:**       That the Budget Scrutiny Audit Special Committee's finding be endorsed.