

Culture Committee - CC-8-01(p.1)

Date: 16th May 2001
Time: 9.00am - 12.30pm
Venue: Committee Room 1, National Assembly Building

WALES MILLENNIUM CENTRE

PAPER TO NATIONAL ASSEMBLY FOR WALES

CULTURE COMMITTEE

16 MAY 2001

INTRODUCTION

1. In this presentation to the National Assembly for Wales's Culture Committee, Wales Millennium Centre is responding to the statement made by the Finance Minister on 5 April in respect of the Business Plan for the Centre in the post opening period:

'Subject Committee should be reassured of the business plan and the extent to which there is a reasonable expectation of accommodating the operational phase within £2m annually'

Earlier in the statement this figure was described as £750,000 programme investment; £500,000 operational costs; and £800,000 for resident companies.

Specific questions were raised about WMC's potential to attract over 400,000 people annually to the theatre for 300 performances.

2 This document sets out to establish that:

- the current business plan is sustainable. This has been amended to take account of the recommendations contained in the National Assembly's report commissioned from

PriceWaterhouseCoopers.

- the £2m of public investment annually, post-opening, will ensure that the Centre is sustainable, and that an enhanced programme of national and international cultural activity can be presented as a result.

CULTURAL RATIONALE

3 Wales Millennium Centre aims to be:

- An international arts centre where adults and children can enjoy musicals, opera, dance, ballet and musical theatre
- A creative, administrative and production base for Wales's leading cultural organisations
- A centre where people of all ages and abilities can develop their skills and interests through the artsExplorer programme
- A national icon which represents the aspirations of Wales as a developing nation
- A focus for economic regeneration
- A driving force for Welsh cultural ambition

NEW CONSIDERATIONS

4 Wales Millennium Centre has met with PriceWaterhouseCoopers and has discussed at length the recommendations in their report. As a result, the high risk areas they identified have been addressed in WMC's revised Business Plan as summarised below, taking account of the proposed £2m investment by NAW. PWC identified the following high risk areas:

- The financial requirements of high quality programmes
- Audience levels for pantomime, musicals and dance
- Private sector sponsorship
- Service costs
- Break-even position
- Resident companies

5 Accordingly, WMC has adjusted its Business Plan to take account of the programme investment of £750,000 (as provided as an enhanced option previously), by:

- Improving the deals offered to major producers to ensure that the highest international quality product is seen in Wales, thereby increasing WMC's ability to attract audiences and private sector support
- reducing the total number of presented performances by 29 to a total of 271 (evenings and matinees) and adjusting the runs of performances
- replacing the removed performance weeks with additional conference activity, thereby

increasing net income at reduced risk.

- increasing the levels of artsExplorer activity across Wales and promoting regular Festivals to draw people within Wales into WMC

6 In addition, the proposed public investment of £500,000 for operational costs will act as a support mechanism in the early years to enable WMC to grow its market, and a resource to cover long term maintenance once the Centre is established. The £800,000 public investment to the resident companies reflects the figure outlined to NAW by the Arts Council of Wales. It covers the costs of their move to WMC and an increased programme of activity across Wales.

THE BUSINESS PLAN

7 This section sets out to explain the main assumptions underpinning the business plan. Accordingly it:

- establishes the key financial premises
- summarises the core assumptions for income and expenditure
- compares these assumptions with other similar venues
- indicates the impact of the proposed public investment

Key financial premises

8 The Centre anticipates selling 403,127 tickets annually to generate the primary and secondary sources of income which it requires.

9 In addition to the sale of these tickets, there will be an annual fund-raising and sponsorship requirement of £300k.

10 The investment in enhanced national and international programming of £750,000 accepted by NAW enables WMC to improve the quality of its events and to focus its activity on about 270 events per year in the main theatre, supported by Festivals, informal performances and an extensive artsExplorer programme of education and participative arts activity across Wales.

11 WMC also aims to attract an additional 338,200 visitors, which will allow the Centre to grow and develop but it should be emphasised that this target has no implication for the core business plan. The importance of these visitors lies in the life they bring to the Centre on a daily basis, their role in the audience development programme and their potential for increasing secondary spend and generating ticket sales in the longer term.

Income projections_

12 Overall projected income and expenditure in the first full year of operation is as follows:

	2005 (year 1)
	£000s
Income	8,524.89
Expenditure	8,494.84
Surplus (Loss)	30.05

In the first three years of trading, the out-turn is projected as follows:

(£000s)	2005	2006	2007
Surplus	30.05	174.1	191.6

13 Sources of income will be generated under six categories, which are dealt with in detail in the paragraphs that follow:

- programme of theatre events which will generate ticket sales (70%)
- NAW investment in programme (8.7%)
- ancillary income generated via ticket sales (6.9%)
- other events, broadcasting, conferences (5.9%)
- retail and catering (5%)
- the fund-raising and sponsorship programme (3.5%)

14 The lyric theatre has a capacity ranging from 1,700 to 1,850 depending on the size of orchestra pit required. WMC will offer 271 events annually. WMC is budgeting to attract a total of 390,752 to this auditorium (an overall occupancy of 72%). In addition, the studio will attract another 12,375. The main house audience can be analysed as follows:

- WNO 18 weeks (30 performances) 35,78470%
- Christmas show/Panto 5 weeks (49 performances) 75,30380%
- Dance/Ballet 5 weeks (32 performances) 42,12370%
- Large-scale Musicals 16 weeks (125 performances) 178,21975%
- Middle-scale Musicals 5 weeks (35 performances) 59,31260%

15. Ancillary income is based on the sale of 403,127 tickets per annum for the theatre. It comprises an average 6.9% of income over the first three years of operation for sales of merchandising, confectionery, bars and the contra agreements with visiting companies for services at the theatre and totals £592,725 as follows:

	£
Merchandising/confectionery	224,448
Bars	125,977
Contras	202,300
Income	40,000
TOTAL	592,725

16 Other income comprises broadcasting, conferences and backstage tours:

- Broadcasting, targeted at £50,000, will focus on WMC's development as a commercial 'content provider' and on the establishment of an intellectual property rights programme including digital films and videos, computer animation, on-line shopping. Assumptions are based on meetings with broadcasters and advice from WMC's consultants
- Conferencing, targeted at £120,000 will focus on 3-4 centre-wide conferences of national and international associations requiring plenary facilities for 1,000+ and also on product launches which use the technological facilities and stage in the main theatre. The figures have been developed by National Exhibition Centre Worldwide (NEC Birmingham).
- Backstage tours are targeted to generate £30,600 per annum (15,330 people)

17 Catering and Retailing areas will be let by WMC under franchise agreements. WMC has been advised by King Sturge letting agents and verified by Richardsons that an income of £423,066 annually, is achievable. At the outset of the franchise, a 6-month rent free period has been assumed.

18. The £300k identified in the fund-raising and sponsorship operational target has been carefully calculated in the knowledge that the private sector will have made extensive contribution to the capital development and a new and unproven artistic programme will take time to attract consistent private sector support. The main thrust of the strategy for the early years is therefore on trusts, foundations and a comprehensive range of

membership schemes. Annual income will be broken down as follows:

- Sponsorship£100k;
- Membership£125k;
- Trusts/Donations£ 75k.

Expenditure projections

18. Expenditure falls into the following categories:

- Payment to visiting companies57%
- ArtsExplorer, Festivals & other events 6.8%
- Staff costs20%
- Marketing 5%
- service costs 9.7%
- other costs 1.5%

18. Expenditure on visiting companies has been adjusted to ensure that high quality programmes can be secured for WMC in order to profile Welsh cultural activity and international work. artsExplorer programmes have been enhanced to ensure that a broad range of people across Wales can participate in arts activity.

19. Expenditure on staff costs in 2005 will be £1,698,000 a figure that is in line with other arts venues. Certain areas of administration and management could be shared across WMC and its residents. This is being further explored in order to maximise operational effectiveness and control of costs.

23 Marketing expenditure is projected at £420,000 and is based on figures from other venues.

24. Service costs were reviewed on completion of Stage D design. The figure of £822,355 for WMC's areas of the building is broadly in line with earlier estimates and is comparable to arts buildings with similar facilities.

Comparative analysis with similar venues

25 The following venues have been used as comparators:

- New Theatre at Milton Keynes. This has a capacity of 1,360 seats, is a newly-built theatre and the lyric theatre performances are key to its operation. It averaged 85% occupancy in its opening year;
- Edinburgh Festival Theatre. A capacity of 1,900 and the ratio of potential customers to available seat is 35% higher than in Cardiff therefore the

competition is more intense;

- Hippodrome, Birmingham. The capacity is 1,770-1,900 and is probably the closest equivalent to the WMC;
- South Bank Centre, London, for retail and catering

26 The figures from comparative venues show that:

- occupancy rates vary between 56% and 80% for the different theatres: WMC projecting a figure of 72% across the year
- Welsh National Opera is projecting an average audience of 70% at WMC: 1,193 attendees per performance. This is 250 fewer attendees per performance than at other venues where they perform.
- WMC's deals with producers are in line with other venues
- WMC's ticket prices are competitive: top prices for opera tickets elsewhere are £47 and bottom price is £9 (WMC is £35 and £5 respectively); top for musicals is £25 and bottom is £6 (WMC is £27.50 and £5 respectively); top for pantomime is £20 and bottom is £6.50 (WMC is £15.50 and £5 respectively).
- income from ancillary in-house trading is similar to other venues.
- retail and catering figures are comparable with South Bank Centre where a similar range of facilities exists
- WMC's annual private fundraising targets are not excessive
- WMC's marketing, staffing and operating costs are in line with venues such as Birmingham Hippodrome and South Bank Centre

Validation of audience and visitor figures

27 In January 2001, a comprehensive testing of visitor assumptions has been undertaken by M&C Saatchi Arts. This has deduced that:

- a reasonable audience expectation for the main Lyric theatre is 432,386. The present estimates are predicated on 90% of this figure
- public investment to ensure that the programme is of genuinely high standard would increase that potential audience expectation to 487,610. The present estimates are predicated on 80% of this figure
- WMC can reasonably expect to attract about 338,200 visitors in addition to those buying tickets for public performances

28 These results lead to the conclusion that WMC should plan on a minimum total visitor expectation of around 741,000 and that high-quality programming could increase that to about 825,000. Should that be achieved, the increase in net trading income to WMC would be around £85,000.

29 Recent research by Stevens Associates, Swansea, on the ticket purchasers and visitor number assumptions in the Business Plan reaffirms that, in a Welsh context, the projections are robust and sustainable.

Appendix: List of external advisers and consultants who have been engaged in this report:

- **Graham Devlin (independent adviser on the arts)**
- **M&C Saatchi Arts (marketing)**
- **Cameron Macintosh Consultants**
- **Stevens Associates (marketing)**
- **King Sturge (retail)**
- **National Exhibition Centre Worldwide (conferencing)**