

<b>ORDINARY MEETING</b>	<b>9</b>
<b>16 DECEMBER 2015</b>	

## CAIRNS PERFORMING ARTS CENTRE - DETAILED FINANCIAL ANALYSIS

Lisa Whitton | 17/49/9-06 | #4962187

### **RECOMMENDATION:**

**That Council notes the outcomes of the detailed financial analysis for the proposed Cairns Performing Arts Centre.**

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### **EXECUTIVE SUMMARY**

This report provides Council with an overview of the detailed financial analysis undertaken for the proposed Cairns Performing Arts Centre (CPAC). The detailed financial analysis provides forecasts for the activity, revenue and expenses for the CPAC. Forecasts have been compared to existing funding allocations made within Council's 2015/16 Long Term Financial Model (LTFM) and demonstrate that Council has more than adequate capacity to accommodate the construction and operations of the CPAC.

What does this mean for the ratepayer - the detailed financial analysis confirms the outcomes of Council's LTFM which indicated annual rate rises in the order of 2% - 3.5% for the next ten years.

What does this mean for theatre customers – based on current forecasts there is no obvious need to change the charging structure of the theatre meaning no anticipated increases in hire fees other than CPI based increases.

### **BACKGROUND**

During the development of the 2015/16 Budget, detailed design and planning for the CPAC had not yet been finalised and as such a combination of direct allocations (based on known operational costs of the existing Civic Theatre, depreciation and interest expense) and indirect allocations (general allowances for additional operational expenses associated with new capital works projects) were allowed in the LTFM for the CPAC.

Once the planning and design of the CPAC had reached an appropriate stage, the detailed costing analysis for the CPAC was developed. Operating forecasts have been developed internally by Finance and Civic Theatre management. Input has been provided from CPAC quantity surveyors Davis Langdon (AECOM) for the projected capital renewal requirements. AECOM have also provided assistance in the development of electricity expense forecasts.

Grant Thornton has been engaged to provide a Limited Assurance Engagement on the financial forecast, in which they have reviewed the reasonableness of the outcomes and underlying assumptions for the costings analysis. Their final opinion is contained in Attachment 1.

### **COMMENT**

The model for the operating revenue and expenses for the CPAC has been developed based on the activity of the existing Civic Theatre. The following table outlines the 2014/15 operating result for the Civic Theatre:

**TABLE 1: Civic Theatre 2014/15 Operating Result**

	Civic Theatre Actual
	2014/15 \$'000
<b>Operating Revenue</b>	
Venue Hire	209
Ticket Sales - Council Funded Shows	469
Additional Hire Fees	431
Bar Sales	171
<b>Total Operating Revenue</b>	<b>1,280</b>
<b>Operating Expenses</b>	
Employee Costs	1,015
Programming Expenses	423
Materials and Services	358
Electricity	136
Bar Purchases	86
	<b>2,018</b>
Depreciation	611
Interest Expense	-
<b>Total Operating Expenses</b>	<b>2,629</b>
<b>Operating Surplus / (Deficit)</b>	<b>( 1,349)</b>

The following table shows a high level comparison of the Civic Theatre operating result to the forecast operating result for the CPAC:

**TABLE 2: Comparison, Civic Theatre v Forecast CPAC Operating Result**

	Civic Theatre Actual	CPAC Forecast
	2014/15 \$'000	Year 1 \$'000
Operating Revenue	1,280	1,772
Operating Expenses	2,018	3,206
<b>Operating Position (ex Depreciation &amp; Interest)</b>	<b>( 738)</b>	<b>( 1,434)</b>
Depreciation	611	2,120
Interest	-	2,091
<b>Operating Position</b>	<b>( 1,349)</b>	<b>( 5,645)</b>
<b>Movement from Civic Theatre</b>		<b>( 4,296)</b>

Civic Theatre Management have made assumptions on the growth potential for the new CPAC for both shows and ticket sales. Operating revenues and expenses relate either directly to the activity at the Theatre (i.e Council Funded Shows and private hires) or the building itself. A breakdown of the forecast revenue and expenditure and underlying assumptions are set out below:

## OPERATING REVENUE ASSUMPTIONS

**TABLE 3: Operating Revenue**

	<b>Civic Theatre Actual</b>	<b>CPAC Forecast</b>
	<b>2014/15 \$'000</b>	<b>Year 1 \$'000</b>
Venue Hire	209	266
Ticket Sales - Council Funded Shows	469	810
Additional Hire Fees	431	468
Bar Sales	171	228
<b>TOTAL OPERATING REVENUE</b>	<b>1,280</b>	<b>1,772</b>

Revenue for the Civic Theatre consists of private hire revenue and the additional hire fees for equipment and staffing associated with these shows, ticket sales for the Council Funded Shows (shows which Council procures) and bar sales.

The 2014/15 Civic Theatre activity has been used as the base position for the CPAC forecast. All pricing has been indexed in line with forecast CPI.

The current charging structure has been maintained whereby hirers pay the higher of the daily hire rate or 10% of ticket sales. The concession rate for local not-for-profit groups has also been maintained.

In terms of ticket sales increases, the following growth factors have been applied at year one of the CPAC, with remaining years indexed in line with population growth forecasts:

- Comedy and Music – 20%
- Kids and Miscellaneous – 10%,
- Remaining categories – 0%

Council Funded Shows have been increased in both the number of shows as well as ticket sales growth. Based on management expectations, Council will look to procure an additional eleven shows. Ticket sales have been forecast to increase in line with the category increases outlined above.

The following tables summarise the show activity for the Civic Theatre in 2014/15 and the CPAC in Year 1 of operation based on the forecast:

**TABLE 4: Show Activity – Civic Theatre 2014/15**

Civic Theatre 2014/15				
Show Type	No. of Shows	Days Hire	No. of Performances	Tickets Sold
Council Funded Show	24	74	49	22,034
Private Hire	49	139	135	48,303
<b>Total</b>	<b>73</b>	<b>213</b>	<b>184</b>	<b>70,337</b>

**TABLE 5: Show Activity – CPAC Year 1**

CPAC Forecast - Year 1				
Show Type	No. of Shows	Days Hire	No. of Performances	Tickets Sold
Council Funded Show	35	90	66	35,074
Private Hire	49	139	135	51,133
<b>Total</b>	<b>84</b>	<b>229</b>	<b>201</b>	<b>86,207</b>

Bar sales revenue has been increased in line with ticket sales.

## OPERATING EXPENDITURE ASSUMPTIONS

**TABLE 6: Operating Expenditure**

	Civic Theatre Actual	CPAC Forecast
	2014/15 \$'000	Year 1 \$'000
Employee Costs	1,015	1,342
Programming Expenses	423	645
Materials and Services	358	558
Electricity	136	545
Bar Purchases	86	116
	<b>2,018</b>	<b>3,206</b>
Depreciation	611	2,120
Interest Expense	-	2,091
<b>TOTAL OPERATING EXPENSES</b>	<b>2,629</b>	<b>7,417</b>

Consistent with revenue, the 2014/15 Civic Theatre activity has been used as the base position for the CPAC forecast expenses. All costs have been indexed in line with forecast CPI.

Employee costs are made up of fixed and variable components. All fixed costs relate to permanent full-time or part-time staff. 2014/15 actual costs for these staff have been indexed in line with expectations. The cost for a dedicated CPAC Manager (an additional position) has also been included in the forecasts. Variable employee costs relate to the casual staff employed directly for shows. The forecasts for these expenses have been based on the 2014/15 average cost per day's hire. Additional allowances have been included for increased ushers, for fire safety compliance, as well as additional bar staff to service the larger two-sided bar.

Bar purchases relate to the purchase of stock for the bar. These have been increased in line with ticket sales expectations.

Programming expenses consist of the fees paid to the entertainers in Council Funded Shows as well as the promotion expenses for these shows. Both costs have been forecast based on increased number of shows as well as the average cost per event in 2014/15.

Materials and services costs relate to a number of items, these are:

- Theatre supplies and equipment – based on existing requirements;
- Cleaning – based on indicative costs from similar sized venues in Queensland;
- Electricity – usage is based on a consumption model developed by AECOM with prices indexed in line with expected price increases;
- Repairs and maintenance – whilst repair costs should be significantly lower on a new building, a 50% increase has been applied due to the increased size of the building as well as expectations that the building will be maintained at a high standard;
- Landscaping – based on internal estimates using Flecker Botanic Gardens experience;
- Misc Expenses – minimal based on 2014/15 actuals;
- Depreciation – calculated based on capital costs and estimates of useful lives; and
- Interest expenses – based on borrowings for \$36.5M.

The following table identifies the revenue and expenditure components as either fixed or variable:

**TABLE 7: CPAC Forecast Operating Result – Fixed v Variable**

	Fixed	Variable	TOTAL
	Year 1	Year 1	Year 1
	\$'000	\$'000	\$'000
<b>Operating Revenue</b>		1,772	1,772
<b>Operating Expenses</b>			
Employee Costs	847	495	1,342
Programming Expenses	-	645	645
Materials and Services	-	558	558
Electricity	158	386	544
Bar Purchases	-	116	116
<b>Operating Expenses ex Depreciation &amp; Interest</b>	<b>1,005</b>	<b>2,201</b>	<b>3,206</b>
Depreciation	2,120	-	2,120
Interest Expense	2,091	-	2,091
<b>TOTAL OPERATING EXPENSES</b>	<b>5,216</b>	<b>2,201</b>	<b>7,417</b>
<b>Operating Position</b>	<b>( 5,216)</b>	<b>( 429)</b>	<b>( 5,645)</b>
<b>% Split Fixed v Variable</b>			
Operating Expenses ex Depreciation & Interest	31%	69%	
Total Operating Expenses	70%	30%	

This shows that only 30% of the forecast expenditure items are variable and are also offset significantly by revenue, demonstrating a low level of risk exposure associated with these items.

### **CAPITAL EXPENDITURE ASSUMPTIONS**

Total capital expenditure for the CPAC is estimated at \$66.5M and funding assumptions have been kept consistent with 2015/16 Budget as follows:

**TABLE 8: Capital Expenditure Source of Funds**

Source of Funds	\$'000
Grant Funding	30,000
Loan Borrowings	36,500
<b>Total Capex</b>	<b>66,500</b>

This represents an uplift of \$11.5M compared to allowances in the 2015/16 Budget and LTFM however this can be accommodated through deferral of projects without any significant impact on ratepayers.

Davis Langdon (AECOM) has prepared a schedule of projected capital renewal requirements for the CPAC. This schedule indicates that capital renewal is not expected until year seven, with a total of \$1.5M of capital expenditure required across years seven to ten.

### **FORECAST COMPARISON TO CURRENT LONG TERM FINANCIAL MODEL**

The results of the detailed costings analysis have been compared to the allocations made in Council's current Long Term Financial Model to determine the impact, if any, on Council's overall forecast position.

As the detailed planning and design of the CPAC was not complete at the time the 2015/16 Budget was finalised, the allocations in the Budget consisted of direct allocations (based on known operational costs of the existing Civic Theatre, as well as depreciation and interest expense) and indirect allocations (general allowances for additional operational expenses associated with new capital works projects).

A comparison of the direct allocations for the CPAC demonstrates that an additional \$1.3M in operating costs for the CPAC will need to be funded from the general operational expense allocation of \$5.2M. This leaves \$3.9M of the general allocation to fund additional expenses associated with other new capital works projects coming on line. Management consider this to be a comfortable allocation given the current capital works program requirements.

## CPAC FORECAST COMPARISON TO CEP

The resulting forecasts for the CPAC have been compared to those of the previous Cairns Entertainment Precinct (CEP) project. For the purpose of this comparison, the CPAC and Munro Martin Parklands (MMP), jointly named The Precinct, forecasts have been combined. The following table provides a comparison summary of the operating position forecasts, capital spend and other key metrics for The Precinct and the CEP. The CEP Financial Position information has been sourced from the long term financial model prepared for the purpose of the Financial Sustainability Review conducted by QTC as part of the approval process for the CEP, presented to Council in November 2011. The data contained in the Other Metrics section of the table has been sourced from the final Business Case for the CEP, presented to Council in November 2011.

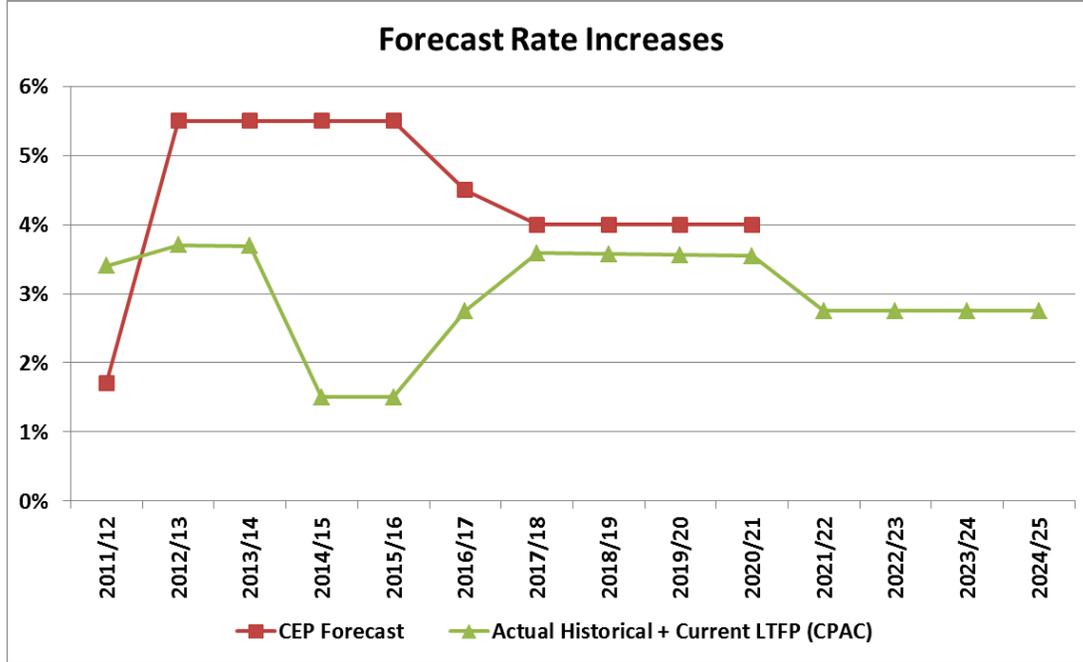
**TABLE 9: The Precinct v CEP Forecasts**

Financial Position	CPAC \$'000	MMP \$'000	Total \$'000	CEP \$'000	Difference \$'000
<b>OPERATING</b>					
Total Operating Revenue	1,772	-	1,772	3,300	(1,528)
Operating Expenses	(3,206)	(353)	(3,560)	(7,300)	3,740
Depreciation	(2,120)	(209)	(2,329)	(3,900)	1,571
Interest Expense	(2,091)	-	(2,091)	(2,200)	109
Total Operating Expenses	(7,417)	(562)	(7,980)	(13,400)	5,420
<b>Operating Result</b>	<b>(5,645)</b>	<b>(562)</b>	<b>(6,208)</b>	<b>(10,100)</b>	<b>3,892</b>
<b>CAPITAL</b>					
Grants	30,000	-	30,000	97,306	67,306
Borrowings	36,500	-	36,500	30,766	(5,734)
Land Sale Proceeds	-	-	-	16,000	16,000
Revenue	-	10,000	10,000	10,540	540
<b>Total Capital Cost</b>	<b>66,500</b>	<b>10,000</b>	<b>76,500</b>	<b>154,612</b>	<b>78,112</b>
<b>Capital Renewal (Year 1 - 10)</b>	<b>1,500</b>	<b>-</b>	<b>1,500</b>	<b>3,750</b>	<b>2,250</b>
<b>Other Metrics</b>					
FTE	14	1	15	25	(10)
Standard Daily Hire Fee	\$ 1,200	N/A	\$ 1,200	\$ 6,000	(\$ 4,800)
NFP Daily Hire Fee	\$ 650	N/A	\$ 650	\$ 5,100	(\$ 4,450)
Bar Revenue per Patron	\$ 2.64	N/A	\$ 2.64	\$ 5.00	(\$ 2.36)
# Performances	201	N/A	201	200	1

The two projects are of significantly different scales, with capital investment for The Precincts being \$76.5M compared to \$154.6M for the CEP. Similarly the annual operational investment is \$6.2M compared to \$10.1M.

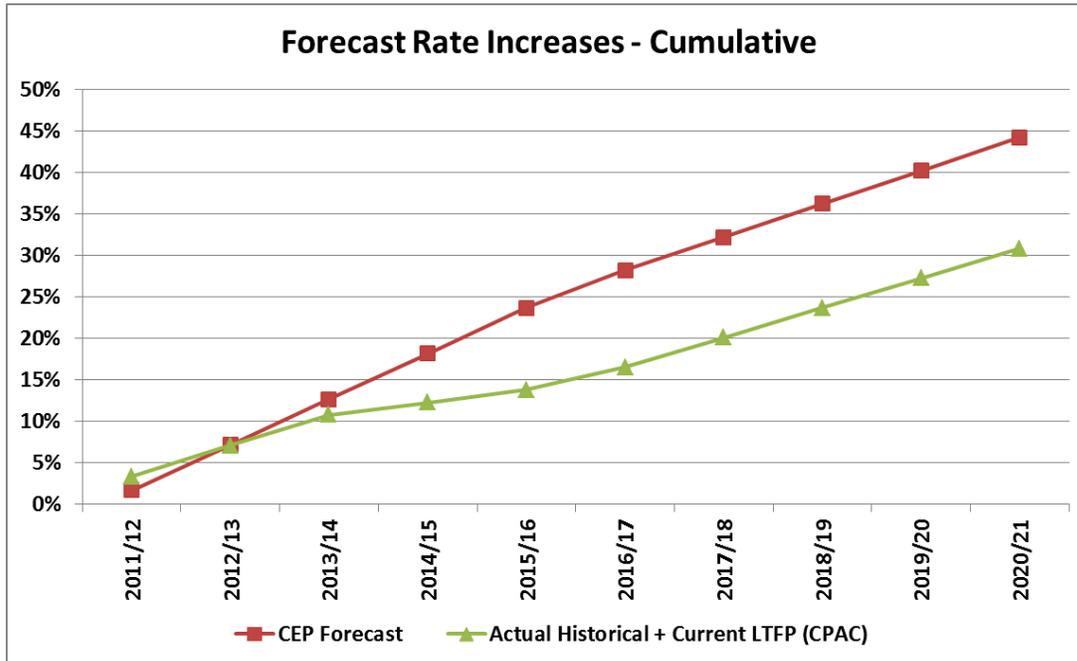
The operational assumptions underpinning the forecasts for each are also significantly different with the CEP based on a standard hire rate of \$6,000 per day compared to \$1,200 for the CPAC and a not-for-profit hire rate of \$5,100 per day compared to \$650 for the CPAC. The following table identifies the forecast rate increases required for each of the projects:

Graph 1: Forecast Rate Increases – CEP v CPAC



The following table shows the cumulative effect of the above forecast rate increases:

Graph 2: Forecast Rate Increases – CEP v CPAC (Cumulative)



## WHAT DOES THIS MEAN?

### For Ratepayers

The detailed costing analysis for the CPAC confirms that adequate allocations were made to fund the CPAC's capital and operational requirements as part of the 2015/16 Budget. This means that we can now formally confirm the following extract from the Mayor's 2015/16 Budget Speech.

*"If the organisation continues to be prudent in its planning and expenditure, financial modelling forecasts over the next decade, a capital expenditure of approximately \$1.4 billion and annual rate increases in the order of 2% - 3.5%."*

### For Theatre Customers

Based on the current forecasts, there is no obvious need to change the charging structure of the theatre meaning no anticipated hire fee increases outside of forecast CPI (2.75% pa) and no anticipated increase in Council Funded Show ticket prices outside of forecast CPI (2.75% pa).

## MUNRO MARTIN PARKLANDS

Forecasts for the operating impact of Munro Martin Parklands (MMP) have also been developed using the same process as outlined for the CPAC including review by Grant Thornton.

Operating costs include:

- Depreciation - which has been calculated based on the approved construction cost;
- Landscaping maintenance - based on internal estimates using Flecker Botanic Gardens experience;
- Repairs and maintenance – cost associated with security and minor reactive repairs and maintenance; and
- Labour – based on internal estimates using Flecker Botanic Gardens experience with an allowance for two additional positions.

Revenue has not been modelled for MMP given that, similar to CPAC, the events to be held at MMP are either cost neutral or will be transferred from other existing sites within CRC.

Based on allowances already made in the 2015/16 LTFM, the additional impact of the MMP is estimated at \$227K.

## **CONSIDERATIONS**

### **Risk Management:**

To provide additional assurance to Council on the process and outcomes of the detailed costing analysis, Grant Thornton has been engaged to undertake a Limited Assurance Engagement. This engagement involved the review of the outcomes and underlying assumptions for the CPAC forecasts. Grant Thornton's opinion is included at Attachment 1.

The risks associated with the forecasts can be summarised as follows:

1. **Grant Funding** for the CPAC cannot be sourced. In this case, Council would look to invoke one of the two sensitivities explored in the development of the 2015/16 Budget. These were to either increase loan borrowings to cover the funding shortfall or to defer other capital projects in the program to later years. The impact of both options has been represented in terms of impact on rates increases. A comparison of the adopted budget (Base Model) to each of these scenarios is contained in Attachment 2.
2. **Construction Cost.** As with any construction project of this size there is always the risk that unforeseen costs will arise. This project will be closely managed to mitigate the risk of such circumstances and Council will be updated monthly on the progress against key milestones including time and budget performance.
3. **Activity/Revenue.** Assumptions have been made regarding the increase in show attendance as well as the number of shows. This is considered low risk as the impact of any derivation is offset by expenditure savings given the very small profit margin associated with show activity.
4. **Operational Costs.** Assumptions have also been made regarding the anticipated operating costs of the CPAC. The risk of variation mainly relates to the variable expenses for the CPAC and is considered low risk due to the impact of variation. As demonstrated in Table 7, the variable costs relate to only 30% of total operating costs and are offset by revenue.

### **Financial:**

The forecast capital and operational expenses associated with the CPAC are within current 2015/16 Budget and Long Term Financial Model allocations.

**ATTACHMENTS**

1. Audit Opinion – Grant Thornton Limited Assurance Review
2. 2015/16 Long Term Financial Model – Sensitivity Impacts

Lisa Whitton  
Manager Finance

A handwritten signature in black ink, appearing to be 'JA', written over a large, teardrop-shaped scribble.

John Andrejic  
Chief Financial Officer

## Attachment 1: Audit Opinion - Grant Thornton Limited Assurance Review



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### **Independent assurance report on Cairns Regional Council statement of forecast income and costs of the Cairns Performing Arts Centre Project**

We have been engaged by Cairns Regional Council ("Council") to report on the Statement of Forecast Income and Costs of the Cairns Performing Arts Centre for the 10 year period commencing 1 July 2018 (the "Forecast") for inclusion in papers dated 16 December 2015 for submission to Council collectively titled "Cairns Performing Arts Centre – Detailed Financial Analysis" ("the Papers"). As agreed in our engagement letter dated 27 November 2015, this report is prepared solely for distribution to Council as an inclusion to the Papers.

Expressions and terms defined in the Papers have the same meaning in this report.

The Statement of Forecast Income and Costs of the Cairns Performing Arts Centre has been prepared for one option as determined by Council, being the demolition of the existing Cairns Civic Theatre and the construction of a new Cairns Performing Arts Centre on the same site. The first year of the Forecast is for the period 1 July 2018 to 30 June 2019 being the first complete financial year after the construction of the new Cairns Performing Arts Centre.

#### **Scope**

You have requested us to review the Forecast prepared by Council management included in the Papers. The stated basis of preparation used in the preparation of the Forecast by Council is in accordance with the recognition and measurement principles contained in Australian Accounting Standards and Council's adopted accounting policies and the specific assumptions described in the Papers.

#### **Management's responsibility**

Council management is responsible for the preparation of the Forecast, including the best-estimate assumptions underlying the Forecast. This includes responsibility for such internal

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controls as management determines are necessary to enable the preparation of the Forecast that is free from material misstatement, whether due to fraud or error.

#### **Our responsibility**

Our responsibility is to express a limited assurance conclusion on the Forecast, the best-estimate assumptions underlying the Forecast, and the reasonableness of the Forecast itself, based on our work. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance engagement consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It is substantially less in scope than a reasonable assurance engagement conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

#### **Basis for qualified conclusion**

A critical assumption made in preparing the Forecast is that the capital cost of the Cairns Performing Arts Centre Project will be partially funded by \$30m of grant funding received from other levels of government. Whilst it is our experience that such projects can receive grant funding from State and Commonwealth governments, and management is exploring opportunities to source such funding, at the date of this report, Council has not received any assurances that it will receive such funding. Accordingly, management has been unable to provide us with sufficient appropriate evidence that it will receive this amount of grant funding for the project and therefore whether such an assumption is appropriate in the circumstances. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

#### **Qualified conclusion**

Based on our limited assurance engagement, which is not a reasonable assurance engagement and except for the effects of the matter described in the basis for qualified conclusion paragraph, nothing further has come to our attention which causes us to believe that:

- management's best-estimate assumptions do not provide reasonable grounds for the preparation of the Forecast; and
- in all material respects, the Forecast:
  - is not prepared on the basis of management's best-estimate assumptions as described in the "Operating Revenue Assumptions", "Operating Expenditure Assumptions" and the "Capital Expenditure Assumptions" sections of the Papers; and

- is not presented fairly in accordance with the stated basis of preparation, being in accordance with the recognition and measurement principles contained in Australian Accounting Standards and Council's adopted accounting policies; and
- the Forecast itself is unreasonable.

#### **Emphasis of matter**

We draw attention to the assumption that the total capital expenditure of the Cairns Performing Arts Centre will not exceed \$66.5m. At the date of this report no construction contract has been signed by Council. In addition, there is a risk that the actual construction costs will differ from this amount and the difference could be material. Our opinion is not modified in respect of this matter.

#### **Forecast financial information**

The Forecast has been prepared by Council management in order to provide Council with a guide to the potential financial outcomes associated with the proposed Cairns Performing Arts Centre for the 10 year period commencing 1 July 2018. There is a considerable degree of subjective judgement involved in preparing a forecast since it relates to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material.

Council management's best-estimate assumptions on which the Forecast is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Council. Evidence may be available to support management's best-estimate assumptions on which the Forecast is based; however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to obtain the level of assurance necessary to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly provide a lesser level of assurance on the reasonableness of management's best-estimate assumptions. The limited assurance conclusion expressed in this assurance report has been formed on the above basis.

Readers of the Papers should be aware of the material risks and uncertainties in relation to the Forecast, which are detailed in the Papers, and the inherent uncertainty relating to the Forecast. Accordingly, readers should have regard to the risks and sensitivities as described in the Risk Management section of the Papers. We express no opinion as to whether the Forecast will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of Council management that all material information concerning the prospects and proposed operations of the Cairns Performing Arts Centre has been disclosed to us and that the information provided

to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

**Reliance on this report**

This report is addressed to the Chief Executive Officer of Cairns Regional Council (as responsible party for Cairns Regional Council).

**Restriction on use**

Without modifying our conclusions, we draw attention to the Executive Summary and Background sections of the Papers, which describe the purpose of the financial information, included within the Papers. As a result, the Forecast may not be suitable for use for another purpose.

**Liability**

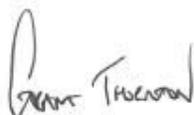
The liability of Grant Thornton Audit Pty Ltd is limited to the inclusion of this report in Attachment 1 of the Papers. Grant Thornton Audit Pty Ltd makes no representation regarding, and has no liability, for any other statements or material in, or omissions from the Papers.

**Declaration of interest**

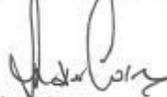
Grant Thornton Audit Pty Ltd does not have any interest in the outcome of this proposed transaction other than in the undertaking of this engagement for which normal professional fees will be received.

**Matters relating to electronic presentation**

This report relates to the Council prepared Statement of Forecast Income and Costs of the Cairns Performing Arts Centre prepared in accordance with the assumptions as set out in the "Operating Revenue Assumptions", "Operating Expenditure Assumptions" and the "Capital Expenditure Assumptions" sections of the Papers. Where this report is displayed on the Cairns Regional Council website, Council is responsible for the integrity of the website. We have not been engaged to report on the integrity of the website. This report is prepared only for the purpose as described above, and does not provide an opinion on any other information in the website that is related to the Cairns Performing Arts Centre.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



Andrew Cornes  
Partner - Audit & Assurance  
Cairns, 14<sup>th</sup> December 2015

Cairns Performing Arts Centre - Detailed Financial Analysis  
Forecast Operating Position

	Civic Theatre Actual 2014/15 \$'000	CPAC Forecast Year 1 \$'000	Year 2 \$'000	Year 3 \$'000	Year 4 \$'000	Year 5 \$'000	Year 6 \$'000	Year 7 \$'000	Year 8 \$'000	Year 9 \$'000	Year 10 \$'000
<b>Operating Revenue</b>											
Venue Hire	209	266	276	287	298	309	321	334	347	360	374
Ticket Sales - Council Funded Shows	469	810	853	899	947	997	1,050	1,106	1,165	1,227	1,292
Additional Hire Fees	431	468	481	495	508	522	537	552	567	583	599
Bar Sales	171	228	239	252	266	280	295	310	327	345	363
<b>TOTAL OPERATING REVENUE</b>	<b>1,280</b>	<b>1,772</b>	<b>1,850</b>	<b>1,932</b>	<b>2,018</b>	<b>2,108</b>	<b>2,203</b>	<b>2,301</b>	<b>2,406</b>	<b>2,515</b>	<b>2,628</b>
<b>Operating Expenses</b>											
Employee Costs	1,015	1,342	1,379	1,417	1,456	1,496	1,537	1,580	1,623	1,668	1,714
Programming Expenses	423	645	661	678	694	712	730	748	767	786	805
Materials and Services	358	558	572	587	602	617	633	648	665	682	699
Electricity	136	545	558	572	587	601	616	632	648	664	680
Bar Purchases	86	116	122	128	135	142	149	157	165	173	182
	<b>2,018</b>	<b>3,206</b>	<b>3,293</b>	<b>3,382</b>	<b>3,474</b>	<b>3,568</b>	<b>3,665</b>	<b>3,765</b>	<b>3,867</b>	<b>3,972</b>	<b>4,080</b>
Depreciation	611	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120	2,120
Interest Expense	-	2,091	2,026	1,957	1,884	1,807	1,725	1,638	1,545	1,447	1,343
<b>TOTAL OPERATING EXPENSES</b>	<b>2,629</b>	<b>7,417</b>	<b>7,439</b>	<b>7,459</b>	<b>7,478</b>	<b>7,495</b>	<b>7,510</b>	<b>7,522</b>	<b>7,532</b>	<b>7,539</b>	<b>7,543</b>
<b>Operating surplus / (Deficit)</b>	<b>( 1,349)</b>	<b>( 5,645)</b>	<b>( 5,588)</b>	<b>( 5,527)</b>	<b>( 5,460)</b>	<b>( 5,387)</b>	<b>( 5,307)</b>	<b>( 5,221)</b>	<b>( 5,126)</b>	<b>( 5,024)</b>	<b>( 4,914)</b>

Forecast Capital Project Costs & Funding

Source of Funds	\$'000
Grant Funding	30,000
Loan Borrowings	36,500
<b>Total Capex</b>	<b>66,500</b>

Notes

1 Basis of preparation

(a) Statement of compliance

These forecasts have been prepared in order to provide financial information in respect of the income and costs associated with the Cairns Performing Arts Centre for the 10 year period commencing 1 July 2018.

The forecasts reflect the expected results for the Cairns Performing Arts Centre as a separate entity for the period commencing 1 July 2018 and have been prepared using the same basis as those used in Council's annual financial statements for the year ended 30 June 2015. Council's annual statutory financial statements for the year ended 30 June 2015 have been prepared in accordance with Australian Accounting Standards.

(b) Basis of measurement

Council's annual statutory financial statements are prepared under the historical cost convention except for some classes of non-current assets where the revaluation method under AASB 116 has been applied. The forecasts have been prepared under the cost convention.

2 Significant accounting policies

Refer to Council's 2015 annual statutory financial statements for the significant accounting policies applied by Council in its financial statements and which have been applied in the preparation of these forecasts.

**Attachment 2: 2015/16 Budget – Long Term Financial Model – Sensitivity Impacts**

