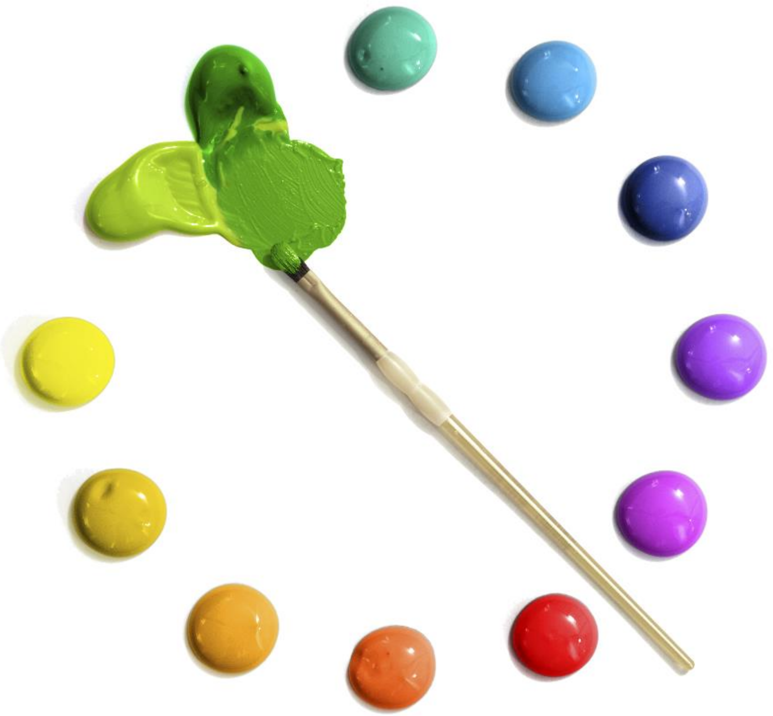

Christchurch City Council

Te Matatiki Toi Ora The Arts Centre Financial Review

Financial Advisory Services | 15 May 2024

Strictly Private and Confidential

Contents

s7(2)(a) [redacted]

s7(2)(a) [redacted]

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15 May 2024

Dear Bruce

Christchurch City Council - Te Matatiki Toi Ora The Arts Centre Financial Review

We enclose our Te Matatiki Toi Ora The Arts Centre Financial Review report prepared for Christchurch City Council (you, the Client or CCC).

We understand the report will be used by CCC Management and the Councillors in their contemplation of Te Matatiki Toi Ora The Arts Centre's (The Arts Centre or Trust) financial sustainability including considering The Arts Centre's operating grant request. Our report has been prepared for this purpose and no other.

Our report is provided in accordance with our CCC Statement of Work dated 14 March 2024 entitled 'Te Matatiki Toi Ora The Arts Centre Financial Review'. This report is subject to the restrictions and caveats contained in the report.

Yours faithfully

[redacted]

Executive Summary

Executive Summary | Overview

The Arts Centre has submitted a proposal for funding from CCC. The proposal suggests that without on-going operating funding support from CCC, The Arts Centre will be unable to continue to operate as a going concern with insufficient cash flow projected in the short term.

Background

- As part of its Long Term Plan process, CCC has received a proposal for operating funding from The Arts Centre.
- Since 2015, The Arts Centre has been subject to parliamentary legislation, reflecting its status as a cultural asset of heritage significance to Christchurch, New Zealand and Internationally. We have considered the objects of the Act on the page that follows. The Arts Centre is also a charitable organisation under the Charitable Trusts Act 1957 and Charities Act 2005.
- The Arts Centre has recently (largely) completed its restoration project of its heritage buildings post the Canterbury Earthquakes. During this time, The Arts Centre received insurance proceeds (capital funding used for the restoration project) and operating funding support from CCC.
- The proposal for funding from The Arts Centre suggests that without on-going operational funding support from CCC, The Arts Centre will be unable to continue to operate as a going concern with insufficient cash flow projected in the short term. The Arts Centre proposal for funding includes three options being:
    1. CCC absorbs The Arts Centre's insurance costs of ~$1.0m p.a.
    2. CCC forgives / reduces The Arts Centre's rates of ~$0.2m p.a.
    3. The balance is made through an annual grant.
- Option 3 includes requests for on-going operating grants from CCC under 3 scenarios ranging from $1.8m - $2.5m p.a.
- To allow CCC to be fully informed when considering this request, CCC wishes to examine The Arts Centre's current budgets and past financial reports.
- You (CCC) have requested us to provide an independent view of The Arts Centre's financial sustainability in the context of the grant funding requests made by The Arts Centre.

Background

- For the avoidance of doubt, as at 31 December 2022 The Arts Centre was deemed as a going concern by its Trustees and Auditors. The 31 December 2023 financial statements are currently being audited by Grant Thornton with the going concern principle to be considered as part of the audit process.

Approach

- The approach we have taken to consider The Arts Centre's financial sustainability includes:
    - Reviewing the financial information that The Arts Centre has provided in support of their grant application to the CCC, including depreciation policies, staffing, internal cross subsidies etc.
    - Met with The Arts Centre (Chairman, Director, Finance Manager and Creative Director) to understand their current and future commercial, operational and financial situation.
    - Reviewed the cash flow requirements of The Arts Centre over the coming year (as distinct from their forecast accounting performance).
    - Reviewed the drivers of the operating cash requirements, including the extent to which the various activities of The Arts Centre (commercial building rental, provision of artistic programmes etc) contribute to operating cash requirements.
    - Identified and considered options to potentially improve the operating cash flow position.
- Consistent with our scope, we highlight that our review was undertaken on The Arts Centre's existing structure and the way the Trustees and Management currently run it.

Executive Summary | The Act

The Act has competing demands, of which by law, the Trust Board are required to satisfy all objects of The Act.

Arts Centre of Christchurch Act 2015 (The Act)

- Beyond quantitative analysis, consideration also needs to be given to the key objects of the Arts Centre of Christchurch Act 2015 (The Act).
- Since 2015, The Arts Centre has been subject to parliamentary legislation, reflecting its status as a cultural asset of heritage significance to Christchurch, New Zealand and Internationally.
- The Act sets out the key objects of the Trust specifically:
    1. The Trust board holds the trust property for the following objects:
        a) holding and developing The Arts Centre in trust as a unique and outstanding cultural centre for use by the people of Christchurch and its visitors;
        b) fostering, promoting, and facilitating interest and involvement in art, culture, creativity, the creative industries, and education;
        c) providing accommodation for the objects stated in paragraphs (a) and (b);
        d) promoting, conserving, and maintaining the heritage integrity of The Arts Centre and to that end adopting, and from time to time amending or varying, a conservation plan in accordance with accepted conservation principles and in terms approved by the trust board.
    2. All income, benefits, and advantages received by or accruing to the Trust Board must be applied for a charitable purpose in advancing the trust's objects.
- Notwithstanding that we are not lawyers, we understand that The Act (particularly section 7 para 1) has an expectation of the Trust Board to develop and maintain a sustainable and financially viable organisation with the means to advance the objects of the trust outlined above.

Arts Centre of Christchurch Act 2015 (The Act)

- As such, there is an element of tension within The Act which has competing demands. For example, operating within a financially sustainable model (and pulling various levers to do so) may come at the cost of objects 1(a), (b) and (d).
- Fundamentally however, the Trust Board is required by The Act to meet the objects of the Trust and it has elements of discretion as to how it does so in a financially viable manner.
- For completeness we note that not adhering to the Act (i.e. not meeting the objects of the Trust) as a way of achieving financial sustainability may have unintended consequences. Specifically, there is a risk that the Trust could lose its charitable status which would likely result in loss of material grant funding received by The Arts Centre and a loss of its tax exempt status, which would further stress the financial sustainability of the Trust.
- An alternative is to seek to modify the Act / objectives of the Trust with an aim to reduce cash funding requirements of the Trust. We canvased this in our meeting with The Arts Centre, and The Arts Centre Chairman and Director noted that applications to the High Court to amend or disestablish an Act are timely and costly. Such an application may also cause the Trust issues under its charitable status or require a new Trust Deed which will incur legal costs. We consider that this option is therefore unlikely to provide any financial benefit in the short term.

Executive Summary | Key Findings

The Arts Centre's need for funding is real and without any operating support from Council or another party the Trust is expected become insolvent in the short term if it keeps operating the way that it is.

Key Findings

Presented below are the key findings arising from our work. The key findings should be read in conjunction with the 'Analysis' section of our report:

1. The Arts Centre's need for funding is real. Without any operating support the Trust is expected become insolvent in the short term. Our cash flow modelling indicates this will occur at some point during FY25 without any form of operating grant support if it keeps operating the way that it is.
2. There are likely some incremental gains The Arts Centre could make (increasing income streams and reducing cost base) albeit at least in part this would likely be offset by the additional FY24 insurance expense of $110k which is not accounted for within the FY24B.
3. We do not believe The Arts Centre options 1 & 2 (transferring insurance to CCC and rates relief from CCC) are economically more beneficial than a straight operating grant, as ultimately this would still result in funding being provided by Christchurch rate payers with any cost savings. We discussed our rationale with The Arts Centre Chairman, Director and Finance Manager who appeared to understand our view.
4. The Arts Centre break-even funding proposal of $1.8m included a funding request for deprecation (non-cash item) to the tune of $970k. In our initial meeting with The Arts Centre, we highlighted the difference between depreciation (non-cash) and cash expenditure, and that we didn't think it was appropriate (or necessary) to be requesting funding to cover depreciation in the immediate short-term unless there was/is a pressing capital need. Currently the Trust Board is working through an asset management planning process which will better define its future capital expenditure requirements but this is not currently known. However, it is crucial to acknowledge that any non-funding of depreciation in the short term eventually leads to a catch-up requirement at some point in the future, i.e. the deferral of funding depreciation may allow CCC to reduce the impact of a grant on rate payers in the immediate term, but ultimately the need to maintain the assets will build up and require funding from a source at a future date.

Key Findings

5. The funding proposal and claim of insolvency by the Trust appears genuine. The cash flow modelling conducted by The Arts Centre and ourselves presents a clear path to insolvency based on the budgeted operating losses. As such, under its current operating model, without an operating funding source the Trustees will need to consider their ability to sign off the solvency of the Trust as at December 2023.
6. If the Trust was to consider itself insolvent and the assets ended up being vested in CCC (with CCC having the same requirements under the The Act to meet the objects of the Trust) then CCC would face the operating cost obligations of The Arts Centre. As CCC rates for long term average annual renewals forecast in its LTP, in the absence of an approved asset management plan and renewal programme The Arts Centre capital expenditure requirements would not be funded in the short term.
7. As part of our financial review, we have considered alternative levels of operating funding support (which are outlined in the body of this paper) and length of commitment. For the Trust to survive (which requires meeting the Objects of the Trust) they will require operating funding support. However, we consider that any funding provided should initially be set for a two year period (essentially providing a band-aid) whilst The Arts Centre progresses, formalises and approves its asset management plan which is required in order to understand the actual cash flow requirements of The Arts Centre. During the initial period The Arts Centre should continue looking for opportunities to increase revenues and actively manage (and where possible) reduce the cost base (whilst still achieving the objects of the Act).

Analysis

Analysis | Funding Proposal

The Arts Centre proposal for CCC to absorb insurance costs and provide rates relief are not economically beneficial, and economically has the same impact as a direct grant.

The Arts Centre Submission to CCC

The Arts Centre's proposal for funding included three options being:

1. CCC absorbs The Arts Centre's insurance costs of ~$1.0m p.a.
2. CCC forgives / reduces The Arts Centre's rates of ~$0.2m p.a.
3. The balance is made through an annual grant.

As part of our review, we have considered all three options.

1. Insurance – CCC absorbs The Arts Centre's insurance costs of ~$1.0m p.a.

- We have had high level discussions with The Arts Centre Chairman, Director and Finance Manager in relation to the insurance costs being absorbed by CCC.
- We have considered whether CCC would be able to attract a lower insurance premium and are of the view that this is not a viable lever that could be pulled. We do not believe there would be a material reduction to the insurance cost if the policy was held by CCC.
- Clearly, we are not insurance brokers or insurance policy writers, however, we understand that the one of the main factors that drives insurance premiums is the age of the insured asset/item and potential cost of repairing, paired with the risk profile and probability of failure under a range of scenarios including natural disasters. The risk profile and probability of failure does not change whether The Arts Centre holds the policy or if CCC holds the policy i.e. these are still heritage buildings which faced extensive damage in the 2010/2011 Christchurch earthquakes. Whilst CCC may have some additional leverage with insurance companies, we do not believe it would it likely lead to a material reduction in premium given the nature of the assets.
- While shifting the expenditure to CCC would free up cash flow for The Arts Centre, ultimately it would require rating for by CCC in the same manner as an operating grant.

The Arts Centre Submission to CCC

2. Rates – CCC forgives / reduces the Arts Centre's rates of ~0.2m p.a.

- We understand there are varying legal opinions contained within The Arts Centre proposal in relation to rates. Given we are not lawyers we have no comments to add in respect of these positions.
- We have however had high level discussions with The Arts Centre Chairman, Director and Finance Manager in relation to the rates being forgiven / reduced.
- Our view is that any form of rate relief provided to The Arts Centre, like the insurance option, results in a recycling of funds. Specifically, any form of rate relief would result in reduced revenue to CCC with the shortfall being funded by the remaining Christchurch ratepayers.
- Based on our review options, 1 & 2 are not economically more beneficial than a direct grant, leaving option 3 for consideration.

3. CCC Funding – The balance is made through an annual grant

- Option 3 includes a further three financial scenarios which were categorised as the 'status quo', 'embed' and 'gives us wings'. We have re-categorised these as 'break-even', 'modest activation' and 'full activation'.
- Break-even ~$1.83m
  - The Arts Centre believe this would allow The Arts Centre to remain open and operate at a nominal level (i.e. break-even).
- Modest activation $2.1m
  - The Arts Centre believe this scenario would allow them to break-even whilst facilitating modest activation.
- Full activation $2.5m
  - The Arts Centre believe this scenario would allow them to break-even and thrive with full activation of the arts and their programmes.
- We have considered in detail the annual grant funding proposal on the pages that follow.

Analysis | Financial Performance

The Arts Centre's funding proposal included deprecation (non-cash item) to the tune of $970k, this item should be excluded from the funding proposal given it is a non-cash item.

- Presented opposite is a breakdown of the financial performance of The Arts Centre FY23B (Budget), FY23A (Actual) and FY24B with the latter being the base year of their funding proposal.
- Notably the FY23A cash operating result of -$539k came in better than the original FY23B of -$896k largely driven by increased income streams (rather than cost management / reductions).
- In considering the FY24B against the FY23A it is important to acknowledge that the FY24B was prepared before the final FY23A results were known.
- The FY24B reflects a further deterioration with an operating cash result of -$787k. The key drivers of the deterioration at an operating cash level can be attributed to:
  - Five new buildings becoming operational for a full year (results in increased rates, insurance, operating and maintenance costs).
  - Increased FTE headcount from 24 FTE's (made up of 15 full time and 20 part-time / casuals) to 25.5 FTE's in the FY24B (made up of 16 full time and 27 part-time / casuals).
  - There is a clear step up in the staff costs included within the FY24B as reflected by the average pay per FTE increasing from ~$73k to ~$89k (which will be influenced by both remuneration increases and staff / role mix).
  - The FY24B includes a new department 'Special / Design Projects' which is planned as special site activation at a budgeted cost of $110k ($110k is net of income and expenditure with income budgeted of $3k).
  - Te Whare Tapere is budgeting a ~$43k loss compared to a ~$1.2k loss in FY23A. Te Whare is currently being seed funded and the Trust's hope is to hand this over and commercialise it into a lease agreement (i.e. income stream).

The Arts Centre of Christchurch Trust Board Management Accounts

NZ$	FY23B	FY23A	FY24B	FY23A vs FY24B
Operations				
Operations Income	3,490,967	3,613,904	3,962,048	348,144
Operations Expenses	(3,237,553)	(3,300,974)	(3,592,314)	(291,340)
Net Operations Results	**253,414**	**312,930**	**369,734**	**56,804**
Finance & Administration				
Finance / Admin Income	402,627	496,711	372,657	(124,054)
Finance / Admin Expenses	(774,830)	(753,219)	(834,629)	(81,410)
Net Finance & Administration Result	**(372,203)**	**(256,508)**	**(461,972)**	**(205,464)**
Creative Team				
Creative Income	598,685	883,328	1,035,368	152,040
Creative Expenses	(1,399,229)	(1,488,616)	(1,817,778)	(329,162)
Net Creative Team Result	**(800,544)**	**(605,288)**	**(782,410)**	**(177,122)**
Fundraising for BAU				
Fundraising Income	88,200	73,967	156,215	82,248
Fundraising Expenses	(65,123)	(63,696)	(69,165)	(5,469)
Net Fundraising for BAU Result	**23,077**	**10,271**	**87,050**	**76,779**
Cash Operating Results	**(896,256)**	**(538,595)**	**(787,598)**	**(249,003)**
Depreciation (non-cash)	(670,000)	(966,328)	(970,000)	(3,672)
Net Operating Result	**(1,566,256)**	**(1,504,923)**	**(1,757,598)**	**(252,675)**
Fundraising for Capital				
Fundraising Income - Capital	2,446,396	1,560,332	289,000	(1,271,332)
Fundraising Expenses - Capital	(1,500)	(86)	(1,500)	(1,414)
Net Fundraising for Capital	**2,444,896**	**1,560,246**	**287,500**	**(1,272,746)**
Total surplus for the year	**878,640**	**55,323**	**(1,470,098)**	**(1,525,421)**
KPI				
Total staff costs within P&L		1,764,039	2,272,696	
Total staff costs capitalised to BS		141,346	-	
Total Staff costs (cash outflow)		**1,905,385**	**2,272,696**	**367,311**
FTE at 31 December (FY24B is an estimate)		24.0	25.5	2
Average Pay Per FTE (% increase YoY)		79,391	89,125	9,734

Consideration: We have added back the staff costs capitalised to the balance sheet (BS) to reflect the actual cash cost related to staff and to consistent compare average pay per FTE year on year.

Note1: The management accounts are presented in a different format to that of the financial statements (see Appendix A2)

Source: Management information, Deloitte analysis

The Arts Centre break-even funding proposal of $1.8m effectively included a funding request for deprecation (non-cash item) to the tune of $970k. We do not believe it is appropriate (or necessary) to be requesting funding to cover depreciation in the immediate short-term unless there was/is a pressing capital need. It is crucial to acknowledge that any non-funding of depreciation in the short term will eventually lead to a catch-up requirement at some point in the future.

Analysis | Consideration Areas

There are several levers that The Arts Centre could consider in an attempt to improve the existing financial situation.

Items For Consideration

- We have reviewed the financial information at a detailed level including drilling down into specific line items with The Arts Centre Finance Manager. As part of this process we highlight the following items that could be considered when looking for opportunities to improve the existing financial situation.

Regular rental & licence reviews

- Tenants are currently either on a lease agreement or a licence. Those under a lease agreement have market increases at fixed intervals (every 2/3 years i.e., market rent reviews). Based on discussions with management there are no annual CPI increases included within the rental agreements.
- Some tenants are on a licence which acts as an entry into tenancy with successful licences transitioned to lease agreements. Our discussions and review of the tenant schedule identified that some licences haven't transitioned to lease agreements nor have they had price reviews factored into the FY24 budget. Regular reviews and transitioning tenants to a lease agreement should be a priority focus.
- The FY24B had nil value budgeted for the Dance Studio (level 1). The Arts Centre has recently received a proposal from a potential tenant (~$30k p.a.) with this tenant expected to enter the premise mid year. There is a possible ~$15k upside to the FY24B (as well as any operating expense rent recoveries).

Review of Creative Programme

- The Arts Centre should continue their activation programmes, albeit prioritise those that are profitable / break-even over programmes generating losses.
- Specifically, the off-centre festival and creative residencies generated $108k and $54k losses in FY23A. Creative residencies is again budgeting a loss of $62k in FY24B.
- This exercise would need to be balanced with the Objects contained in The Act.
- Consideration should also be given to the artist fees (contractors for the programmes) and whether they should be paid despite them using The Arts Centre platforms and intellectual property to sell their art / perform.

Review of Creative Programme (continued)

- FY23A artist fees were ~$275k with FY24B at ~$350k.
- Currently the revenue from any art sales made are shared across the various parties, with 60% to the artist, 20% to the curator and 20% to The Arts Centre.
- The net loss from artist fees (after art sales) alone was ~$202k in FY23A and is ~$289k in the FY24B.

Capitalisation Policies

- Low value equipment (~$45k in FY23A) is expensed rather than depreciated. Low value assets can be expensed allowing tax paying entities a tax benefit in the year of the purchase. Given The Arts Centre does not pay tax there is no such tax benefit. Consideration as to whether low value assets be capitalised should be given - noting the cash outflow remains whether it is expensed or depreciated.

Accountant Outsourcing

- The compilation of the annual financial statements and maintenance of the depreciation schedule is outsourced to EY at $17.7k and $4.8k per year (~$22.5k). This could be brought in house as a cost saving measure. However, audit fees could be subject to an increase if this was bought in house.

Commercialise Venue Hire

- The Arts Centre should continue to promote and monitor the utilisation of its venue hire spaces (i.e. the Great Hall).
- Increasing venue hire days will assist in funding the existing operating loss. The Arts Centre should consider charging all entities (whether profit or non-profit) full market rates. We acknowledge, non-commercial rates are considered by Trustees as meeting the objects of The Act.

Analysis | Consideration Areas

While there are several levers that The Arts Centre could consider in an attempt to improve the existing financial situation. Critically though, there is additional downside to the FY24B with the actual insurance cost for FY24 coming in $110k higher than the level allowed for in the FY24B.

Items For Consideration (continued)

The Dux

- The Dux appears to be a commercial opportunity and one that existed pre-earthquake. We understand negotiations for a potential tenant recently fell through (due to the potential tenant wanting a 50-year rent free lease).
- Any refurbishment and activation of the Dux site would likely take longer than 2 years so is unlikely to be a material positive contributor to The Arts Centre's cash needs in the short term.

Insurance

- We understand that The Arts Centre has investigated lowering its insurance coverage as a way to reduce its insurance premiums, however the Trustees considered that the potential quoted savings were insignificant and not sufficient to offset the additional risk that would have been taken on by The Arts Centre.
- Without obtaining a legal review of the Act, we question whether the Trustees would be meeting their duty to maintain The Arts Centre if the assets were not fully insured.
- During our review it was identified that the FY24B insurance expense of $956k was compiled before the annual insurance invoice was received. The actual insurance invoice for FY24 came in at ~$1.07m excl GST i.e. there is a ~$110k real cost not captured in the FY24B.

Operating Model

- We note that a review of The Arts Centre's operating structure / model, staffing levels and remuneration levels is not within the scope of our review and we make no comment on the short or long term sufficiency or necessity of the current staffing levels.
- However, the Arts Centre could look to review its operating and service delivery model and the resourcing needed to sustainably deliver this.

Analysis | Asset Management

At the current point in time there is no visibility over the capital expenditure requirements of The Arts Centre and therefore depreciation should not be funded at the current time.

Asset Management Plan / Future Capital Expenditure

- The Arts Centre does not have an existing asset management plan, however in our meeting with The Arts Centre Chairman, Director and Finance Manager it was noted that this is currently being considered and a plan should be in place within the next 12-24 months. Such an exercise is typically timely and complicated with an additional layer of complexity when assessing heritage assets.
- Once a detailed asset management plan has been considered and approved by the Trustees it will allow a better understanding as to the total capital funding required including the timing of such funding.
- Post our meetings with The Arts Centre, The Arts Centre operations team have produced a high-level asset management cost estimate which quantifies the cost per annum at ~$1.4m (essentially a sinking fund), however this does not represent a view on when items of expenditure are actually required (rather it is simply spreading an assumed replacement cost over the life of the asset) and in the absence of a formal approved asset management plan from the Trustees we have not considered this cost estimate as part of our financial review.
- The Arts Centre break-even funding proposal of $1.8m included a funding request for deprecation (non-cash item) to the tune of $970k. We do not believe it is appropriate to be requesting funding to cover depreciation in the immediate short-term unless there was/is a pressing capital need – which in the absence of an approved asset management is currently unknown.
- Excluding the earthquake repairs we understand The Arts Centre has not consistently spent their annual depreciation charge (in the form of capital expenditure). We acknowledge that some element of capital expenditure is and will be required however it doesn’t mean a catch up should be factored into the funding request this year or in the short term.
- It is crucial to acknowledge that any non-funding of depreciation in the short term will eventually lead to a catch-up requirement at some point in the future.

Asset Management Plan / Future Capital Expenditure

- Management noted that currently Repairs & Maintenance (R&M) expenditure within the Profit and Loss statement is kept to a minimum, only repairing items that genuinely require R&M.
- We note that there is an R&M expense within the P&L of $74.2k in FY23A. The FY24B has a consistent R&M expense of ~$74.8k. Such an allowance indicates there is a genuine level of R&M taking place, albeit relatively minor in the context of the cost of the assets.
- A deferral of funding depreciation would help to reduce the impact on Christchurch rate payers in the immediate term whilst The Arts Centre works through and completes its asset management planning process.

Analysis | Scenarios

Assuming short-term deposits are used to fund capital requirements within the next year and with no operating funding support, The Arts Centre is projected to run out of cash at some point during FY25.

Funding Scenario Analysis @ The Arts Centre operating forecasts

- Using the existing cash balances as at 31 December 2023 we have modelled the projected cash as at 31 December 2024, 2025 and 2026 under four alternative scenarios.
- Under each scenario we have assumed the remaining short-term deposits are fully utilised for capital purposes in FY24. Capital grants have been excluded from our analysis on the basis that any capital grant income would be offset by capital expenditure as well as the future capital expenditure plan remaining unknown at this point in time.
- The first scenario reflects no operating grant funding from CCC. We have included the FY24B operating loss (excluding non-cash items) which results in a remaining cash balance of ~$250k. Applying The Arts Centre's FY25B operating loss (excluding non-cash items) highlights that without any form of support The Arts Centre cash reserves will be depleted at some point during FY25.
  - *We note that the FY25-FY26 projections are based on the forecasts presented in The Arts Centre's funding proposal. They have not been prepared at the same level of granularity as the FY24 budget and therefore we have not been able to review the basis of these forecasts.*
- Our cashflow modelling is consistent with the Trustees view that insolvency is visible and on the horizon if it continues to operate the way that it is, i.e. considering the solvency test now is appropriate based on the budgeted numbers. **The cash flow modelling reiterates that the potential for insolvency is real.** Under The Arts Centre current budgeted projections some form of support would be required.
- As a result, we have considered three alternative scenarios where CCC provides funding to The Arts Centre in the short-term.

- Under Funding Scenario 1 we have applied an annual operating grant of $500k reflective of the actual cash operating loss of ~$527k achieved in FY23A ($500k used as rounded number proxy) with an expectation that the financial performance reported in FY23A is the operating loss benchmark. Under this scenario the Trust would be insolvent at some point during FY26 if it could not reduce its cost base or increase revenue.
- Under Funding Scenario 3 we have applied an annual operating grant that matches the budgeted cash operating loss. This allows The Arts Centre to maintain its current cash position.
- Under Funding Scenario 2 we have applied a hybrid of Scenarios 1 and 3, starting at $500k in FY24 and stepping up across FY25 and FY26 to a level broadly consistent with the FY24B cash operating loss.
- The results of this analysis are set out in the table on the following page.
- Whilst not taking account of capital expenditure requirements in the short term, we note that each of the Funding Scenarios presented would allow The Arts Centre time to understand their asset management programme (and life cycle costs) whilst working to mitigate the existing unsustainable operating losses.

Analysis | Scenarios

Assuming short-term deposits are used to fund capital requirements within the next year and with no operating funding support, The Arts Centre is projected to run out of cash at some point during FY25 based on its current projections.

Projected Cash Flow Scenarios @ The Arts Centre operating forecasts

NZ$	No Funding	Scenario 1	Scenario 2	Scenario 3	Source
Cash as at 31 Dec 2023					
Cash	1,037,981	1,037,981	1,037,981	1,037,981	*Draft FY23 unaudited FS*
Short-Term Deposits	6,613,591	6,613,591	6,613,591	6,613,591	*Draft FY23 unaudited FS*
Total Cash as at 31 Dec 2023	**7,651,572**	**7,651,572**	**7,651,572**	**7,651,572**	*Draft FY23 unaudited FS*
Less					
Sinking fund provision - Hotel	(5,200,000)	(5,200,000)	(5,200,000)	(5,200,000)	*Discussions with Mgmt*
Sinking fund provision - Rest of site (residual)	(1,413,591)	(1,413,591)	(1,413,591)	(1,413,591)	*Residual of Short-Term Deposits*
FY24B Operating Loss (excluding non-cash items)	(787,598)	(787,598)	(787,598)	(787,598)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	500,000	787,598	*Deloitte Estimates*
Projected Cash as at 31 Dec 2024	**250,383**	**750,383**	**750,383**	**1,037,981**	
FY25B Operating Loss (excluding non-cash items)	(890,237)	(890,237)	(890,237)	(890,237)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	675,000	890,237	*Deloitte Estimates*
Projected Cash as at 31 Dec 2025	**(639,854)**	**360,146**	**535,146**	**1,037,981**	
FY26B Operating Loss (excluding non-cash items)	(941,981)	(941,981)	(941,981)	(941,981)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	750,000	941,981	*Deloitte Estimates*
Projected Cash as at 31 Dec 2026	**(1,581,835)**	**(81,835)**	**343,165**	**1,037,981**	

Source: Management information, Deloitte analysis

Analysis | Scenarios

Assuming short-term deposits are used to fund capital requirements within the next year and with no operating funding support, The Arts Centre is projected to run out of cash at some point during FY25 even with achieving $300k per annum of net cash flow savings.

Funding Scenario Analysis @ improved operating forecasts

- The analysis presented on the previous page was based on The Arts Centre operating at its current forecast performance.
- We have also considered the impact of the same funding scenarios if The Arts Centre was able to improve its operating cash flows by $300k per annum.
- We note that we have not identified an explicit $300k of potential savings, and that the analysis is illustrative of the impact of the Trustees finding a way to save this quantum across the whole of The Arts Centre in the context of the items noted earlier for consideration.
- Consistent with the previous scenarios, we have assumed the remaining short-term deposits are fully utilised for capital purposes in FY24. Capital grants have been excluded from our analysis on the basis that any capital grant income would be offset by capital expenditure as well as the future capital expenditure plan remaining unknown at this point in time.
- The first scenario reflects no operating grant funding from CCC. Assuming short-term deposits are used to fund capital requirements within the next year and with no operating funding support, The Arts Centre is projected to run out of cash at some point during FY25 even with achieving $300k pa of net cash flow savings
- Under the three funding scenarios, The Arts Centre is projected to remain solvent through to FY26 if the $300k of annual net cash operating cost savings can be achieved.
- The results of this analysis are set out in the table on the following page. Funding Scenario 2 largely leaves The Arts Centre in its current cash balance position.
- For completeness we note again that this analysis does not take into account capital expenditure requirements, which are expected to be better known over the next couple of years.

Analysis | Scenarios

Assuming short-term deposits are used to fund capital requirements within the next year and with no operating funding support, The Arts Centre is projected to run out of cash at some point during FY25 even with achieving $300k per annum of net cash flow savings.

Projected Cash Flow Scenarios @ improved operating forecasts

NZ$	No Funding	Scenario 1	Scenario 2	Scenario 3	Source
Cash as at 31 Dec 2023					
Cash	1,037,981	1,037,981	1,037,981	1,037,981	*Draft FY23 unaudited FS*
Short-Term Deposits	6,613,591	6,613,591	6,613,591	6,613,591	*Draft FY23 unaudited FS*
Total Cash as at 31 Dec 2023	**7,651,572**	**7,651,572**	**7,651,572**	**7,651,572**	*Draft FY23 unaudited FS*
Less					
Sinking fund provision - Hotel	(5,200,000)	(5,200,000)	(5,200,000)	(5,200,000)	*Discussions with Mgmt*
Sinking fund provision - Rest of site (residual)	(1,413,591)	(1,413,591)	(1,413,591)	(1,413,591)	*Residual of Short-Term Deposits*
FY24B Operating Loss (excluding non-cash items)	(787,598)	(787,598)	(787,598)	(787,598)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	500,000	787,598	*Deloitte Scenario*
Arts Centre Cash Savings	300,000	300,000	300,000	300,000	*Indicative Estimate*
Projected Cash as at 31 Dec 2024	550,383	1,050,383	1,050,383	1,337,981	
FY25B Operating Loss (excluding non-cash items)	(890,237)	(890,237)	(890,237)	(890,237)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	675,000	890,237	*Deloitte Scenario*
Arts Centre Cash Savings	300,000	300,000	300,000	300,000	*Indicative Estimate*
Projected Cash as at 31 Dec 2025	(39,854)	960,146	1,135,146	1,637,981	
FY26B Operating Loss (excluding non-cash items)	(941,981)	(941,981)	(941,981)	(941,981)	*Proxy for cash - Arts Centre Submission*
CCC Funding (scenario analysis)	-	500,000	750,000	941,981	*Deloitte Scenario*
Arts Centre Cash Savings	300,000	300,000	300,000	300,000	*Indicative Estimate*
Projected Cash as at 31 Dec 2026	(681,835)	818,165	1,243,165	1,937,981	

Source: Management information, Deloitte analysis

Appendices

Appendices | A1: Restrictions and Disclaimer

Restrictions and limitations

- This report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined in the introductory section without Deloitte's prior written permission in each specific instance.
- We do not assume any responsibility or liability for losses occasioned to Christchurch City Council, its Councillors, its directors or ratepayers/shareholders or to any other parties as a result of the circulation, publication, reproduction or use of this report or any extracts there from contrary to the provisions of this paragraph.
- We reserve the right, but not the obligation, to review all calculations included or referred to in this report and, if we consider it necessary, to revise our analysis in the light of any information existing at the current date which becomes known to us after the date of this report.

Reliance on information

- In preparing this analysis, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that is available from public sources and all information that was furnished to us in relation to The Arts Centre.
- We have evaluated that information through analysis, enquiry and examination for the purposes of forming our assessment. However, we have not carried out any form of due diligence or audit on the accounting records of The Arts Centre. We do not warrant that our enquiries have identified or revealed any matter which an audit, due diligence review or extensive examination might disclose.

Disclaimer

- This report has been prepared with care and diligence and the statements and conclusions in this report are given in good faith and in the belief, on reasonable grounds, that such statements and conclusions are not false or misleading.
- However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of The Arts Centre will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of The Arts Centre management. Actual results will vary from the forecasts and these variations may be significant.
- We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of this report to the extent that such errors or omissions result from the reasonable reliance on information provided by others or assumptions disclosed in this report or assumptions reasonably taken as implicit.

Appendices | A2: Supplementary Information

The Arts Centre Financial Performance for the year ended 31 December 2022 & 2023 (audited and unaudited respectively).

The Arts Centre of Christchurch Trust Board Financial Statements

NZ$	FY22 Audited	FY23 Draft	$ Change	% Change
Revenue from exchange transactions - Property income				
General fees and other income	190,877	299,905	109,028	*57%*
Rentals and parking	1,798,226	2,379,299	581,073	*32%*
Tenancy operating recoveries received	544,017	697,177	153,160	*28%*
Tenancy operating costs	(1,177,378)	(1,502,515)	(325,137)	*28%*
Total property income	**1,355,742**	**1,873,867**	**518,125**	***38%***
Gain on disposal of PPE	57	1,032	975	*1,711%*
Interest received	391,323	375,001	(16,322)	*(4%)*
Total revenue from exchange transactions	**1,747,122**	**2,249,900**	**502,778**	***29%***
Grants, sponsorship and donations	382,068	429,067	46,999	*12%*
Total revenue from non-exchange transactions	**382,068**	**429,067**	**46,999**	***12%***
Total revenue	**2,129,190**	**2,678,967**	**549,777**	***26%***
Expenses				
Administration	(243,004)	(246,222)	(3,218)	*1%*
Audit fees	(21,525)	(31,025)	(9,500)	*44%*
Property costs	(398,886)	(522,346)	(123,460)	*31%*
Public relations	(75,154)	(161,752)	(86,598)	*115%*
Staff costs	(1,349,908)	(1,764,039)	(414,131)	*31%*
Other operating expenses	(245,239)	(480,288)	(235,049)	*96%*
Total Expenses	**(2,333,716)**	**(3,205,673)**	**(871,957)**	***37%***
Earnings pre depreciation & capital funding	**(204,526)**	**(526,706)**	**(322,180)**	***158%***
Depreciation (non-cash)	(670,004)	(978,293)	(308,289)	*46%*
Earnings post depreciation & capital funding	**(874,530)**	**(1,504,999)**	**(630,469)**	***72%***
Grants & donations utilised for capital projects	5,558,857	1,560,332	(3,998,525)	*(72%)*
Total surplus for the year	**4,684,327**	**55,333**	**(4,628,994)**	***(99%)***
KPI				
Total staff costs within P&L	1,349,908	1,764,039		
Total staff costs capitalised to BS	501,530	141,346		
Total Staff costs (cash outflow)	**1,851,438**	**1,905,385**	**53,947**	***3%***
FTE at 31 December	22	24	2	*9%*
Average Pay Per FTE (% increase YoY)	84,156	79,391	(4,765)	*(6%)*

Consideration: We have added back the staff costs capitalised to the balance sheet (BS) to reflect the actual cash cost related to staff and to consistent compare average pay per FTE year on year.

Note1: FY22 numbers are audited with the FY23 numbers being draft and unaudited

Note2: The P&L above excludes other comprehensive income items (i.e. revaluation of land and buildings at fair value)

Note3: The financial statements are presented in a different format to that of the management accounts

Source: Management information, Deloitte analysis

Appendices | A2: Supplementary Information

The Arts Centre Financial Position as at 31 December 2022 & 2023 (audited and unaudited respectively).

The Arts Centre of Christchurch Trust Board Financial Statements

NZ$	Dec-22 Audited	Dec-23 Draft
Current assets		
Cash and cash equivalents	378,083	1,037,981
Accrued interest from exchange transactions	184,192	97,452
Accounts receivable from exchange transactions	92,909	61,946
GST refund due	497,844	122,727
Prepayments	56,291	1,107,062
Inventories	104,519	102,772
Short-term deposits	10,500,000	6,613,591
Total current assets	**11,813,838**	**9,143,531**
Non current assets		
Property, plant and equipment	478,849,193	500,535,253
Total assets	**490,663,031**	**509,678,784**
Current liabilities		
Accounts payable	1,594,778	1,524,115
Income received in advance	146,345	109,015
Employee entitlements	86,018	95,736
Grants unspent	719,789	545,784
Total liabilities	**2,546,930**	**2,274,650**
Trust capital and reserves		
Accumulated comprehensive revenue and expenses	218,561,886	218,617,219
Land revaluation reserve	33,459,725	34,209,725
Heritage buildings revaluation reserve	236,094,490	254,577,190
Total trust capital and liabilities	**490,663,031**	**509,678,784**

Note1: FY22 numbers are audited with the FY23 numbers being draft and unaudited
Source: Management information, Deloitte analysis

Appendices | A3: Glossary

Glossary of terms

$	New Zealand dollars unless otherwise specified
20XX	Financial Year Ending 31 December 20XX
20XXA	Actual Results for Financial Year Ending 31 December 20XX
20XXB	Forecast Results for Financial Year Ending 31 December 20XX
CCC	Christchurch City Council
CPI	Consumer Price Index
FTE	Full Time Equivalent
LTP	Long Term Plan
p.a.	Per Annum
The Act	Arts Centre of Christchurch Act 2015
The Arts Centre	Te Matatiki Toi Ora The Arts Centre of Christchurch
Trust	Te Matatiki Toi Ora The Arts Centre of Christchurch Trust Board

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