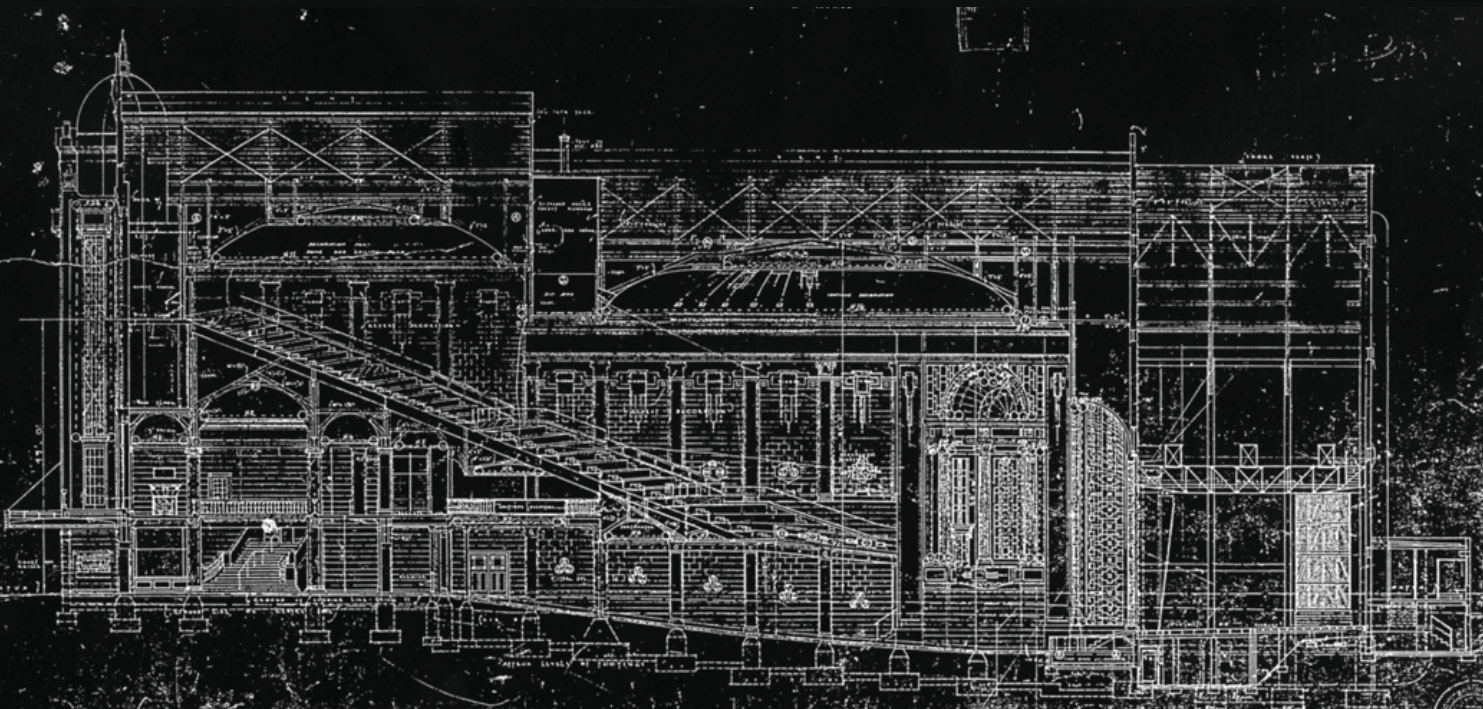


Palais Theatre Requirements Study

May 2012

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Prepared for City of Port Phillip by

Williams Ross Architects in consultation with
Artefact Consulting, Littlehorn Projects and Marshall Day Entertech

Cover image: *Palais Pictures Section*, 1925, Architect: Henry White, State Library of Victoria

DISCLAIMER – This report has been prepared in consultation with CoPP and DSE and has relied on information that has been provided. No financial data has been provided on the current Palais Theatre Operations and so desk based benchmarking only has been undertaken to determine financial estimates for potential future operations to assist with decision making on the Capital Upgrade solutions. NPV calculations to assist in determining potential capital contributions by a lessee are a guide only and should not be used for any commercial negotiations. This financial analysis in this report is to assist CoPP and DSE in decision-making and should not be released without assumptions and qualifications. WRA, Artefact Consulting, Littlehorn Projects and Marshall Day Entertech shall not be liable for any differences in the financial estimates provided and current or future market conditions.

Executive Summary

The City of Port Phillip (CoPP) recognises the iconic status of the Palais Theatre (the Palais), including its heritage value and cultural significance and is also committed to securing the future of the Palais through the development of an operating model which ensures its long term viability, vitality and self-sufficiency.

CoPP identified that research and analysis was needed to determine:

- the operational model(s) which will best ensure its future
- how much funding is required to ensure this future, by whom and through what process
- whether additional land is required
- what, if any ancillary uses are needed to support the Palais to be viable and sustainable.

As a result, this study was commissioned by the City of Port Phillip (CoPP) to identify potential future operating models and capital upgrade options to secure the long-term future of the Palais following the cessation of the current lease in September 2015.

Background

The Palais is Australia's largest theatre by seating capacity and is a fine example of Spanish Mission architecture. It has cultural and heritage significance (Victorian Heritage Register) to both the local St Kilda and wider community. The Palais has not had any significant capital investment for a long time and both CoPP and the State Government have identified current significant safety risks and agreed that investment is required to preserve and refurbish the building.

The Palais currently operates via a lease to a private operator – The Palais Theatre Management Pty Ltd Operations Group. The lease was negotiated as part of the settlement for the St Kilda Triangle (Triangle) redevelopment and ends in September 2015.

The Palais sits within the Triangle precinct bounded by Jacka Boulevard, The Esplanade and Cavell Street. The land is crown land subject to the *Land (St Kilda Triangle) Act 2006* under which the land is reserved for public purposes. Under this Act CoPP was deemed Committee of Management, as if the land came under the Crown Land (Reserves) Act 1978. The Palais plays a pivotal role in the St Kilda Triangle precinct and will be retained as the dominant and iconic building on the site. The relationship between the Palais and the St Kilda Triangle precinct is critical to the future outcomes of both.

Under the *Land (St Kilda Triangle) Act 2006*, which reserved the land for public purposes and deemed CoPP as Committee of Management, the land is defined as the whole St Kilda Triangle site, including the Palais. As such the Palais and the Triangle fall under the one designation.

Facility Review

Prior to defining upgrade options, an existing facility review and a review of relevant facility studies was undertaken. Analysis of the existing facility has been completed in two parts:

- **Compliance Review**
Assessing the building against relevant codes, regulations, and the extent of general maintenance works required to bring it up to expected standards.

- **Functional Review**

Assessing how the theatre's facilities support, or otherwise, its various operations. The functional review also compared the facility to the Victorian Association of Performing Arts Centre (VAPAC) theatre Benchmarks.

The study concluded that the building is in need of refurbishment and extensive maintenance works as well as regulatory compliance upgrades.

Investment Logic Map (ILM)

The State Government's ILM process was used to assist in confirming the need for the Palais Theatre Requirements Study and also to identify and agree the Problems, Benefits and Strategic Interventions underpinning future potential investment. An ILM has been produced, and consideration given to the assets and (operational) changes needed, but it is expected that these will be updated as the project proceeds to the next stage. The ILM clearly identified a need for the project to proceed.

The process identified:

Three Problems

1. Degraded heritage asset with inadequate facilities limiting its existing and future use.
2. Uncertain operating future with short-term lease due to expire in September 2015.
3. Complex site history with unclear future governance between CoPP and State Government and uncertainty around final Triangle precinct outcomes.

Three Project Benefits

1. Palais is refurbished, upgraded and retained as key cultural venue and heritage icon.
2. Long term operating future for the Palais is secured with minimal impact on CoPP and State Government capital and recurrent budgets.
3. Refurbished Palais is a key contributor to Triangle redevelopment resulting in vibrant precinct and improved urban design outcomes.

Four Strategic Interventions

1. Improve product offering at venue to broaden revenue opportunities and increase visitor access and experience.
2. Establish long-term business model to further extend cultural programming and events on site.
3. Establish clarity in roles and responsibilities between CoPP and State Government.
4. Resolve future vision for triangle.

Industry Context and Operational Models

Industry benchmarking was undertaken and 23 venues assessed to provide relevant data for the future Palais operation. Consideration was given to theatre size, management models and ownership structures, and any government funding sources.

Six different models were identified:

1. Model 1 - State or Local Government ownership - commercial lease and private operation
2. Model 2 - Local Government owned and operated in house or by a non-profit entity
3. Model 3 - State or Local Government owned and operated under a commercial contract management fee
4. Model 4 - Commercially owned and operated
5. Model 5 - State Government owned and operated as Statutory Authority – Full State Government responsibility
6. Model 6 - Owned and operated by a not-for-profit entity.

From this analysis three operational models were further assessed as to their suitability for the future Palais operations:

Model 1 – Commercial Lease

Model 1 is the current operating model for the Palais and does not require any on-going operational funding for the presentation of events. This model reduces the financial operating risk for CoPP as the full operational and programming risk is borne by the lessee. Programming is market driven and allows for minimal programming by CoPP unless as a hirer. The lease could be conditional based on agreed KPI's for programming outcomes but this may be reflected through financial compensation.

Model 2 – CoPP operated

Model 2 is the common operating model for Government owned theatres. This can be either through direct internal management or by a separate entity established as a council owned company. This model provides CoPP with full programming control but also full financial risk. Model 2 would require an on-going subsidy for programming and operational costs.

Model 3 – Commercial Management Fee

In Model 3, a commercial management company is paid a fee to operate the venue of behalf of CoPP. This model reduces the risk but still involves a considerable on-going subsidy for programming and management fees.

Key Findings

- Although Model 2 is a common operating model for Local Government, it is usually for the smaller suburban or regional venues requiring significant community access and subsidised programming or the very large state owned theatres that are required to meet statutory obligations to provide a range of artistic programming. Similar to Model 2, a commercial management agreement (Model 3) is suitable when the venue owners stipulate programming indicators and are prepared to pay an on-going management fee.
- The Palais has the potential to operate as a commercial venue due to its seating capacity and minimal community programming requirements therefore a commercial lease would be a suitable operating model.
- The current programming approach at the Palais is viewed as fulfilling an appropriate market niche for the venue and the location and there was general consensus of little need for another dedicated musical theatre venue in Melbourne.
- Venues owned by local councils and operating by a contract management fee, non-profit entity or in-house management are often subsidised from \$500K to \$1M+ to provide a broad range of cultural programming.
- Model One - Commercial Lease (the current operating model) was identified as the operating model that would best achieve the key project benefits and be further investigated in this study in consideration of the potential capital upgrade solutions

Capital Upgrade Options

Three capital upgrade options (Upgrade 1, 2 and 3) were identified to support the operating models. Upgrade 1 was split into Upgrade 1A and 1B, and Upgrade 3 was considered in lesser detail. Each option is cumulative in its scope and the costings are based on retaining the 'shabby chic' character and feel of the Palais.

Upgrade 1 A - Minimum upgrade

Approximate cost - \$26.5 - \$29 million

Risk Management

This is the minimum upgrade option required to meet statutory obligations and remove identified operating risks to make safe for current use. This option would not improve the operating efficiency of the venue nor provide improved back of house. The Palais would initially be expected to operate at the current level of 100 shows per annum; however without improvements to the back of house the bookings could drop over time to an average of 80 shows per annum.

Methods to achieve this include:

- Building Code of Australia (BCA) compliance with issues such as amenities, access, egress and fire management;
- Disability Discrimination Act (DDA) compliance;
- OH&S considerations such as removal of hazardous materials and critical functional issues such as manual handling tasks;
- electrical upgrade works;

- halting further degradation to the existing building fabric by rectifying damage to all building surfaces, sealing the building to make water and weather-tight, and instigating a regular maintenance routine to ensure the social, cultural and financial capital of the building is not lost.

Upgrade 1B - Minimum upgrade and minimum functional improvements

Approximate cost - \$38 - \$42 million

Fitness for Purpose: That functional and operational improvement is made to support the Palais current operation and capacity for broader product offering for the next 20-25 years.

This option includes a complete refurbishment of the Palais to raise it to the functional standard expected of a contemporary theatre of significant heritage value. Both front of house and back of house facilities would meet the needs and expectations of hirers, performers and patrons. However, there would be no additional food and beverage capabilities.

The Theatre would be expected to expand programming in line with a significantly upgraded venue, with back of house at a level expected by significant local and international acts. It is estimated that there are likely to be 120 shows per annum.

The improvements required include:

- new stage support and performer support facilities, including dressing rooms, back stage amenities, provision of a scene dock, external shelter for the loading bay;
- upgrade operational staff accommodation;
- provision of operational vehicle management, on-site car parking and external spaces.

Upgrade 2 - Minimum and functional upgrade (Upgrade 1) + complementary facilities

Approximate cost - \$55 - \$60 million

Broaden the Product Offering: Supporting the function of the Palais as an entertainment and cultural venue and creating opportunities for additional commercial viability for the Palais.

This option includes a complete refurbishment of the Palais to bring it up to a standard expected of a contemporary theatre of significant heritage value. Both front of house and back of house would meet the needs and expectations of hirers, performers and patrons. There would be significant additional food and beverage capabilities through the corporate function space and a new signature restaurant and café.

Given the improved and expanded facilities would provide the opportunity to expand programming significantly, it is anticipated bookings would increase to 140 shows per annum. The new operation would provide required infrastructure for commercial/ function hiring across a range of areas. It could also include a new signature restaurant and café.

Product offering may include:

- cafe facility
- destination restaurant

- corporate and hospitality services
- wider range of performance opportunities for the main theatre
- varied smaller performance opportunities and locations.

Facilities to support this increased product offering may include:

- cafe and restaurant areas
- function room/s with plating kitchen for catering needs
- consideration of a forestage lift
- external or foyer based performance areas
- increase capabilities for recording live performances.

Upgrade 3 - Expanding the Palais site opportunities for allied commercial uses

Approximate cost - \$120 - \$130 million

Broaden the commercial opportunities: Envisage the Palais and St Kilda Triangle precinct as a community, cultural and tourist destination.

This option expands the Palais into a broader theatre and function venue and allows for the development of a boutique hotel and full service function facility. It may also include increased food and beverage opportunities as well as some limited complementary retail.

There would be a significant increase in theatre use for meeting and convention related activities. It is anticipated that there would be 160 shows per annum.

Facilities, uses and activities that support the Palais and St Kilda Triangle may include:

- flat floor function areas/ smaller performance areas
- small to medium conference centre
- boutique hotel
- destination restaurant overlooking the bay.

Analysis of Upgrade Options

Analysis was undertaken on the potential financial operating scenarios that would underpin capital solutions (1A, 1B and 2). It was determined that Upgrade 3 would take the project into a significantly expanded commercial realm, and therefore has only been superficially considered. It will require more detailed commercial analysis on the capital/ recurrent outcomes of the new commercial elements (i.e. hotel, conference centre, carpark etc).

The operating scenarios were then utilised in the assessment of the capital upgrade solutions. This assessment criteria used was based on the three project benefits identified in the ILM. Some additional criteria, which would underpin achievement of these benefits was included to provide greater clarity around decision-making.

Consideration was also given to:

- the capacity for the lessee to meet annual rentals to CoPP (determined by varying criteria as deemed appropriate)
- the ability for lessee to meet capital contributions either in lieu of or additional to rent, and
- the lease lengths and potential impacts to CoPP.

Key findings

- All upgrades will require significant capital expenditure and this may require Government funding
- *Upgrade 1A – Minimum upgrade* is unlikely to attract lessee interest, even with a minimum annual rental, nor lessee contribution to capital cost upgrade. Upgrade 1A will not meet the three key project benefits nor any other of the identified assessment criteria.
- *Upgrade 1B – Minimum upgrade and minimum functional improvements* reflects a low chance for the lessee to afford a significant contribution to the capital upgrade of the theatre.

Upgrade 1B will partially or fully meet the other identified assessment criteria.

- *Upgrade 2 – Minimum and functional upgrade 1a and 1b + complementary facilities* is likely to attract capital investment from a lessee that depending on their approach to scope and scale of the additional commercial elements may fully cover the capital costs of these facilities.

Upgrade 2 is likely to fully meet all the other identified assessment criteria.

- *Upgrade 3 - Expanding the Palais site opportunities for allied commercial uses* is also likely to attract capital investment from a lessee that, depending on the approach to scope and scale of the additional commercial elements, may fully cover the capital costs of these facilities. Depending on the commercial mix and the lease length there may be still some ability to meet a reduced recurrent contribution.
- Consideration should be given by CoPP as to the lease length to ensure that any potential Government investment made to refurbish the Palais is maximised.
- The lease for Regent Theatre site was for 50 years and this was based on a significant capital contribution by the lessee/developer to upgrade the theatre and build the adjacent hotel and apartment building.

- As the venue is to be leased to a commercial operator and even with some conditions around community access, the primary direct beneficiary of the refurbishment will be the lessee and patrons. There will clearly be a benefit to ratepayers by refurbishing a local heritage icon and in the upgrade of the Triangle precinct in general, however without demographic based visitation data from the venue it is hard to assess the direct benefit through visitation to the venue.
- Given the considerable levels of investment proposed in this report, it may be beneficial for CoPP to consider the longer-term financial impacts and the potential political (stakeholder) risk around a project with hard to quantify direct ratepayer benefits.

Recommended Next Steps

It is understood that the findings from this study will be used to assist CoPP in further developing the Palais project and the vision and planning framework for the St Kilda Triangle precinct. We consider that the next stage of project development may benefit from consideration of the following:

- **Technical Brief:**
Commissioning of a functional and technical theatre brief to ensure the functional criteria critical to the viability of the Palais is documented. This technical brief should become a formal briefing document in any further development of the theatre and St Kilda Triangle site.
- **Commercial Advisory:**
If Upgrade 3 is to be considered in greater detail, commercial property advisory expertise should be engaged to explore the financial analysis of potential operations.
- **St Kilda Triangle:**
Review the upgrade options and their relationship to current St Kilda Triangle Studies.
- **Car Parking Study:**
A detailed car parking study should be undertaken, including demand analysis and potential impact changes to car parking within the precinct on the future operating model of the Palais.

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Acronyms

BCA	Building Code of Australia
CoPP	City of Port Phillip
CMP	<i>Conservation Management Plan, 2006</i> , by Lovell Chen Architects
DDA	Disability Discrimination Act
DSE	Department of Sustainability and Environment
KPI	Key performance indicator
ILM	Investment Logic Map
OH&S	Occupational Health and Safety
Palais	Palais Theatre
PTWG	Palais Theatre Working Group
Triangle	St Kilda Triangle site
VAPAC	Victorian Association of Performing Arts Centre
WRA	Williams Ross Architects

1. Background

The City of Port Phillip (CoPP) recognises the iconic status of the Palais Theatre (the Palais), including its heritage value and cultural significance. CoPP is committed to ensuring the Palais remains a vibrant cultural, community and heritage asset drawing on its rich past as a live music venue. As such, CoPP seeks to securing the future of the Palais through the development of an operating model, which ensures its long-term viability, vitality and self-sufficiency.

The Palais Theatre Requirements Study was commissioned by CoPP to identify models to secure the long-term future of the Palais. The study has investigated a range of potential operating models and capital upgrade solutions to secure this outcome and assist CoPP in determining the necessary structures to ensure the ongoing sustainable operation of the theatre prior to the expiry of the current lease (30 September 2015). The Study has been commissioned to inform decisions about the Palais, including how it operates and what it needs to support its long-term self-sufficiency and viability.

CoPP identified that research and analysis was needed to determine:

- the operational model(s) which will best ensure its future;
- amount of funding required to ensure this future, by whom and through what process;
- whether additional land is required;
- what, if any ancillary uses are needed to support the Palais to be viable and sustainable.

History

Designed by Sydney architect Henry White in 1925/26, and constructed in 1927, the Palais is one of Australia's largest theatres and retains the largest seating capacity for a purpose built theatre in Australia. It is a fine example of Spanish Mission architecture and is of cultural and heritage significance to both the local St Kilda and wider community.

The building has several heritage listings and controls:

- Victorian Heritage Register number H0947
The extent of registration covers the existing leasehold including all buildings, and the William Bedford light fittings. This registration requires a permit through Heritage Victoria for works altering the heritage place or heritage objects.
- National Trust of Australia (Victoria), file number B4722
The theatre is classified as a building of state significance. This classification does not have any statutory requirements.
- Register on the National Estate, database number 14664, file number 2/11/046/0023
As of 2007, The RNE is no longer a statutory list and exists as an archive.
- City of Port Philip Planning Scheme Heritage Overlay, number HO184

In 2006 a *Conservation Management Plan* (CMP) for the Palais Theatre was commissioned by CoPP, on behalf of the Victorian Government Department of Sustainability and Environment (DSE). The CMP provided a comprehensive historic account of the Palais, including a Conservation Policy and Management Plan addressing the level of significance of various building components.

For the purposes of this study, the following levels of significance and related policy recommendations in the CMP have been adopted for all original building components:

- Elements and areas of Primary Significance:

The relevant CMP policy recommends elements of primary significance be generally retained, restored and/or reconstructed, including:

- external building envelope - the main facade, side and rear walls and roof,
- principal public internal spaces including ground and first foyers with associated circulation spaces and amenities; and the auditorium including the stage, orchestra pit and original bio-box.

- Elements and areas of Contributory Significance:

The relevant CMP policy notes there is greater scope for adaption of these areas, with significant fabric being retained if possible, including:

- original exposed services to the exterior, including air ducts and downpipes
- interior elements including the ground floor offices; side exit stairs; backstage areas; c.1950s bio-box; roof structure and roof space; interior of towers; services in the basement, backstage area and towers; interior of original dressing room block; fly galleries and fly system; original basement plant and equipment; remains of DC power system, original switching gear, dimmer racks and the like;

- Elements and areas of Little or No Significance:

The relevant CMP policy recommends these items can be altered as required.

- all non original building components, except those listed above;

(2006, Lovell and Chen, p106 – 114)

Operating initially as Palace Pictures, and as a live theatre venue since 1927, the theatre is still offering a successful program of live music events despite requiring refurbishment.

In the 1960's and 1970's the Palais hosted many major musicals, the Australian Ballet, Australian Opera and international acts. Following the opening of the Victorian Arts Centre in 1982, and the refurbishment of Melbourne's heritage theatres in the CBD, the focus of the Palais moved to live music, comedy acts and events associated with the Melbourne and St Kilda Film Festivals. The Palais also hosts the occasional dance performance and televised events. The Palais does not currently comply with recognised theatre standards.

The Palais sits within the 'Triangle' precinct bounded by Jacka Boulevard, The Esplanade and Cavell Street. The land is crown land subject to the *Land (St Kilda Triangle) Act 2006* under which the land is reserved for public purposes. Under this Act CoPP was deemed Committee of Management, as if the land came under the Crown Land (Reserves) Act 1978. The Palais Theatre plays a pivotal role in the St Kilda Triangle precinct and will be retained as the dominant and iconic building on the site. The relationship between the Palais and the St Kilda Triangle precinct is critical to both the future of the Palais and the precinct.

CoPP and the State Government have identified that significant investment is required to preserve and refurbish the building. In parallel with this study, CoPP is developing a vision and planning framework for the St Kilda Triangle precinct.

Current Operations

The Palais currently operates via a lease to a private operator – The Palais Theatre Management Pty Ltd Operations Group. The lease was negotiated as part of the settlement for the Triangle redevelopment.

The operator is running the venue primarily as a venue for hire with minimal entrepreneurial activity. There are approximately 100 events per annum. The current operator has indicated the preferred level of activity would be 140 events per annum, and that this could be achieved with upgraded facilities. The events are mostly music concerts (contemporary, alternate, rock etc). They are often one night shows regularly showcasing high profile international artists, with generally no more than three shows per artist. There is also regular programming of well-known comedy acts.

It has been acknowledged by industry stakeholders that the current programming is suitable for the venue, its location and the local market.

2. Local Context – City of Port Phillip

Site context, location and use

The Palais is located at the corner of Lower Esplanade and Cavell Street, opposite Luna Park. The Palais forms one edge of the Triangle site. The Palais building itself sits substantially lower than the level of The Esplanade, which forms the main vehicle and tram thoroughfare to the north of the site. The building sits at the base of the grassed embankment level with the Lower Esplanade. Its height and striking architectural style makes it highly visible from the public realm of The Esplanade.

Today, apart from the Palais, an at-grade car park of approximately 326 spaces is the main activity on the St Kilda Triangle site. Historically, the site was home to Little Luna Park and the Palais de Danse. Later the Palace Entertainment Complex was situated adjacent the Palais with a smaller amount of public car parking on site.

Site access – pedestrian and vehicular

The site is well served by public transport, with a super tram stop nearby on The Esplanade. Pedestrian crossings are available on The Esplanade near the Luna Park entry, and it is a short walk from there to the Palais entry. Pedestrian paths weave down the grassed embankment to the Lower Esplanade and the Triangle site. From the beach side, there are two at grade pedestrian crossings and one raised crossing across Jacka Boulevard connecting directly with the St Kilda Triangle site.

Vehicle access is available directly off Cavell Street to the Palais loading dock, and into the staff car park at the rear of the building. There is room for 18 car spaces for staff and performers in the rear Palais car park, although spaces are not formally marked. Occasionally large events in the Palais require marquees to be erected in this area, forcing staff parking into the surrounding car park areas.

The public car park on the St Kilda Triangle site is managed by the CoPP and is not for exclusive use by Palais patrons. Vehicle access to the public car park is available off the Lower Esplanade via Cavell Street and off Jacka Boulevard. Additional car parking is available in surrounding car parks and streets.

This study does not propose to increase the seating capacity of the Palais auditorium. No analysis of existing patron car parking capacity has been undertaken. However, on-site staff car parking arrangements have been assessed and this study recommends increasing this provision, including the external space for on-site truck loading, refuse handling and general building servicing.

The perception of available car parking is considered an attractive feature of the theatre, as is its proximity to tram and bus services. Any reduction to this amenity should be assessed against available car parking in close proximity to the site.

New and complementary activities at the Palais, such as those proposed later in this study, are likely to generate additional demand for car parking. Availability of patron car parking for new activities should be considered within comfortable walking distance in accordance with patron expectations.

Any future car parking strategy for the Palais and St Kilda Triangle site will require a more detailed assessment of existing and projected car parking demand in the area. This assessment should take into account surrounding car park sites and local streets within walking distance, and could include an exit poll of Palais patrons, to understand how the existing car parking is meeting demand and how Palais patrons access the site.

Urban design

During the day the Palais sits somewhat forlornly on an otherwise empty site. The building turns a blank façade to the remaining Triangle site. Its proximity to Luna Park connects the built form of the Palais back into the built hub of St Kilda, but this does not extend to day-time activity itself. At night, when an event is on at the Palais, the area is alive and bustling with activity.

The potential connection between the Palais and a future vision for the Triangle site has the opportunity to create a vibrant and exciting Triangle, day and night. The key urban design features of the site that can support the future sustainability of the Palais include:

- Development of a forecourt to the Palais to enhance the theatre setting, creating event milling space and be an extension of the foyer spaces. It may even become a performance space itself.
- Enhancement of the Palais main façade through refurbishment and improved façade lighting to increase visibility and appreciation of this iconic building.
- Development of a physical or visual connection between the Palais' north façade and the remainder of the Triangle site to enhance the relationship of the theatre to its urban setting. This can be achieved either through extension to the Palais along this façade, with particular attention paid to the activity and interface at this edge; or by conceptualising this 'blank' Palais wall as a backdrop or canvas for the Triangle site.
- Using the proposed additional foyer and administration facilities to visually animate the western aspect of the Palais by displaying activity within the space.
- Consideration should also be given to Cavell Street. Does it have a purpose more useful than a loading dock? Could it become a public space?

CoPP and State Government plans, policies, strategies and Acts

Table 2.1 outlines the various following COPP plans and strategies are relevant to the study and assist with defining the strategic direction for the Palais. It also identifies the relevant Crown land lease guidelines.

Table 2-1 – Council Plans and Policies

Policy/ Plan	Description	Issues/ considerations
St Kilda Triangle –A Shared Vision (Version 3) – Objectives and Principles, 28 November 2011	The purpose of the document is to develop a vision to inform the future of the St Kilda Triangle.	<p>It is noted the future vision for the Triangle should consider the possible future growth of the Palais to ensure the theatre’s long-term viability. Any buildings and landscaping on the site need to be respectful of the history and context of the Palais and Luna Park. At the key stakeholder Ideas Forum, it was noted that the Palais:</p> <ul style="list-style-type: none"> • Should be retained as the dominant iconic building on the site • Should engage more with the Triangle • Is a commercial space – opportunity exists to create commercial spaces that are loved and wanted as much as the Palais • Attracts evening activity – this should be balanced with daytime activity
Arts and Culture Policy, 14 November 2011, City of Port Phillip	Port Phillip is an energetically creative place, welcoming and alive with activity, a place where all people can participate in and experience the arts and the cultural life of the city.	<p>A Home for the Arts - Cultural Precincts. The City of Port Phillip:</p> <ul style="list-style-type: none"> • Encourage cultural programming of key public spaces to maximise the attractiveness of Port Phillip as a cultural destination. • Support cultural precincts at Gasworks Arts Park, in Emerald Hill and St Kilda, linking cultural services to broader strategic objectives and creating communities of cultural activity. • Promote Port Phillip as an attractive and vibrant location for filming, touring and cultural endeavour <p>It is noted that there is no reference to the Palais Theatre or its precinct within the Arts and Culture Policy.</p>

Policy/ Plan	Description	Issues/ considerations
Council Plan 2009 -2013 City of Port Phillip		The Council Plan 2009-2013 does not identify the future use of Palais as contributing to any of the four key directions. The work being undertaken in this study and the Triangle studies will inform the future vision and relevance to the Triangle site for the Council plan beyond 2013.
Land (St Kilda Triangle) Act 2006	State Government Act for St Kilda Triangle Development - 2006	<p>The main purposes of this Act are –</p> <ul style="list-style-type: none"> (a) To revoke the reservations of certain land at St Kilda; and (b) To re-reserve that land and to reserve other land at St Kilda for public purposes; and (c) To provide for the Port Phillip City Council to be the committee of management of the reserved land; and (d) To provide powers to lease part of the reserved land. <p>The act also allows for longer lease lengths and details the issues in relation to land area, titles, reservations, uses, lease lengths and covenants over construction. Key points to note include:</p> <ul style="list-style-type: none"> (a) The committee of management of the St Kilda Triangle land may grant a lease of that land for the purpose of the construction or use of buildings, works, facilities or public open space for retail, tourism, entertainment, commercial or cultural purposes. (b) The committee of management must not grant a lease under sub-section (a) unless the Minister has, in writing to the committee, approved the granting of the lease. <p>The lease length (a) may provide for the term of the lease to be extended one or more times, but—</p> <ul style="list-style-type: none"> (c) Each extension of the lease must not exceed 21 years; and (d) The aggregate of the initial term and any extensions of the term must not exceed 99 years

Policy/ Plan	Description	Issues/ considerations
Crown Land Leasing Policy (2010)	The Victorian Government's leasing policy for Crown Land in Victoria.	<p>The Palais and St Kilda Triangle site is Crown land with CoPP being deemed Committee of Management by the Land (St Kilda Triangle) Act 2006.</p> <p>Leasing Principles</p> <p>Principle 1 – To provide benefit to the public through leasing</p> <ul style="list-style-type: none"> • Leasing should support the development of healthy communities and, where appropriate, promote investment and encourage innovation. <p>Principle 2 – To ensure consistency and transparency in leasing</p> <ul style="list-style-type: none"> • To ensure consistency and transparency in leasing processes, and to adhere to legislative requirements, a two-stage process applies to the granting of leases. • Generally, a competitive selection process will apply to the leasing of Crown land, although in special circumstances direct negotiations will be permitted. • The selection of tenants through a competitive selection process is particularly relevant to commercial leasing. A competitive process improves probity, and is better able to address conflict of interest (real or perceived) and transparency in the decision-making process. There are special circumstances where it may be impractical to use a competitive process and direct negotiations are an acceptable way to achieve an outcome which serves the community interest. <p>Length of leases guidance</p> <p>Leases up to 21 years</p> <p>Leases may be granted up to 21 years in duration. Factors that will be taken into account when assessing the term of a lease will include:</p> <ul style="list-style-type: none"> • The ability of the prospective tenant to fund, resource and manage the lease over the lease term • The level of investment to be made by the tenant under the lease • The purpose of the lease and activities

Policy/ Plan	Description	Issues/ considerations
		<p>proposed under the lease</p> <ul style="list-style-type: none"> • The minimum term permitted under the Retail Leases Act 2003 if the lease is for retail purposes. <p>Lease lengths beyond 21 years and up to 99 years</p> <p>Land (St Kilda Triangle) Act 2006 allows for the granting of leases up to 99 years. The assessment criteria still needs to give consideration to the Crown land leasing policy as detailed below.</p> <p>Leases between 22 and 65 years</p> <p>The Minister will only consider departures from the 21 year maximum term of lease under the Crown Land (Reserves) Act 1978 and Forests Act 1958 in accordance with the criteria specified in these Acts. These Acts provide that the Minister may grant leases for a term of more than 21 years, but not more than 65 years, if the Minister is satisfied that:</p> <ul style="list-style-type: none"> • The purpose of the lease is not detrimental to the purpose for which the land is reserved; and • The proposed use, development, improvements or works specified in the lease are of a substantial nature and of a value which justifies a longer-term lease; and the granting of a longer-term lease is in the public interest.

3. Study Consultation Process

This study has utilised a consultation process to ensure study outcomes are aligned with expectations of key project stakeholders. It was determined that consultations in the first stage of the study would be with key project personnel at the officer level within CoPP and DSE. The second part of the consultation process involved current venue operator and industry representatives.

Investment Logic Map Workshop

To ensure project outcomes were in line with State Government processes and alignment of the project team, an ILM workshop was undertaken to determine what the key problems, strategic interventions and project benefits would be and whether the Palais Theatre Requirements Study should proceed.

Internal CoPP and State Government stakeholders

One-on-one or small group interviews were undertaken with key CoPP personnel including the executive team and from the areas of Corporate Services, Culture and Community, City Strategy, Economic Development, Environment Property Services and Planning and Place and Projects. The State Government was consulted through the DSE crown lands team.

Key Findings

- The Palais should remain as a cultural facility
- Cultural heritage of the venue should be celebrated
- The current programming offer of live music/ comedy is well suited to the area
- Preference for the venue to be managed externally
- The asset required a significant upgrade
- The best outcome would be where there was minimal cost impact to CoPP
- There was significant sensitivity to any development at the Palais both with councillors and also the local community
- There was an interest in investigating the various capital upgrade options to test how commercial development would be received by the market and community
- Varying views as to the need to impose conditions on programming
- A broader programming offer could be explored
- Smaller spaces within the venue would encourage greater usage
- Operation of the venue during the day is important
- It is important that any future usage does not detract from the National Theatre or Gasworks
- A connection to the local area through services and activities would be of benefit
- A visitors centre incorporated into the facility would add to the activation of the venue
- The venue should remain accessible
- Encouragement of CoPP and community usage for a range of activities

External Stakeholders

In addition to benchmarking and secondary research, the following industry stakeholders were consulted:

- Chief Executive National Theatre
- Director Marriner Group
- Marketing and Venue Sales Marriner Group
- CEO AEG Ogden Group (Perth)
- General Manager Her Majesty's Theatre
- CEO Gasworks Arts Park
- Manager Palais Theatre Management

Key Findings

- The Palais is viewed as an important cultural facility for greater Melbourne and its continuation as a performance space is encouraged
- The current programming mix has found its niche in the market and many industry stakeholders see it as complementary and not as a direct competitor
- If the programming mix was to change (i.e. fully staged musical theatre, long run seasons) then this would have a direct effect on large commercial theatres
- Reduced seating would position the Palais in a different segment of the market and may place it in competitions with the National Theatre
- Confirmation that the St Kilda area is a hub for live music
- That the closure of Hamer Hall for refurbishment may have benefitted the Palais and this will need to be monitored when Hamer Hall re-opens
- The unpolished ambience of the Palais is part of its appeal
- The current audience base of the Palais is attracted to the position and surrounds. This may not be the case if the programming was aimed at an older demographic who still view the CBD as the preferred location for attending theatre.
- Food and beverage service is an integral part of the theatre going experience
- A café as part of the theatre complex may not be a high revenue earner but it would create a sense of activity during quiet times
- There are a small number of fully commercial owned and managed theatres in Australia. Government owned and operated theatres require subsidy to ensure a broad programming mix
- There are only a small number of operators in Australia who would have the ability to manage the Palais as a commercial venue

Additional findings from the internal and external consultation process have been incorporated into the sector benchmarking and market analysis (Section 7).

4. Analysis of Existing Facility

Visual inspection of the Palais clearly indicates the building is in need of refurbishment and extensive maintenance works. This study has provided the opportunity to assess the existing condition of the building against current day building codes and regulations and importantly, the opportunity to assess its operations against current and possible future uses. This analysis has underpinned the design approach for the capital upgrade options detailed later in this report.

The analysis of the existing facility has been completed in two parts. Firstly, a compliance review assessing the building against relevant codes, regulations, and the extent of general maintenance works required to bring it up to expected standards. Secondly, a functional review to assess how the theatre's facilities support its various operations. The functional review compares the facility to the Victorian Association of Performing Arts Centre (VAPAC) theatre standards as a benchmark.

This review has been informed by:

- previous studies of the existing building fabric, services and compliance issues, and heritage requirements
- discussions with members of the Palais Theatre Working Group
- discussions with the current Palais Theatre operator; and
- visual inspections of the Palais.

Key Findings

The following is a summary of the key areas of capital works investment recommended for the Palais:

Building Fabric

The external building fabric has deteriorated over time. All external surfaces require maintenance to make the building water and weather-tight and ensure it does not suffer further degradation, particularly due to the proximity to a marine environment. Repairs to the external surfaces of the building will also protect the internal surfaces from further water and weather damage.

Building Services

All building services require minor or major upgrades, including upgrades to electrical and fire safety infrastructure.

Interior Surfaces

All interior surfaces have degraded over time, particularly due to the ingress of water in ceiling areas. All interior surfaces require minor or major refurbishment to rectify this damage and ensure the social and cultural significance of these spaces can be maintained into the future.

Hazardous Materials

Various hazardous materials reports completed over time have indicated the presence of hazardous materials at the Palais Theatre. These require controlled removal and installation of new, suitable building materials in their place.

Building Code of Australia (BCA) Compliance

The main areas of non-compliance with the BCA include:

- first floor balustrades in the foyer area and lounge seating are below the minimum 1000mm height above floor level,
- generally there are no stair nosings to stair treads,
- emergency lighting and exit signs may be non-compliant,
- fire services, smoke management and integrity of fire compartments require assessment for current code compliance,
- provide a fire booster assembly connection,
- another point of egress is required from the basement area,
- there are too few female patron toilet pans.

All new works need to be compliant with the BCA, however dispensation for some clauses of the BCA may be available due to the heritage listing of the building.

Disability Discrimination Act (DDA) Compliance

The main areas of non-compliance with the DDA include:

- no accessible routes to the first floor foyer, first floor offices, dress circle and lounge seating, to backstage areas and to the stage itself,
- no permanent accessible patron, staff or performer amenities,
- not enough accessible seating positions in the auditorium.

Compliance with the DDA will require construction of a front-of-house lift, accessible amenities in front and back of house areas, and alteration of auditorium seating to provide a range of opportunities for accessible seating positions. This scope of works will require extension to the building.

Occupational Health and Safety (OH&S)

The main areas of concern relating to OH&S issues include:

- poor condition of ground floor work spaces,
- manual handling issues around the loading bay compounded by the lack of dock leveler and external loading conditions,
- manual handling issues due to lack of theatre equipment storage located directly off stage,
- safety at heights issues due to non-compliant walkways through the roof spaces, lack of safety cages to some ladders,
- safety at heights issues for general maintenance items such as frequently changed incandescent light bulbs in ceiling domes,
- presence of hazardous materials in workspaces,
- the forestage area is not compliant with current safe work loads for stages.

Many of these OH&S related issues will be addressed when considering the functional operations of the theatre. Any capital works should include careful consideration of all OH&S issues within the theatre.

Theatre Function and Operations

Taking the VAPAC theatre standards as a benchmark, the existing Palais facilities are operationally deficient in the following areas:

- patrons facilities are too small, particularly the size of foyer spaces and amount of patron's amenities,
- food and beverage services are limited to small front-of-house kiosks and bars,
- centre management facilities are too small and not efficiently located,
- access between the stage and back stage is awkward and confined, with no accessible route,
- acoustic separation between inside and outside the auditorium and stage is compromised by unsealed, light-weight external doors,
- there are no crew facilities back stage,
- backstage performer dressing rooms and amenities are cramped and too few in number,
- there is very limited equipment storage backstage with no dedicated hirers, lighting, sound, piano or technical stores, no scene dock,
- there is no performer rehearsal or warm-up space,
- theatre loading off Cavell Street is not desirable in the long-term,
- no separate center loading area for office, food and beverage supplies,
- rear external service and staff car park area is too small.

Stage House Comparisons

Assessment of the existing stage and stage house demonstrated restrictions placed on performance types by the physical constraints of the existing theatre. In order to make this assessment, the existing stage size, wings and stage house configuration were compared to the VAPAC standards, and other relevant comparable theatres.

The analysis demonstrated the size of the existing theatre stage itself was suitable to the theatre's current range of live performances. However, the limited capacity of the stage house (i.e. the wings, stage access and backstage areas) and the poor connection between the stage and backstage facilities limit the theatre's ability to stage a wider range of performance types.

The analysis also demonstrated that if larger performances, such as musical theatre, were to be considered for the Palais, the stage, wings, flying tower and stage house itself would need to increase in size. An indicative cost estimate was prepared for the option of rebuilding the stage house to suit larger performances. This cost estimate was in the order of \$13 million for construction and theatre infrastructure costs. This figure is not included in any of the current Upgrade Option estimates, and would be in addition to those estimates.

Environmentally Sustainable Design (ESD)

Theatres are large, mostly enclosed boxes, with large occupancy for short periods of time. This makes achieving passive design particularly difficult. Effective measures typically involve creating a highly insulated building envelope, installing very energy efficient plant, maximising controlled use of daylight, and careful material selection.

Working within an existing, heritage listed theatre building presents constraints in implementing ESD principles. However, all new building works, including office spaces, backstage and any new uses should be designed using ESD principles.

Any new building works at the Palais will, at a minimum, need to comply with the environmental standards of Part J in the BCA. Dispensations are available for existing building fabric when refurbishing an existing building.

Integration of environmentally sustainable design principles into future facility proposals from the earliest possible stage of the project ensures new building works are designed with ESD as a core principle, instead of an after-thought. ESD opportunities should be analysed against relevant cost-benefits to determine appropriate measures to be adopted.

ESD opportunities for the Palais include:

- upgrade existing foyer and house lighting to be energy efficient,
- upgrade existing amenities to be low-water use when changing over the cisterns to toilets,
- replace existing external doors to be weather-tight to reduce drafts and heat loss,
- repair and reseal all existing windows to be weather-tight to reduce heat gain and loss,
- integrate passive ESD into new building planning and form,
- assess project specific ESD opportunities, such as:
 - process management, commissioning, user guides and monitoring,
 - occupant expectations for comfort, operational roles, etc,
 - indoor environmental quality, passive and mixed mode ventilation,
 - maximising natural day-lighting,
 - energy consumption, efficiency and on-site generation,
 - water collection, re-use and consumption,
 - materials selection – embodied energy, recycling and re-use,
 - greenhouse gas emissions and volatile off gassing,
 - facility and construction waste management,
 - land use ecology benefits for the site, landscaping design,
 - control of emissions, watercourse and light pollution,
 - life-cycle cost-benefit analysis of all measures.

5. Investment Logic Map Outcomes

The Victorian Government's Investment Management Standard has been evolving since inception in 2004 and is a collection of simple, common sense practices that enable an organisation to direct resources to their best use.

The approach has evolved as a reaction to investment practices that demand compliance with complex processes but fail to articulate the need for the investment or the benefits that the investment will deliver. In the place of complex processes, at the core of the Investment Management Standard are two key components:

- Two-hour informed discussion sessions that bring together the people with most knowledge of the subject to create and agree to the 'investment story'; and
- The depiction of the agreed investment story (as identified in this discussion) on a single page and called an Investment Logic Map (ILM) and using language and concepts that can be understood by the layperson.

The investment management practices are skewed towards the early shaping of investments and focus heavily on the evidence to support the need, the best strategic solution and the benefits that will be delivered. The practices also track the delivery of benefits and support evaluation of the effectiveness of the investment.

The following principles provide the key to extracting the logic for potential investments:

- If we can't articulate the problem that needs to be addressed there is no point spending resources considering a solution.
- A problem is only considered to have been articulated when:
 - It has been expressed in a plain English sentence that communicates both the cause and effect
 - There is evidence to support the cause and effect.
- The expected benefits of an investment will be those that result from rectifying the identified effect
- The best solution to a problem is obtained by exploring a range of strategic interventions that will:
 - Respond to the cause of the problem
 - Deliver the KPIs of the expected benefits.

An ILM workshop was undertaken with key project personnel from CoPP and DSE to determine the Problems, Benefits and Strategic Interventions and the findings of this workshop have been cumulated to form the ILM. The ILM identified three problems that may pose a barrier and need to be resolved as part of future potential upgrade works and operation of the Palais Theatre. These are detailed below.

Problems

This section provides evidence for each of the components of the Problem section identified within the ILM.

Problem One:

Degraded heritage asset with liabilities for CoPP and State Government, coupled with unsafe and inadequate facilities which limit its existing and future use

Description

The Palais has suffered from under-investment in its infrastructure over the long term. The facility now requires a significant capital upgrade to bring it up to current standards, to address potential safety liabilities and to improve operational outcomes.

Causes

The long-term under-investment is as a result of the prior lessee facility management and lack of maintenance and investment.

Evidence

The Palais is a significant State heritage asset and the current building:

- is DDA non-compliant
- poses safety risks in relation to fire and electrical, balcony and tripping
- has substandard back of house facilities
- is limited in its operational effectiveness
- built as a picture theatre, now used a music venue
- has inadequate commercial facilities (food and beverage, corporate, retail) to meet audience size and expectations

Problem Two:

Uncertain operating future with short-term lease due to expire in September 2015

Description

The current operator, Palais Theatre Management Pty Ltd is operating on a short term lease arrangement that was negotiated as part of the St Kilda Triangle settlement and is due to expire on 29 September 2015.

Causes

The Palais was part of the previous St Kilda Triangle redevelopment proposal by BBC Triangle Investments (Citta/ Babcock & Brown consortium) which included a significant upgrade and expansion to the Palais as part of the broader precinct development. This long-term solution was determined to be inappropriate. As a result, a five-year lease for the Palais Theatre was granted to Palais Theatre Management Pty Ltd commencing on 30 September 2010 to manage and operate the Palais, while further decision-making about the future of the Palais and Triangle site was conducted. Although the lessee has conducted some minor capital maintenance and repair work, this lease is considered too short to encourage major capital investment from the lessee.

Evidence

The existing short-term lease was negotiated as part of Triangle settlement. There is currently no agreed strategy for future operations of the venue beyond the lease with a risk that the venue may have to close permanently if no solution is found.

Problem Three:

Complex site history with unresolved future governance between City of Port Phillip and State Government and uncertainty around final St Kilda Triangle precinct outcomes

Description

The Palais is located on Crown land. Under the *Land (St Kilda Triangle) Act 2006* the site of the Palais and surrounding “triangle” is deemed temporarily reserved for public purposes and the City of Port Phillip is deemed to be the Committee of Management of the land under the *Crown Land (Reserves) Act 1978*. The Minister for Environment and Climate Change has ultimate responsibility for Crown land.

Causes

The Palais was originally built by a commercial operator under an agreement with the State Government in 1927. The State Government managed the Palais directly under a series of tenures with commercial tenants, the last being a lease for a term of 50 years which expired in 2006.

In 2002 CoPP (as Committee of Management) embarked on an Expression of Interest process for a development partner, with a view to redevelop the Crown land site bounded by Jacka Boulevard, Cavell Street and The Esplanade known as the “St Kilda Triangle”.

As part of the proposal, and following the enactment of the *Land (St Kilda Triangle) Act 2006*, CoPP was effectively appointed as Committee of Management for the Palais and the former Palace Theatre (CoPP was already committee of management over the balance of the site). The development proposal that emerged from this process was ultimately deemed inappropriate and future works, including works to the Palais have been dropped.

CoPP is currently conducting a process of planning for the future of the Triangle site, which includes the Palais, to determine an appropriate use for the site over the long term.

Evidence

- lack of agreed vision on future Palais operating model.
- unknown future of the Triangle precinct and resultant impact on Palais future.
- significant community and political sensitivities about future development on Triangle site.

Benefits

Three benefits were identified as what will be delivered to CoPP and the State Government with the delivery of the long-term Palais Theatre Project. Ensuring achievement of these three benefits will be a key component in the decision-making processes around determining the preferred long-term operational model and the most suitable capital upgrade solution.

Benefit One

Palais is refurbished, upgraded and retained as key cultural venue and heritage icon

The Palais is a significant State heritage asset and has the largest theatre capacity (2,896 seats) for a purpose built theatre in Australia. A restored Palais will enhance a significant cultural and heritage asset within the CoPP and the state of Victoria.

Once restored and upgraded as a fit for purpose asset with 25 year as new condition asset life the building will:

- meet compliance requirements (improved safety/reduced liability)
- meet heritage requirements
- minimise annual maintenance and requirement for short-term asset fixes
- provide better facilities to users, customers and performers (including improved safety in BOH)
- enable greater programming flexibility
- provide a broader offer to patrons
- enable greater commercial revenue opportunities
- not present significant liabilities to CoPP and State Government

Possible Key Performance Indicators

- programming – type and amount
- commercial mix and offer
- enhanced programming offer cementing Palais as a key cultural venue and heritage icon.

Benefit Two

Long term operating future for the Palais is secured with minimal impact on CoPP and State Government capital and recurrent budgets

The future for the Palais is secured through best approach to minimise funding from CoPP and State Government with adequate funding in place for effective ongoing operations.

Possible Key Performance Indicators

- could include a Key Performance Indicator (KPI) around capital contribution and/ or recurrent contributions.
- length of lease

Benefit Three

Refurbished Palais is a key contributor to Triangle redevelopment resulting in vibrant precinct and improved urban design outcomes

Once refurbished, the Palais will act as a key landmark and anchor within the Triangle precinct with improved site vitality and improved urban design outcomes across the precinct. Key to the success of the precinct will be ensuring that urban design principles consider the whole site and allow for best integration of the Palais with its surroundings.

Possible Key Performance Indicators

- increased visitation to precinct.
- clear Palais brand.
- increased recognition of Palais as contributor to cultural identity of CoPP.

Strategic Interventions

Strategic Interventions are defined as a strategic response to the problem without locking in any previously identified solution. It is often the case that a capital solution has previously been identified as solving the problem prior to adequate consideration of alternate solutions or intervention being tested. A strategic intervention could also be called a strategic action that could be taken to react to or address the cause of the problem to deliver the identified benefits.

The ILM identified four strategic interventions:

Strategic Intervention One

Improve product offering at venue to broaden revenue opportunities and increase visitor access and experience

CoPP and the State Government have identified that the Palais requires a successful long term operating model with a desire to further extend the current programming occurring onsite.

This could include:

- increased number of events/ performance of cultural activities
- increased activity through other commercial offerings
- increased total number of attendees and visitors
- ability to co-locate facilities to benefit the Triangle site

This study will investigate how the operating model and capital upgrade options will affect these outcomes.

Strategic Intervention Two

Establish long-term business model to further extend cultural programming and events on site

The future of the Palais is contingent on confirming a preferred long-term sustainable operating model. A preference has been identified that this occurs with minimal ongoing financial impost (recurrent budget impact) to both CoPP and State Government.

Key considerations will include:

- identification of landlord (i.e. DSE and CoPP as Committee of Management) and lessee responsibilities
- understand marketplace attraction for potential lessees
- investigate commercial opportunities allowing for capital investment by lessee
- identify expected future cultural programming and community access requirements and impacts on future operating models

Strategic Intervention Three

Establish clarity in roles and responsibilities between CoPP and State Government

Agree future governance model between State Government and CoPP including formal agreement on:

- future operating model
- commercial lease arrangement i.e. length of tenure, lease assignment etc
- asset responsibilities and liabilities
- triangle site relationships
- ownership and management of site

Strategic Intervention Four

Resolve future vision for the Triangle

CoPP has commissioned this study and is currently conducting a visioning process for the Triangle site to help determine an appropriate use for the site over the long term. Both studies will be used to determine the preferred approach for the long-term future of the Triangle (including Palais) site.

6. Industry Context - Benchmarking Review

The following list provides an overview of the management structures, operating models and ownership structures used in selected theatres in Australia. Although a greater number of venues were benchmarked, the 23 venues listed provide a snapshot of management models, heritage venues and ownership options that are appropriate to this study.

Methodology

The 23 venues were chosen to ensure the data provided is relevant to the assessment of the Palais in a local and regional context, as well as providing a range of models and programming structures. The benchmarking focused on the larger theatres in Australia, although smaller venues were also examined as they provided alternative management models. An analysis of the various models below will assist in confirming the preferred operating model for the Palais.

The data was collected from publicly available sources and direct sector experience. Due to the competitive nature of commercial theatre operations, in most cases specific details of contractual arrangements remain commercial-in-confidence. Therefore assumptions have been made based on general industry knowledge.

In addition to primary research, direct interviews were conducted with local and national theatre operators (ref. section 7), to provide an examination of a cross section of ownership and operating models.

Industry Context – Ownership and Management

The following venues and management models were benchmarked:

State or Local Government ownership - lease and operation

Palais Theatre – St Kilda VIC
Regent Theatre - Melbourne Vic
Capital theatre, Sydney NSW
Thebarton Theatre – Torrensville S.A.

Local Government owned and operated in house or by a non-profit entity

Civic Theatre – Newcastle NSW
Empire Theatre - Toowoomba QLD
Gasworks Arts Park – Albert Park Vic

State or Local Government owned and operated by a commercial contract management fee

Perth Concert Hall – Perth WA
His Majesty's Theatre – Perth WA
State Theatre Centre – Perth WA
Concourse Theatre – Chatswood NSW

Commercially owned and operated

Princess Theatre - Melbourne VIC
Comedy Theatre - Melbourne VIC
Forum Theatre - Melbourne VIC
Her Majesty's - Theatre Melbourne VIC
State Theatre - Sydney NSW
Enmore Theatre – Newtown NSW
Festival Hall – Melbourne VIC

State Government owned and operated as Statutory Authority – Full State Government responsibility

State Theatre - Arts Centre Melbourne VIC

Hamer Hall – Arts Centre Melbourne VIC

Sidney Myer Music Bowl Melbourne VIC

Recital Centre – Melbourne VIC

The Plenary - Melbourne Convention and Exhibition Centre VIC

The Playhouse – Geelong Performing Arts Centre VIC

Owned and operated by a not-for-profit entity

National Theatre - St Kilda VIC

Robert Blackwood Hall – Clayton VIC

Industry Context – Venue Analysis

Key Findings:

- The benchmarking process confirmed that the Palais retains the largest seating capacity for a purpose built theatre in Australia.
- Excluding the State owned Arts Centre, the Plenary and Blackwood Hall Monash University all other performance capable venues in metropolitan Melbourne with seating capacities exceeding 1,500 are commercially owned and/or managed.
- There are only two Local Government owned and operated performance venues in Australia with a seating capacity over 1,500 (Newcastle and Toowoomba).
- The Regent Theatre is the only other Local/ State Government owned theatre in Melbourne, apart from the Palais, which is leased (Marriner Group).
- Of the large capacity performance venues (not including function centres) in Melbourne, The Forum Theatre and Festival Hall are the only spaces that have flexible seating arrangements enabling large flat floor area for cabaret or standing room.
- Venues owned by Council and operating by a contract management fee, non-profit entity or in-house management are subsidised to provide a broad range of cultural programming.

7. Market Analysis and Demand Assessment

National and State Context

In comparison to other Australian capital cities, greater Melbourne is well serviced by cultural facilities, from the small suburban community theatre to the large established CBD venues.

Melbourne has a 'theatre going' culture, which ranges from traditional music theatre and drama through to large-scale live music events. Statewide, in 2010, Victoria held 33.8% of total tickets sales for staged events in Australia followed closely by New South Wales 33.7% (Live Performance Australia. *Ticket Attendance and Revenue Survey 2010*). Of particular note in the context of this study is the strong growth of non-classical music¹ in Australia from 30.8% in 2009 to 40.8% in 2010 (calendar year) of total attendance at staged events.

Local Context – CoPP

In addition to the Palais, the other two major cultural facilities in CoPP are the National Theatre and Gasworks Arts Park. These are supplemented by smaller venues such as Theatreworks and Red Stitch as well as a broad range of live music venues.

The privately operated National Theatre in St Kilda plays a similar role for CoPP as the many Local Government owned and operated suburban and regional venues in Victoria. With minimal government support, the National Theatre acts as a hiring venue for community and commercial theatre.

Gasworks Arts Park is a CoPP asset that currently operates under a lease agreement with Gasworks Arts Park Inc. Gasworks Arts Park also receives operational and program funding from CoPP to assist in the delivery of visual and performing arts events in a range studios and performance spaces including a 176 seat flexible theatre space.

Port Phillip and in particular the St Kilda area has a strong focus for live music through venues, festivals and events.

The Palais context

As detailed in Section 2, the Palais is a heritage theatre with the largest seating capacity in Australia with 2,896 seats. The Palais currently operates as a venue for hire with minimal entrepreneurial activity². There are approximately 100 events per annum but the current operator has indicated that the preferred level of activity would be 140 events per annum and that this could be achieved with upgraded facilities.

Considering the current condition of the back of house and public amenities of the venue, the Palais has worked well under the current management. The programming has suited the technical capabilities and ambience of the venue. The specific market advantage is the seating capacity and its appeal to promoters wanting to place their production within the St Kilda environment. The Palais is currently unable to offer any hospitality services which would attract a broader market. The current bar and kiosk services are minimal and restricted due to poor front of house facilities

¹ Non-classical music includes pop, blues, rock, souls, techno, rap, jazz country, folk, R&B ,hip-hop and heavy metal

² In the context of this report, entrepreneurial activity is defined as any activity where the operator invests in or purchases the production and either takes the full risk or shares the risk with the creative team or other investors.

Market Analysis – Venues

The Palais continues to play an important role in providing a large seating capacity venue but due to its current building and technical infrastructure it is limited in what events can be staged. Although the Melbourne CBD theatres offer smaller seating capacities they are far better equipped with appropriate staging and permanent technical infrastructure to offer a broader range of programming. For the purpose of this analysis, the Palais is seen in the context of a major Melbourne venue.

As detailed in Section 7 of this report, Melbourne is well serviced by large performance spaces. The main activity is musical theatre, drama, classical music and opera, non-classical music and children's and family performances. Theatres such as the Regent, Princess and Her Majesty's predominately have programs consisting of musical shows which run over an extended performance period. This is supplemented by short seasons of light entertainment of high profile Australian and international artists. Although all venues are available to be hired by promoters, the Regent and Princess as well as the Comedy Theatre are programmed by the Marriner Group through investment in entrepreneurial activity.

As state owned major performance venues, The Arts Centre Melbourne venues and the Recital Hall offer broad programming of commercial and non-commercial theatre and music and receive considerable funding to meet their charter.

The Forum Theatre presents a similar programming mix to that offered at the Palais. Although the Forum has a smaller seating capacity (800 theatre, 1,500 concert) it does have flexible seating arrangement and is favoured by promoters wanting a more intimate venue.

During the consultation process, the industry stakeholders were of the view that the Palais has found its niche in the market as a large capacity venue, retaining an informal heritage theatre ambience with broad audience appeal. Stakeholders advised that the Palais has limited and restricted food and beverage capabilities and that food and beverage services traditionally provide venue operators with an important revenue stream and a value-add for patrons.

Festival Hall and the Plenary at the Melbourne Convention Centre are two venues that at times operate in a similar market as the Palais but provide larger seating capacities than the Palais. However, both venues lack a theatre ambience. The Plenary is foremost a convention centre and a performance program is not its core business and Festival Hall brings with it a history as a boxing venue. The Plenary is relatively new and has yet to establish a clear position as a performance venue, and so it is difficult to assess how significant its impact on the existing market will be.

Market Assessment –Key Findings

Competitors

- The primary competitors for the Palais are The Forum and Festival Hall. Both venues operate in a similar market, offer flexible seating arrangements and flat floor dance areas.
- The Forum, in addition to operating as a hiring venue, also stages entrepreneurial activities presented by the Marriner Group, and therefore is not just reliant on external promoters.
- The Plenary, offering a larger seating capacity and superior technical infrastructure than the Palais, has the potential to attract promoters hiring the Palais.
- Hamer Hall will reopen following refurbishment and will attract promoters wanting a CBD location and full staging capabilities.

Opportunities

- St Kilda is a centre for live music and the current programming has seen the activity at the Palais grow significantly under the current operator. Advice received is that there is the opportunity to grow similar activity further.
- The Palais has an opportunity to broaden the program offering by marketing to producers of commercial children's theatre as many of the productions require similar technical capabilities as live music concerts.
- Cinematic / movie presentations have been accommodated at the Palais. Permanent provision of suitable equipment could increase commercial opportunities in this area.
- Graduation ceremonies, both cultural and scholastic, currently hire town halls and sporting venues. Requiring minimal technical facilities but needing to accommodate large capacities this is a market that could be programmed during the venue's quieter periods.
- Improved food and beverage outlets will increase revenue and patron services.
- Usage for non-theatre events has the potential to activate the venue during the day if facilities for corporate hospitality are included in the venue refurbishment. Improved back stage and technical facilities will allow for quicker turnaround of events.
- Development of hospitality spaces will attract increased corporate usage
- Improved amenities back of house and front of house have potential to attract higher profile artists and performing companies.

Constraints

- The current building and technical infrastructure does not allow for the requirements of large music theatre productions.
- The current building cannot provide a dance area.
- If the venue was refurbished to stage larger musicals, the potential audience for this offering would still prefer the CBD theatres as the "night-out". It does not appear that there is currently a shortage of musical theatre venues in Melbourne. The cost to refurbish to allow for larger musical would be an additional \$13 million beyond cost estimates provided.
- As the current programming is reliant on promoters who traditionally work on relatively short lead times, hirers wanting to book the venue for one night twelve months ahead are not encouraged as this may impede a higher revenue return from a commercial promoter.

8. Operational Models

This section identifies the key features of the existing ownership and operating model as well as identifying two alternative operating models that could viably be considered for the Palais.

Model 1 – Lease to an operator – CoPP hands over asset responsibility

Description

The Palais has historically operated as a commercial venture, having been built by a commercial operator under an agreement with the State to utilise crown land for the purpose of building a picture theatre hall. The operations have then been managed by commercial leases with the State Government up until the Act of Parliament to create the triangle site in 2006.

The current operations are a lease to an operator under special conditions as set out as part of the lease agreement and which terminate in September 2015.

Given the history of the site as an essentially commercial venture presenting cultural activities, CoPP does not identify the Palais as a direct contributor to their cultural or community objectives. To date the Palais has delivered additional cultural value to St Kilda without the need for CoPP to underwrite the activities and functions of the venue. CoPP currently manages a number of facilities that operate under commercial arrangements with a variety of approaches to lessee investment in capital.

There are three options in relation to the structures available under a lease and consideration will need to be given to:

1. Conditional lease vs non-conditional lease

There is the option to have either a conditional or non-conditional commercial lease. A conditional lease would include conditions set by CoPP to ensure that certain KPIs regarding the future operations of the theatre are met. Depending on the extent and nature of these conditions the number of interested potential operators could be impacted, as may the commerciality of the final agreement. If the conditions were to impact the income of the operation then this is likely to be reflected through financial compensation.

Some examples of conditions expressed to date include:

- programming KPIs vs no programming KPIs
- audience diversity KPIs vs market and operator to determine
- community access to spaces vs no specified access.

2. Lease length (25 yr, 50 yr, 99 year)

The length of the lease will play a significant role in the financial agreement, as the longer the lease the more valuable the agreement from the lessee's perspective. The shorter the lease the less incentive there is for an operator/lessee to make a significant capital investment in the venue. Consideration however will need to be given to the impacts that lease length will have on the flexibility and options for better commercial returns over the long term by CoPP.

3. Capital vs recurrent funding commitment

There are different funding models available to secure a commercial agreement which will ultimately depend upon the potential operators, their access to upfront capital, their long-term business model and the opportunity for expanded commercial development.

As a result the following options may emerge:

- Contribution by lessee to refurbishment works offset against rental income to CoPP for either part or the full lease term.
- No contribution by lessee to capital works refurbishment but market based rental (land valuation method, percent turnover)
- No contribution by lessee to capital works refurbishment and small rental fee (maintenance costs to be paid for by the landlord).

Examples:

- Current Palais model
- Regent Theatre, Melbourne
- Thebarton Theatre, Adelaide.

Model 2 – CoPP own and operate

Description

A common model within local councils is for the council to own and operate their community cultural assets such as performing arts venues. This means that the local community receives the full benefit from the asset and is the model currently utilised by CoPP for Gasworks Arts Park.

CoPP own and operate model requires CoPP to take full responsibility (financial and risk) for the asset as well as the operations. It is possible for this to occur in two ways:

- Direct internal management of the venue of both infrastructure and programming by CoPP or
- Establishing a council owned company (e.g. Ltd) that is subsidised by Council.

Under this model the capital upgrade would be fully covered by CoPP/ State Government (if successfully negotiated with the State).

Examples:

- Civic Theatre, Newcastle (in-house)
- Empire Theatre, Toowoomba Pty Ltd

Model 3 – Run under commercial management – CoPP retains full asset responsibility

Description

An annual contract management fee is paid to a specialist commercial operator to manage and program the venue. This model allows Council to establish key performance indicators to ensure a broad programming mix and community access whilst sharing the risk.

Asset responsibility remains with Council but the management company would be responsible for an agreed maintenance program. The capital upgrade would be fully covered by CoPP/ State Government (If successfully negotiated with the State).

Examples:

- Perth Concert Hall, W.A
- Concourse Theatre, Chatswood, NSW

State control

Another option that has also been flagged is the potential for CoPP to hand the Palais back to the State Government. It is important to note that the land is crown land subject to the *Land (St Kilda Triangle) Act 2006* under which the land (including the Palais) is reserved for public purposes. Under this Act CoPP was deemed Committee of Management for the whole site including the Palais. As such the Palais and the triangle fall under the one designation. If CoPP decided to give the Palais back to the State then it would also be required to give the whole triangle site back. This would then allow the State Government to put the whole site up for sale or long-term lease and remove the current control that CoPP has over the site.

Whilst potentially financially attractive, given the strong views of the local community as to what occurs with the Palais and the site, giving it back may not be an appropriate solution for the long-term future of the Palais.

Conclusion

Model 1 is the current operating model for the Palais and does not require any on-going operational funding for the presentation of events. This model reduces the financial operating risk for CoPP as the full operational and programming risk is borne by the lessee. Programming is market driven and allows for minimal programming by CoPP unless as a hirer. The lease could be conditional based on agreed KPI's for programming outcomes but this may be reflected through financial compensation.

Model 2 is the common operating model for Government owned theatres. This can be either through direct internal management or by a separate entity established as a council owned company. This model provides CoPP with full programming control but also full financial risk. Model 2 would require an on-going subsidy for programming and operational costs.

In Model 3, a commercial management company is paid a fee to operate the venue of behalf of CoPP. This model reduces the risk but still involves a considerable on-going subsidy for programming and management fees.

Although Model 2 is a common operating model for Local Government, it is usually for the smaller suburban or regional venues requiring significant community access and subsidised programming or the very large state owned theatres that are required to meet statutory obligations to provide a range of artistic programming. Similar to Model 2, a commercial management agreement (Model 3) is suitable when the venue owners stipulate programming indicators and are prepared to pay an on-going management fee.

The Palais has the potential to operate as a commercial venue due to its seating capacity and minimal community programming requirements therefore a commercial lease would be a suitable operating model.

The option to lease the Palais to an operator meets the project outcomes sought and will be further investigated in this Study (refer section 10).

9. Capital Upgrade Options

Three capital upgrade options were initially identified to support the operating models. After review by Council and State Government it was requested that Upgrade 1 be split into two different levels of scope forming Upgrade 1A and 1B. The purposes and objectives of the options are outlined below.

The following capital upgrade options:

- are cumulative in their scope
- ensure the character of the existing theatre is retained
- recognise the principles of the *St Kilda Triangle: A Shared Vision (Version 3) – Objectives and Principles* document and the emerging final St Kilda Triangle document
- intend to make a positive urban design contribution to the precinct
- assume all refurbishments and extensions to the building require consultation with Heritage Victoria and the CoPP Heritage Adviser, using the Conservation Management Plan (CMP) as a guide.

Upgrade 1 A: Minimum Upgrade

The main purpose of this scope of works is:

Risk Management

Objective: That building owner, manager and operator risks and liabilities are minimised and/ or reduced

Methods to achieve this include:

- BCA compliance with issues such as amenities, access, egress and fire management,
- DDA compliance,
- OH&S considerations such as removal of hazardous materials and critical functional issues such as manual handling tasks,
- electrical upgrade works,
- halting further degradation to the existing building fabric by rectifying damage to all building surfaces, sealing the building to make water and weather-tight, and instigating a regular maintenance routine to ensure the social, cultural and financial capital of the building is not lost.

Note: Cosmetic refurbishment and building services upgrades will still be required in this 20-25 year period, for example:

- seat pads generally require rotating annually, and reupholstering every 10 -15 years
- carpets require replacement and repair, especially in high traffic areas
- buildings in proximity to marine environments should be re-painted within this time frame

- building equipment, systems and services require ongoing maintenance throughout this period
- code required inspections, maintenance and services will be required during this period.

Upgrade 1B - Minimum upgrade and minimum functional improvements

The main purpose of this scope of works is:

Fitness for Purpose

Objective: Functional and operational improvements are made to support the Palais' current operation and capacity for broader product offering for the next 20-25 years

These improvements include:

- new stage support and performer support facilities, including dressing rooms, back stage amenities, provision of a scene dock, external shelter for the loading bay
- upgrade operational staff accommodation
- provision of operational vehicle management, on-site car parking, external spaces.

Upgrade 2: Minimum and functional upgrade (Upgrade 1) + complementary facilities

The main purpose of this scope of works includes those above, plus:

Broaden the Product Offering by:

- supporting the function of the Palais as an entertainment and cultural venue
- creating opportunities for additional commercial viability for the Palais and St Kilda Triangle precinct.

Product offering may include:

- cafe facility
- destination restaurant
- corporate and hospitality services
- wider range of performance opportunities for the main theatre
- varied smaller performance opportunities and locations.

Facilities to support this increased product offering may include:

- cafe and restaurant areas
- function room/s with plating kitchen for catering needs
- consideration of a forestage lift
- external or foyer based performance areas
- increase capabilities for recording live performances.

Upgrade 3: Expanding the Palais Theatre site opportunities for allied commercial uses

The main purpose of this scope of works includes the lists above, plus:

Broaden the Commercial Opportunities:

Envisage the Palais and St Kilda Triangle precinct as a community, cultural and tourist destination.

Facilities, uses and activities that support the Palais and St Kilda Triangle in this context may include:

- flat floor function areas/ smaller performance areas
- small to medium conference centre
- boutique hotel
- destination restaurant overlooking the bay.

Capital Upgrade Proposals

The following capital upgrade proposals are functional and diagrammatic in nature. However, due consideration should be given to the implications of building new space against an existing heritage building. The CMP recognises the importance of experiencing the original theatre building as a stand-alone building. Therefore, the interface between new building works and the existing building forms a critical design interface. For the purposes of this study the Upgrade options to follow show a glazed atrium circulation spine between the existing building and new works. This enables the original external wall of the theatre to be viewed from inside the new building. This design feature has been included in the cost estimates for each option.

A functional space program has been developed to analyse the extent of development required to support each upgrade option's purpose and objectives. A functional space program has been developed to analyse the extent of development required to support each upgrade option's purpose and objectives.

The functional space program is broken down into functional areas with functional relationships as indicated in the diagram below:

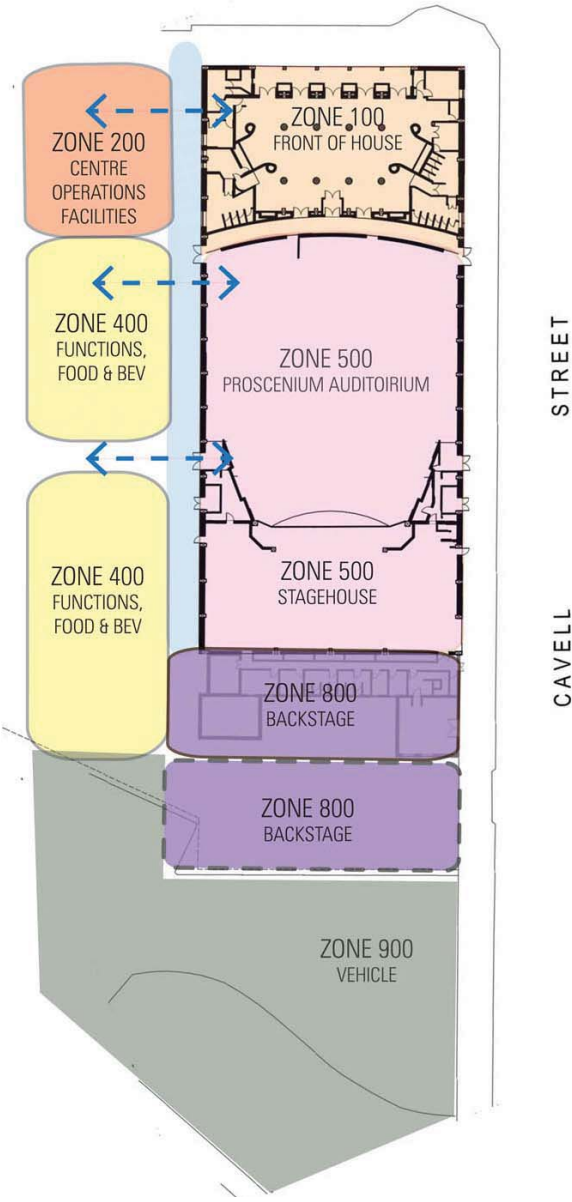


Figure 9-1 -Proposed functional relationships and zones

Option 1A: Minimum Upgrade



Figure 9-2 -Indicative massing diagram for Upgrade 1A - Minimum upgrade

The minimum upgrade scope of works includes the recommendations of previous reports and works identified through this study. Key capital upgrade works for capital upgrade 1A are listed below, and separated into 'General Maintenance and Compliance Scope' and 'New Building Works' for clarity. All building works are to be designed in consultation with heritage advisers and in accordance with the *Conservation Management Report* (LC, 2006).

General maintenance and compliance scope

The main capital works to the existing building include:

- repair, repaint and seal external facades. Rectify areas of damage to external rendered facades and significant façade detail elements
- repair, seal and paint existing windows and external doors to make the building weather tight, including re-glazing windows and replacing doors where necessary
- repair and repaint internal surfaces to match original colours/finishes
- install non-slip nosings to all stair treads
- install additional handrail to first floor balustrades to achieve BCA compliance
- repair and reupholster all theatre seats

- install new access walkways, ladder cages and safety equipment to roof space and all theatre equipment accesses and rigging points
- remove existing forestage structure and install new modular forestage system to meet current working load standards and be more efficient to remove and install temporary balustrades to front of stage areas
- upgrade existing amenities
- provide removable seating to accommodate 36 accessible seating positions distributed across varying seating types
- provide disabled access to all public areas of the building, including offices
- provide permanent mechanical ventilation (fresh-air) to all occupied spaces, and provide air-conditioning to all office and foyer spaces and the auditorium
- loading dock - install external canopy, dock leveller and weather tight, acoustically sealed door
- improve fire and emergency systems to code requirements
- upgrade building services to code requirements, including electrical infrastructure
- professional relight of auditorium and foyers using long life, low maintenance and environmentally sensitive fixtures and fittings
- theatre infrastructure improvements including hearing assistance loops, fire-rated cable paths through proscenium wall.

New building works

As described in Section 4, compliance with the DDA will require construction of new floor space to house:

- install new lift with adjacent foyer space to provide an accessible route to all public levels of the theatre and foyers
- new permanent accessible amenities, minimum two facilities
- increasing female patron amenities numbers to BCA requirements
- construct accessible dressing room and amenities directly off the stage
- new accessible ramp access to the stage itself.

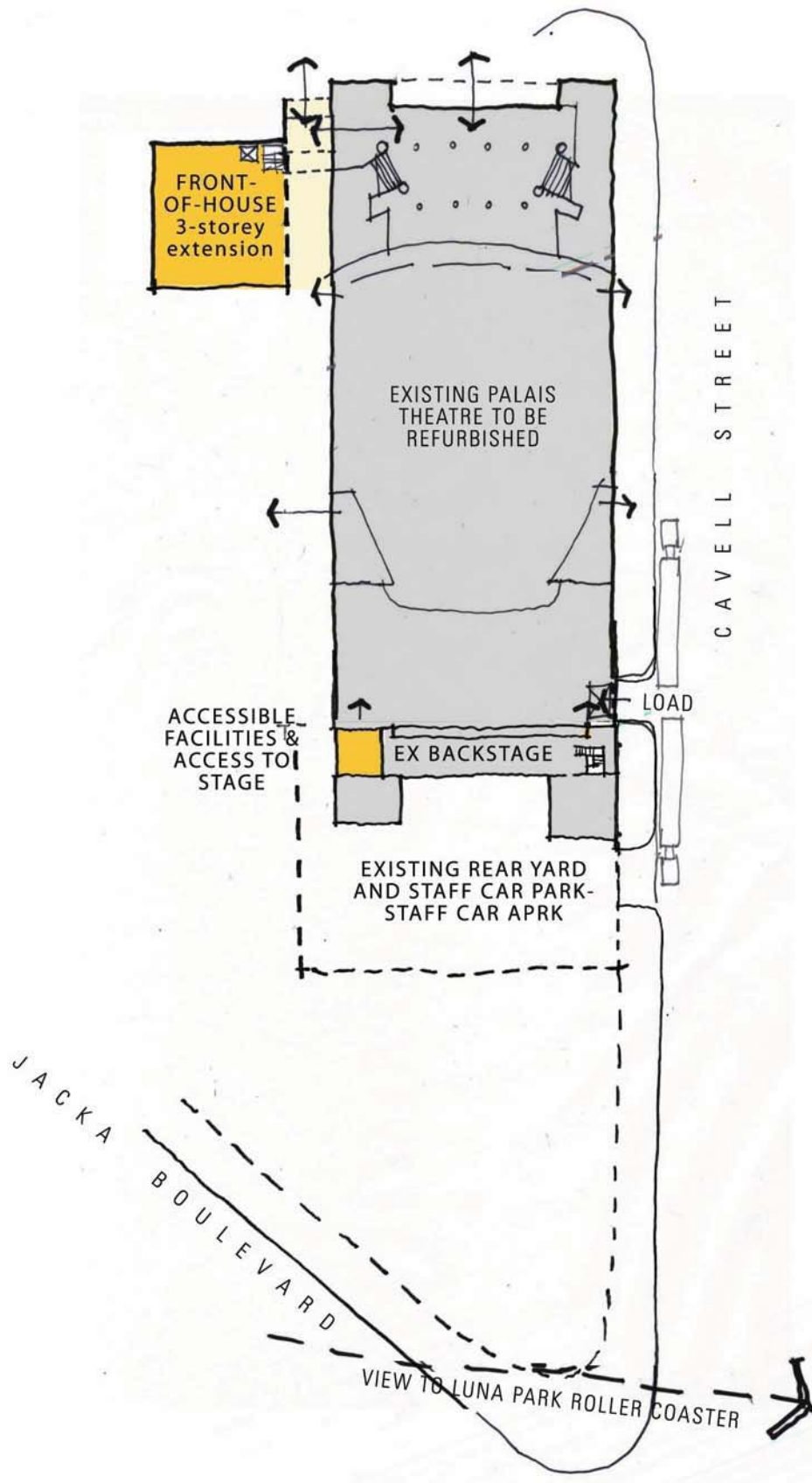


Figure 9-3 -Indicative layout for Upgrade 1A - Minimum upgrade

Option 1B: Minimum upgrade + minimum functional improvements

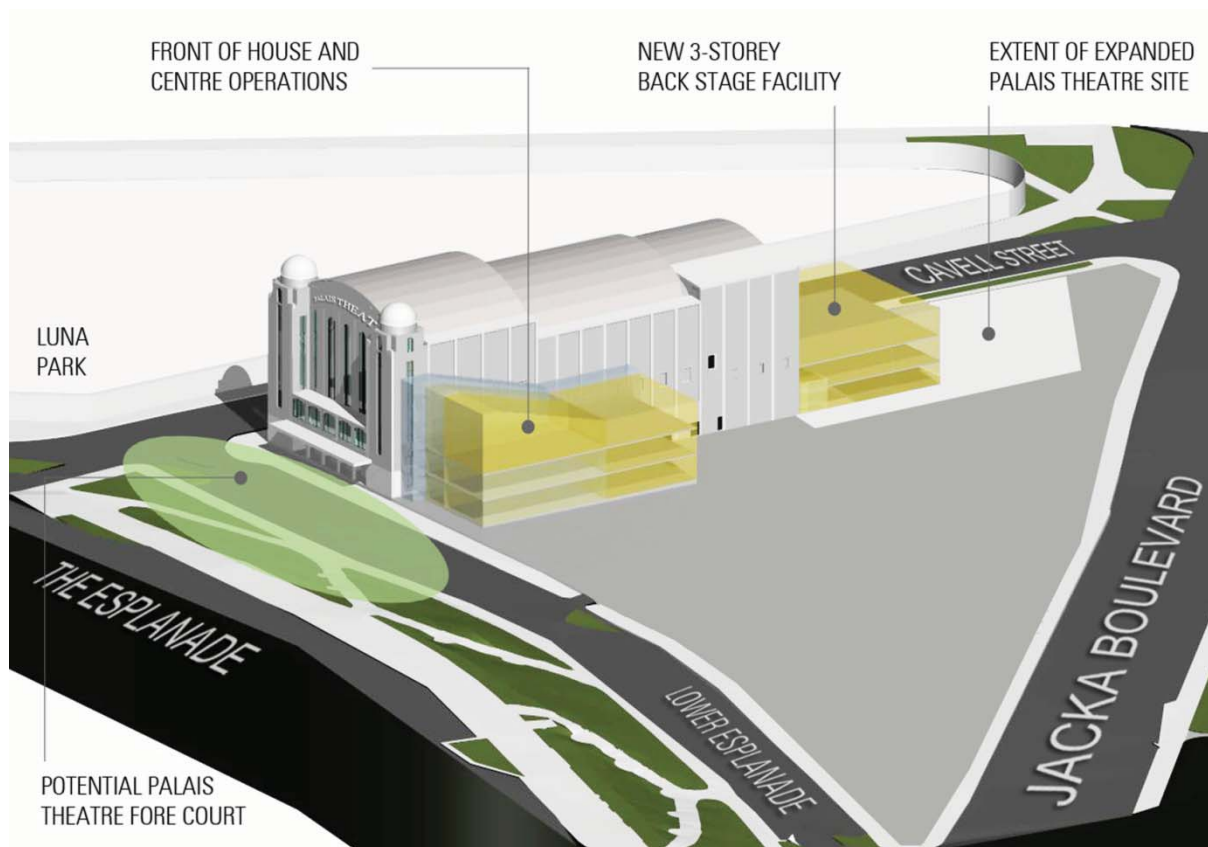


Figure 9-4 -Indicative massing diagram for Upgrade 1B - Minimum upgrade and minimum functional improvements

These works include all works described for capital Upgrade 1A, except where backstage areas are to be demolished to build new.

The facility review highlighted deficiencies and inefficiencies in the current operation of the theatre. The following functional improvements are required to improve theatre operations and support the Palais as a cultural venue into the future. All building works are to be designed in consultation with heritage advisers and in accordance with the Conservation Management Report (LC, 2006).

Zone 100 - Front-of-house

- increased foyer space to ground and first floors, in line with VAPAC standards
- air-lock to new foyer spaces
- maintain egress points from west side of theatre through new foyer spaces, particularly from the dress circle
- first aid room
- cloakrooms
- double the female patron amenities figures from the BCA in line with VAPAC guidelines and provide new female patron amenities

- provide additional male patron amenities off the new foyer space.
- existing first floor foyer:
Remove temporary cladding to open oval light well over the stalls seating. Install clear glass from floor to ceiling around the oval open light well to view into stalls when shows are not operating so that the original design intent of the foyer space can be appreciated. Install a motorised drape to cover the glass when shows commence

Zone 200 - Centre operations

- demolish the first floor office infill
- construct new centre operations office areas, including:
 - box office / reception
 - box office supervisor and store
 - front-of-house manager office
 - centre operations reception with foyer and waiting area
 - meeting and interview room
 - staff amenities, including staff room, separate amenities
 - administration offices, including director, operations manager, business manager, office support staff

Zone 500 – Proscenium Auditorium

- provide permanent air-conditioning to auditorium
- provide removable seating to accommodate 36 accessible seating positions distributed across varying seating types
- provide permanent control desk location with audio, visual and video cable links
- provide additional acoustic wall treatment to rear of stalls to improve acoustic performance through motorised banner systems
- remove existing forestage structure as it does not meet current safe stage working loads
- install new modular forestage system to meet current working load standards and be more efficient to remove and install
- install additional catwalks to access rigging points above forestage
- install cable paths through the building to connect backstage to front-of-house etc
- improve balcony front lighting bar facilities.

Zone 500 – Stage House Proscenium

- provide external canopy over the Cavell Street loading dock
- install dock leveller at existing loading dock
- install weather tight and acoustically sealed door to existing loading dock
- provide stage locks between back stage and stage house
- provide crossover behind stage house
- provide new scene dock adjacent existing loading dock
- convert existing basement green room into orchestra assembly room
- replace house curtain track, motor and drive
- improve efficiency in theatre operations and broaden range of hirers through reduced operation costs by:
 - installing a permanent sound system infrastructure including digital and fibre optic capability to new outside broadcast/ recording location
 - installing a stage management system, including links between foyers, offices and auditorium
 - installing a digital lighting control and control distribution system
 - installing a distributed dimming system for stage lighting system
 - installing a basic stage lighting equipment
 - installing foyer/ front-of-house manager system including speaker system and digital display
 - installing a permanent sound system

Zone 800 – Production/ Stage & crew support – Back stage

- Demolish the existing rear dressing room block.

This area has a heritage rating of 'Contributory Significance' or 'Little Significance'; meaning demolition of this area does not greatly compromise the heritage significance of the theatre itself.

- Build new backstage area including:
 - dedicated stage door facility
 - additional loading dock
 - dedicated hirers store
 - hirer's office
 - dedicated stage stores for drapes, piano,
 - dedicated stage seating store
 - dedicated lighting store

- Dedicated sound store
- Quick change dressing room close to stage
- Accessible bathroom
- Technical office and workshop
- General workshop
- Crew room

Zone 800 – Performer Support – Backstage

- Demolish existing dressing rooms as noted above
- Build new performer support areas including:
 - 4 principals dressing rooms, each with ensuite
 - 4 ensemble dressing rooms with 2 shared bathrooms
 - 4 chorus dressing rooms with close access to amenities
 - green room
 - general performers amenities
 - laundry / wardrobe space
 - dedicated stage door facility

Zone 900 – Centre Servicing

- Construct new centre servicing facilities such as:
 - main cleaner room and store, and satellite cleaners room
 - general store
 - dedicated communications room
 - dedicated meters and pumps area
 - dedicated plant areas more centralised and easily accessible
 - new substation
 - refuse handling area
 - general loading dock separate from theatre loading

Zone 900 – Vehicle and Other External Provision

- provide onsite car parking for 20 staff, and bicycle parking
- provide onsite space for semi-trailer turning and loading dock parking
- provide clear space, connected to services, for marquee for large events

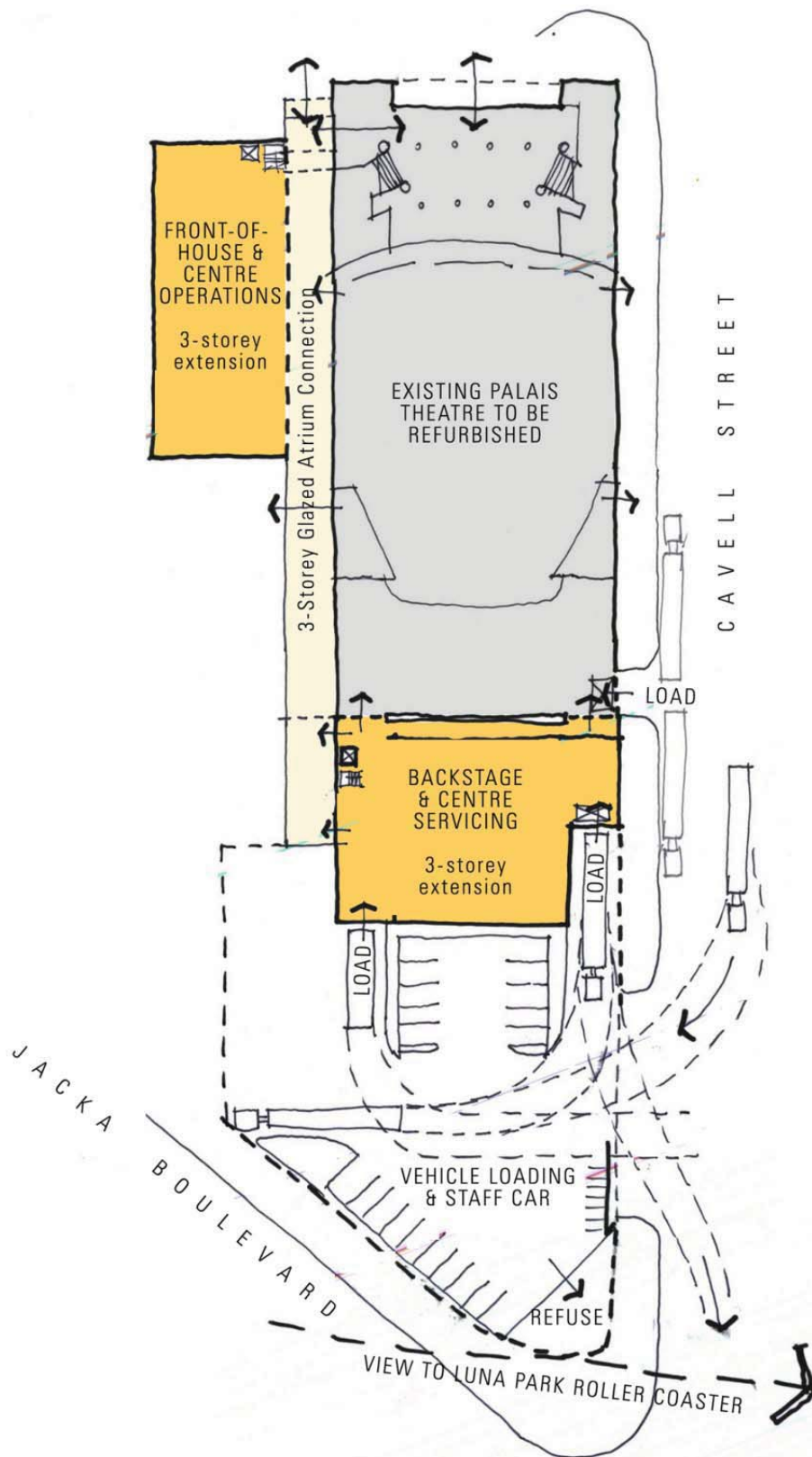


Figure 9-5 -Indicative layout for Upgrade 1B - Minimum upgrade and minimum functional improvements

Upgrade 2 - Minimum and functional upgrade (Upgrade 1A + 1B) + complementary facilities to create complementary commercial opportunities

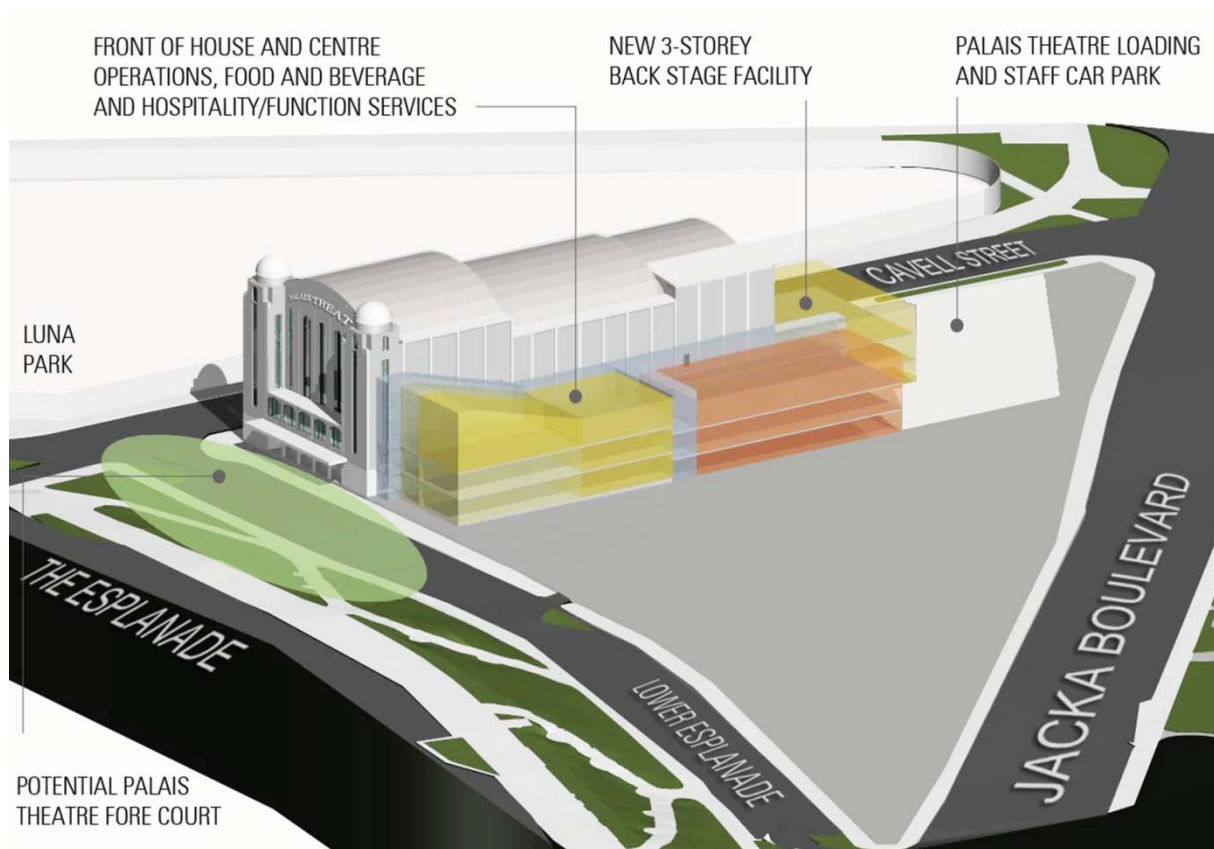


Figure 9-6 -Indicative massing diagram for Upgrade 1B - Minimum upgrade and minimum functional improvements

Complementary Facilities

Activities considered complementary to the continued use of the Palais as a cultural centre include:

- cafe facility
- destination restaurant
- corporate and hospitality services
- wider range of performance opportunities for the main theatre
- varied smaller performance opportunities and locations

These complementary uses require the following additional facilities, as listed under their related zones:

Zone 100 - Front-of-house

- convert existing external first floor balcony into internal glazed foyer area for additional space
- install new bar and kiosk facilities in both the existing Palais foyers and the new foyer spaces, including stores and infrastructure

Zone 400 – Functions, food and beverage services

- café facility including kitchen/ servery, internal and external seating, dedicated café amenities,
- hospitality/ function room for 150 people standing, including furniture store, catering kitchen, kitchen store, food and beverage staff amenities
- destination restaurant including kitchen, dining areas, storage, dedicated amenities

Zone 500 – Proscenium Auditorium

- provide means of reducing capacity of the venue through a heavy curtain track
- install a forestage lift with removable seating over to offer a wider range of performance options
- install under balcony delay speaker system to enable better reproduction of audio at lower volume and improve clarity allowing greater range of presentation
- provide system to adjust auditorium acoustic performance to suit various presentation modes through motorised acoustic banners

Zone 500 – Stage House Proscenium

- supply and install full stage cyclorama
- replace all stage drapes
- install stage drape track
- supply full size projection screen to broaden product offering
- provide high quality digital projection and audio equipment to facilitate movie presentation (rather than hiring)

Zone 800 – Performer support – Backstage

- provide dedicated rehearsal room with storage

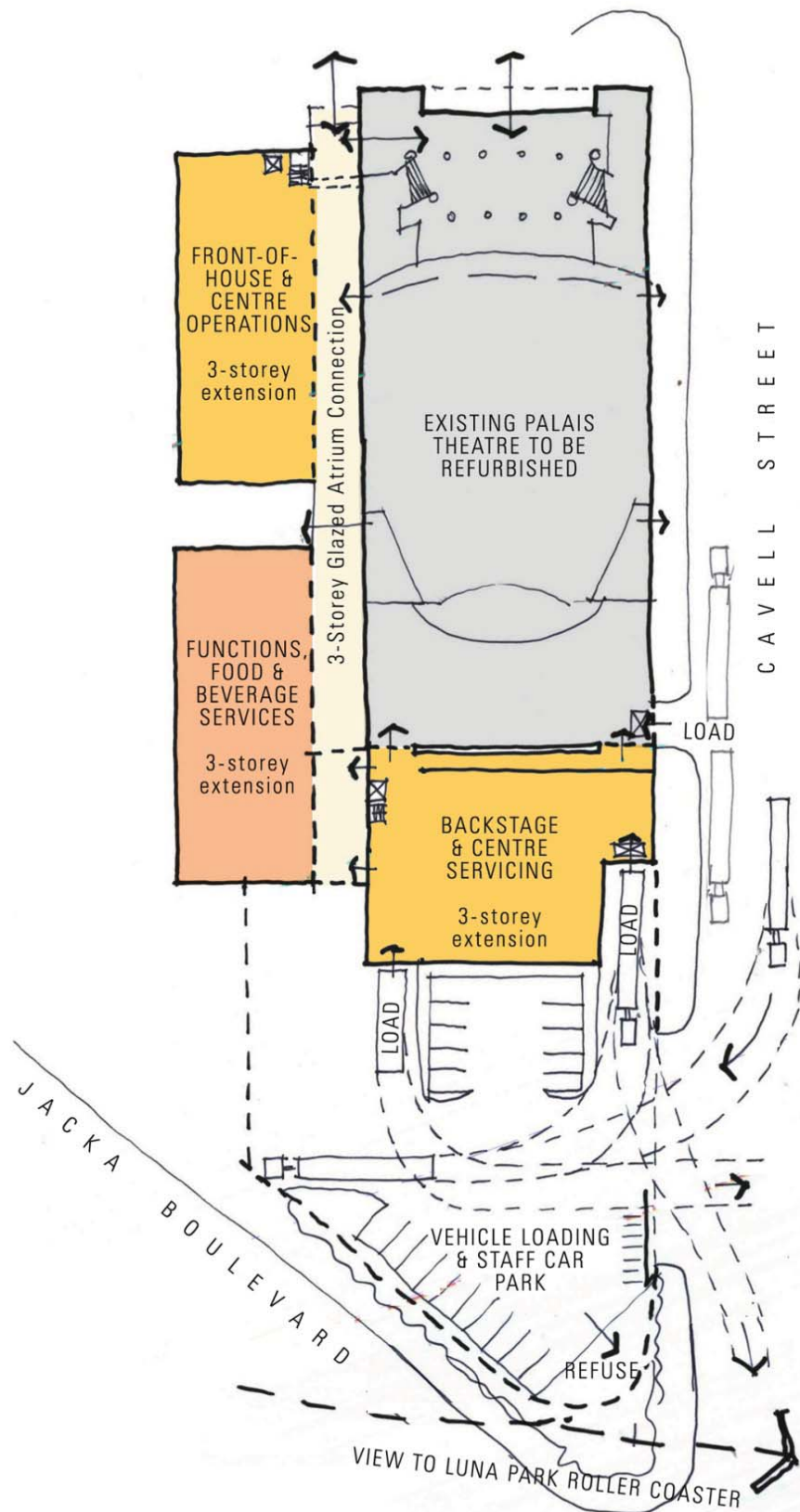


Figure 9-7 -Indicative layout for Upgrade 2 - Minimum and functional upgrade (Upgrade 1) + complementary facilities to create complementary commercial opportunities

Upgrade 3 - Expanding the Palais site opportunities for allied commercial uses

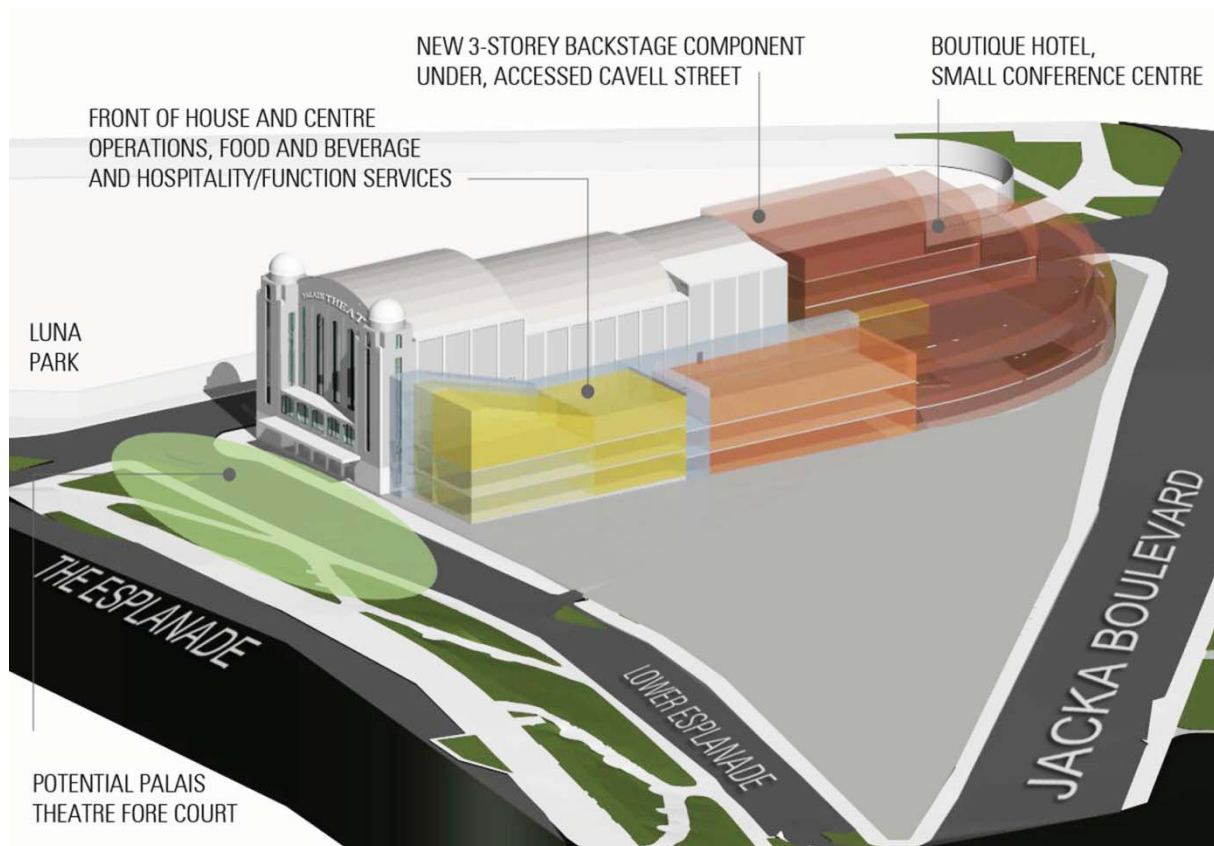


Figure 9-8 -Indicative massing diagram for Upgrade 3 - Expanding the Palais site opportunities to create broader commercial opportunities

These facilities are additional to Upgrades 1A, 1B and 2

Commercial Opportunities

Activities considered complementary to the continued use of the Palais as a cultural centre, but able to provide increased commercial opportunities include:

- flat floor function areas / smaller performance areas
- small to medium conference centre
- boutique hotel
- destination restaurant overlooking the bay

These complementary uses require the following additional facilities, as listed under their related zones:

Zone 200 - Centre Operations

- additional office area for positions such as Marketing Manager and Venue Manager which would be needed for a larger cultural venue

Zone 400 – Functions, food and beverage services

- increase the functions catering kitchen size to be able to cater for larger functions
- provide a small conference centre for say 800 people including:
 - foyer space
 - divisible function rooms
 - dedicated office space, storage and amenities
- additional destination restaurant to Upgrade 2, including kitchen, dining areas, storage, dedicated amenities
- boutique hotel to serve Palais with accommodation for performers and crew, and to serve the conference facility
- a recording studio for performances at the Palais

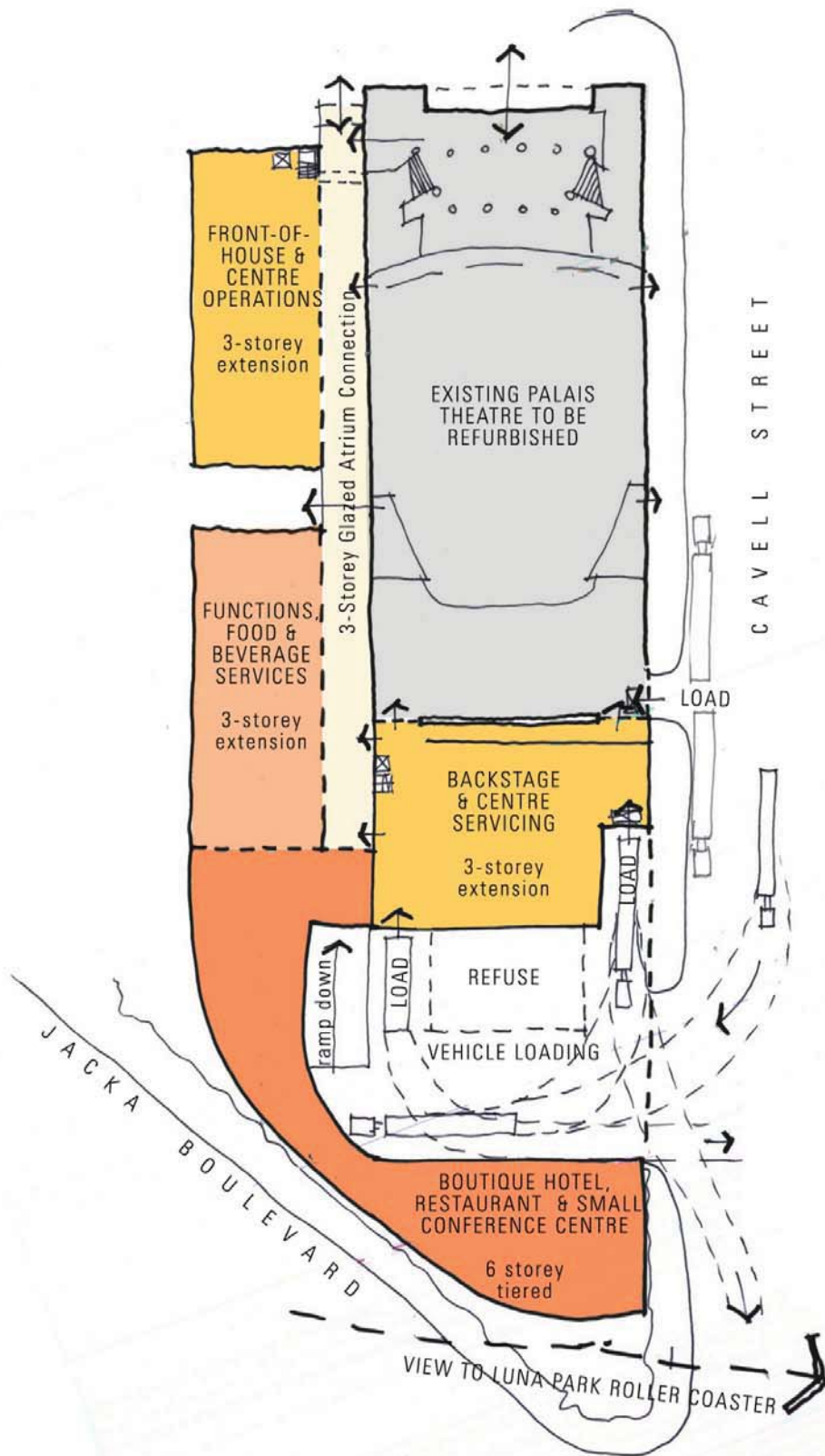


Figure 9-9 -Indicative layout for Upgrade 3 - Expanding the Palais site opportunities to create broader commercial opportunities

Urban Design

The building envelope behind the Palais is limited by the following:

- building height not to exceed the existing Palais stage house
- development should not cast a shadow on the beach side footpath of Jacka Boulevard
- development to maintain views of the Luna Park roller coaster along Jacka Boulevard

The section below indicates the impact of these restrictions on the development envelope:

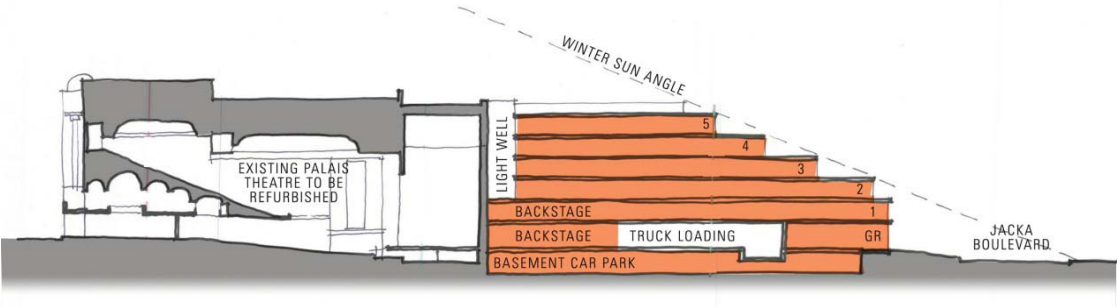


Figure 9-10 -Indicative section for Upgrade 3

Construction Staging

Upgrade 1A

The construction works proposed in Upgrade 1A are considered necessary. Adequate time should be allocated prior to documenting construction works to obtain detailed existing conditions assessments, develop the project brief, and engage with regulatory authorities, such as Heritage Victoria, and the community.

Due to the extensive and invasive nature of works required for Upgrade 1A, it is recommended that construction proceed as a single project. Attempting to operate a theatre through construction will result in significant disruption to theatre operations, potential safety risks to building occupants, and increases in project costs. Cost estimates prepared for this study assume a single period of construction.

Remedial works to existing building facades could be completed independently of internal or extension works.

Upgrade 1B

Assuming Upgrade 1A works are completed as a matter of urgency, it is recommended that:

- Upgrade 1B proposals to rebuild backstage areas and upgrade theatre infrastructure be completed at the same time as Upgrade 1A to remove the need to close the theatre twice, and
- Upgrade 1B front-of-house extension to accommodate centre management could be considered at a later stage as disruption to the theatre is limited if the project is well-managed.

The impact of delaying Upgrade 1B works on the operability of the theatre should be assessed prior to indicating timeframes for completion.

Upgrade 2

Assuming Upgrade 1A works are completed as a matter of urgency, it is recommended that:

- Upgrade 2 proposals involving theatre infrastructure upgrades be completed at the same time as Upgrade 1A and 1B to remove the need to close the theatre twice, and
- Upgrade 2 front-of-house extension to accommodate food and beverage components could be considered at a later stage as disruption to the theatre is limited if the project is well-managed.

The impact of delaying Upgrade 2 works on the commercial viability of the Palais, including the loss of increased activity contributing to the St Kilda Triangle precinct, should be assessed prior to indicating timeframes for completion.

10. Factors for consideration in commercial negotiations

There are a number of factors that will need to be considered in the final project scoping as they are likely to have an impact on the nature of the parameters of the commercial agreement.

Lease length

Consideration should be given by CoPP of the lease length to ensure any investment made by CoPP and the State Government in the refurbishment of the Palais is maximised. The St Kilda Triangle Act allows for a lease length up to 99 years. This was determined as necessary at the time to secure private sector investment in the hundreds of millions of dollars for the prior scheme.

In looking at Upgrades 1A and 1B, given the low chance for the lessee to afford a significant contribution (if any) to the capital upgrade of the Palais, it would seem prudent for CoPP to ensure they retain flexibility for any potential revenue and programming growth through setting shorter lease terms. This would also allow greater flexibility for any future planning on the Triangle site and within the precinct. It would make sense for CoPP to consider a lease length of between 10 –15 years only.

Depending on the capital contribution by the lessee to Upgrade 2 there may be a requirement to look at a lease length of 25 years. Even though a lessee may push for a longer lease length this would not be in the long-term interests of CoPP given the scale of their financial investment.

Given this, it would not make sense for CoPP to tie up the site with one party for such a long timeframe. Other CoPP assets have varying lease lengths from 21 - 45 years (St Kilda Sea Baths).

It is worth noting that the Regent Theatre was upgraded as part of the Melbourne City Square, Regent hotel and apartment development and was negotiated on a 50-year lease. This project was significantly larger in scale than Upgrade 3.

Stakeholder / Political risk

There may be a significant stakeholder risk associated with this project if CoPP is required to fund a significant proportion of the capital works. Although currently there is a keen sensitivity to overdevelopment on the Triangle site, any potential investment could tie the ratepayers into a long-term investment on a project from which they may see little direct benefit.

Car parking

As detailed in Section 2 of this report, this study has not undertaken a car parking analysis. It has only considered requirements for on-site staff car parking and hirers. Anecdotal advice given indicates many Palais patrons currently drive to the venue. It is acknowledged that public transport options are limited to two tramlines.

The large existing car park adjacent to the Palais currently provides real and perceived car parking benefit to hirers. Any reduction in current available car parking within the immediate vicinity would need to be assessed against its potential impact on projected venue operations. Furthermore, additional commercial activities at the Palais, such as those proposed in Upgrade 2 and 3, are likely to generate additional demand for car parking.

Dedicated parking for patrons and visitors to the Palais would certainly assist in attracting hirers and promoters, in particular for the additional services offered in Upgrade 2 and 3. If

no additional parking was provided, all existing available parking would need to be audited and documented. This would then form part of the venue information package for the hirers and allow for appropriate marketing collateral to be developed.

Operating scenarios

The major revenue streams for commercial theatres are the venue hire, recoverable staff and equipments costs, booking fees and food and beverage revenue. In addition, many commercial theatre operators also invest in the product presented and, if successful, receive return on the investment through box office sales at the primary venue or through touring the production.

For the purpose of this study, the operator acting as producer or investor in the productions staged (i.e. entrepreneurial model) has not been explored in detail due to the many variables of investment versus return. However, depending on the future operating structure, this may be another source of revenue for the operator.

The revenue earned from booking fees has been included in the potential income but again, this can be another variable depending on the commercial arrangements the operator has with established booking services or if it is managed in-house. An indicative inside charge of \$2 per ticket payable to the operator has been used to capture this significant revenue stream. This would be in addition to any booking and service fees ticketing agencies would charge patrons.

As ticketing fees are already high within the industry, any additional fees charged per ticket to assist in the funding of future works could be a deterrent for promoters who would feel that they are fundraising for CoPP. However, there is a precedent for fundraising by including a surcharge for specific fundraising/charity events. There have also been examples outside of the arts industry to raise funds for specific purposes such as the airline ticket levy charged by the Federal government to assist in covering staff entitlements from the Ansett collapse.

Operating and programming conditions

A number of potential lease conditions have been identified and these have been grouped as likely or unlikely to have an impact on the final commercial agreement.

Likely to have an impact on commercial arrangements

- Any conditions based on lessee capital investment to upgrade the theatre
- Lease length and opportunity for termination clauses around operating, building maintenance and safety etc

Unlikely to have an impact on commercial arrangements

- Incentive based conditions around programming if not too onerous
- Minimum nights operating per year – (Note 100 based on current use)
- Access for use for St Kilda Festival – CoPP to manage
- Planning permits associated with upgrade works may need to be pre-approved.

11. Key Findings and Recommendations

Key Findings

The list below details the key findings from this study.

Governance and Policy Context

1. Decision making on the future for the Palais is required, as the lease will end in September 2015.
2. The Triangle site (including the Palais) is crown land subject to the *Land (St Kilda Triangle) Act 2006* under which the land is reserved for public purposes. Under this Act CoPP was deemed Committee of Management, as if the land came under the Crown Land (Reserves) Act 1978.
3. As such the Palais and the Triangle fall under the one designation. If CoPP decided to return the Palais to the State, it would also be required to give the whole triangle site back. This would then allow the State Government to put the whole site up for sale or long-term lease and remove the current control that CoPP has over the site.
4. There will clearly be a benefit to CoPP ratepayers by refurbishing a local heritage icon and in the upgrade of the Triangle precinct in general, however without demographic based visitation data from the venue it is hard to assess the direct benefit through visitation by ratepayers. The venue is to be leased to a commercial operator and even with some conditions around community access, the lessee and Palais patrons could be seen as the primary direct beneficiaries of the refurbishment
5. Given the considerable levels of investment proposed in this report, CoPP will need to consider the longer-term financial impacts and the potential political (stakeholder) risk around a project with hard to quantify direct ratepayer benefits.

Palais Operations

1. The future operational model will be a commercial lease.
2. Venues owned by local councils and operating by a contract management fee, non-profit entity or in-house management are subsidised to provide a broad range of cultural programming.
3. The Regent Theatre is the only other Local/ State Government owned theatre in Melbourne, apart from the Palais, leased on a commercial basis (Marriner Group).
4. Generally comparable theatres receive recurrent funding from a government source. There are very few fully commercially managed theatres within Australia.
5. The current programming approach at the Palais is viewed as fulfilling an appropriate market niche for the venue and the location and there was general consensus of little need for another dedicated musical theatre venue in Melbourne.

Palais Theatre Upgrade and Triangle Precinct

1. The Palais is a significantly degraded heritage asset.
2. The capital upgrade costs for the Palais will be significant. The additional commercial elements in Upgrade 2 (café/restaurant) have the potential, depending on the commercial arrangements, to be majority funded by the lessee.
3. Three capital upgrade solutions (Upgrades 1A, 1B and 2) have been investigated in detail. A fourth solution (Upgrade 3) has been identified however the scope and scale of this will be largely driven by market forces and as such was hard to investigate more fully in this review. Each option was assessed against a range of criteria:

- *Upgrade 1A – Minimum upgrade* will not meet the three key project benefits nor any other of the identified assessment criteria
 - *Upgrade 1B – Minimum upgrade and minimum functional improvements* will partially or fully meet the other identified assessment criteria and may be likely to attract upfront capital investment however the amount will be a very small percentage of the total investment.
 - *Upgrade 2 – Minimum and functional upgrade 1 + complementary facilities* is the only option that is likely to fully meet eight of the nine assessment criteria. It is likely to attract upfront capital investment from the lessee that, depending on their approach to scope and scale of the additional commercial elements, may fully cover the capital costs of these facilities. Depending on the commercial mix and the lease length there may be still some ability to meet a reduced recurrent contribution
 - *Upgrade 3 - Expanding the Palais site opportunities for allied commercial uses* is also likely to attract capital investment from a lessee that, depending on the approach to scope and scale of the additional commercial elements, may fully cover the capital costs of these facilities. Depending on the commercial mix and the lease length there may be still some ability to meet a reduced recurrent contribution.
4. Consideration should be given by CoPP as to the lease length to ensure that any investment made by CoPP and the State Government in the refurbishment of the Palais is maximised.
 5. The Palais and the Triangle site will need to be considered jointly in moving the project forward as any proposed development intent with the Triangle, i.e. carpark reduction may have a significant impact on future Palais operations
 6. The potential connection between the Palais and a future vision for the St Kilda Triangle site has the opportunity to create a vibrant and existing St Kilda Triangle, day and night.

Recommendations

This review has raised a number of issues requiring further investigation that were beyond scope but may assist CoPP in future decision-making. We consider that the next stage of project development may benefit from consideration of the following:

- **Technical Brief:**
Commission a functional and technical theatre brief to ensure the functional criteria critical to the viability of the Palais are documented. This technical brief should become a formal briefing document in any further development of the theatre and St Kilda Triangle site.
- **Commercial Advisory:**
If Upgrade 3 is to be considered in greater detail, commercial property advisory expertise should be engaged to explore the financial analysis of potential operations.
- **St Kilda Triangle:**
Review the upgrade options and their relationship to current St Kilda Triangle Studies.
- **Car parking Study:**
A detailed car parking study should be undertaken, including demand analysis and potential impact changes to car parking within the precinct on the future operating model of the Palais.

Palais Theatre Requirements Study

Prepared for City of Port Phillip by

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