

**Subject: LMM 23/02/2021 - City of Newcastle Art Gallery Redevelopment update**

**MOTION**

**PART A:**

That City of Newcastle:

1. Notes that the current 44-year-old Newcastle Art Gallery is home to the most valuable collection of over 7,000 works of art in regional Australia, with a collection valued at \$115 million, including works by Arthur Boyd, William Dobell, Donald Friend, Tracey Moffatt, Margaret Olley, John Olsen, Patricia Piccinini, Gwyn Hanssen Pigott and Brett Whitely to name but a few;
2. Acknowledges that with the Gallery's original 1977 footprint still in place, only 1% of its collection can be placed on display at any time, significant inhibiting the number, scale and diversity of potential exhibitions.
3. Notes that the expansion of the Newcastle Art Gallery has been one of the City's priority projects since 2012, and the subject of numerous resolutions of Council
4. Notes that in 2019, City of Newcastle and the Newcastle Art Gallery Expansion Working Party received a Cost Benefit Analysis (CBA), undertaken by BIS Oxford Economics (Attachment A) prepared in accordance with NSW Treasury requirements, for the Newcastle Art Gallery Redevelopment demonstrating that the benefits of the proposal far outweigh the costs with a Benefit-Cost Ratio (BCR) of 1.77 and a positive Net Present Value (NPV) of \$24.1 million.
5. Acknowledges that the project will create 170 jobs, including 152 jobs during the construction phase, with 18 full-time equivalent jobs post completion;
6. Reiterates the investment required to realise an expanded Newcastle Art Gallery is \$39.2 million, of which \$3.6 million has already been funded by the City, with the remaining cost of completing the expansion currently \$35.6 million, with the Development Application approved and the project shovel-ready;
7. Notes that essential mine grouting work and relocation of a Telstra pit will be undertaken by CN in 2021, as part of early works for the expansion, at a cost of \$2.9 million. This work will be funded by the City, bringing our financial investment into the project to \$6.5 million to date;
8. Acknowledges Newcastle Art Gallery Foundation's commitment of \$10 million towards the project, following a generous bequest from the late Valerie Ryan, as well as the Foundation's commitment to fundraise an additional \$2.5 million for the project;
9. Notes that correspondence has been received from Ms Cathy Tate OAM, Chair, Newcastle Art Gallery Expansion Working Party, asking City of Newcastle to increase its commitment to the project to \$16 million, following advice from the NSW Minister for the Arts;
10. Accepts the request to increase City of Newcastle's contribution to \$16.2 million, with an updated breakdown of funding sources to be as follows:
  - a. City of Newcastle - \$16.2 million
  - b. Newcastle Art Gallery Foundation - \$10 million, with a commitment to additional community fundraising of \$2.5 million;
  - c. Margaret Olley Art Trust - \$0.5 million
11. Notes that this breakdown of figures sees an outstanding amount of exactly \$10 million required to realise this important project, which the City of Newcastle will request from the NSW and/or Federal Governments, while 75% of the project costs will be raised and funded by City of Newcastle, the Newcastle Art Gallery Foundation and the Margaret Olley Art Trust.

12. Notes with disappointment, that despite ongoing advocacy, favourable economic analysis, the Expansion's shovel ready status, and modifications to meet Government requests, a funding commitment has not been secured from either the NSW or Commonwealth Government.
13. Receives a report identifying all possible funding pathways and options available to the City to proceed with the redevelopment of Newcastle Art Gallery.

### **BACKGROUND:**

Newcastle Art Gallery was Australia's first purpose-built regional Art Gallery, officially opened by Her Majesty Queen Elizabeth II in 1977.

The nationally recognised permanent collection of over 6,600 works of art is currently valued at \$115M. Significant and diverse, it provides a time capsule of Australian art dating back to the earliest days of Newcastle more than 200 years ago when it became Australia's second city to be settled. However, at present, only 1% of Newcastle Art Gallery's works can be displayed in any year, mainly due to a lack of space. Spatial constraints also mean that much of the current potential exhibition floorspace is given over to storage of art works, inhibiting the number, scale and diversity of potential exhibitions.

As a major cultural asset for our state, the Art Gallery offers the ability to tell local stories and inspire new ones through the creation, collecting and display of works of art of local, national and international importance.

City of Newcastle is committed to the Art Gallery continuing to be a symbol of excellence and source of pride in Australia's seventh largest city.

The community values the Art Gallery as a destination for learning, cultural activity and tourism, however there is increased demand to see a larger number of works of art from the city's significant collection on permanent display.

To appropriately meet the growing expectations of our community, the existing 44 year old building requires upgrading and expanding to provide modern facilities such as a new café and retail shop, multi-purpose and educational program space, improved display and secure international standard loading dock.

This important project was included in the recent NSW Government Cultural Infrastructure Plan 2025, identifying the redevelopment of the Art Gallery precinct as a 'regional opportunity'.

As a community and smart city, Newcastle's exciting future cannot be fully realised until its Art Gallery finally receives the expansion it has for so long deserved.

### **Benefits of a redeveloped Newcastle Art Gallery:**

In 2019, City of Newcastle and the Newcastle Art Gallery Expansion Working Party received a Cost Benefit Analysis (CBA), undertaken by BIS Oxford Economics, for the Newcastle Art Gallery Redevelopment.

This analysis demonstrated that the benefits of the proposal far outweigh the costs with a Benefit-Cost Ratio (BCR) of 1.77 and a positive Net Present Value (NPV) of \$24.1 million.

Additional benefits for a redeveloped Newcastle Art Gallery include:

- Increased visitors to the Art Gallery due to more exhibitions and events
- Creating a drawcard for interstate and international visitors to the region, supporting regional tourism
- Improved educational facilities supporting growth in student visitation and engagement
- Recognition by the broader NSW population that such a facility is an important social investment for NSW

#### **RELATED PREVIOUS DECISIONS:**

- On Tuesday, 25 November 2014 a Lord Mayoral Minute passed supporting the reactivation of the Newcastle Art Gallery Redevelopment, urging the Federal Government to reinstate Federal funding and establishing a delegation to the Premier of NSW to appeal for funding for the redevelopment project;
- On Tuesday, 14 March 2017, a Lord Mayoral Minute passed reiterating City of Newcastle's commitment to the redevelopment of the Newcastle Art Gallery, and organises a meeting with incoming Minister for the Arts, the Hon. Don Harwin MLC, noting the announcement of a commitment to prioritise NSW Government Cultural Infrastructure Funding in regional NSW;
- On Tuesday, 25 September 2018, a Lord Mayoral Minute was supported to establish a Newcastle Art Gallery Redevelopment Working Party;
- On Tuesday, 22 May 2018, a Lord Mayoral Minute resolved to advocate to the NSW Treasurer for funding for the Newcastle Art Gallery Redevelopment as part of the NSW Government's Budget process;
- On Tuesday 22 October 2019, a Lord Mayoral Minute was supported for the City of Newcastle to prepare a detailed Budget Submission for consideration of the NSW and Federal Government's for their 2020/21 Budgets, including the Newcastle Art Gallery redevelopment project;
- On Tuesday, 28 April 2020, a Lord Mayoral Minute was supported to write to the NSW Treasurer and Minister for Local Government, requesting funding for the Art Gallery redevelopment from the \$395 million COVID-19 economic stimulus package to safeguard council jobs, services and infrastructure. This Minute also resolved to write to the Federal Government, outlining key infrastructure projects that could be funded to protect local jobs during the COVID-19 global pandemic, including the Newcastle Art Gallery project.

#### **ATTACHMENTS:**

- Correspondence from Newcastle Art Gallery Expansion Working Party, Cathy Tate OAM
- BIS Oxford Economics Newcastle Art Gallery Strategic Cost-Benefit Analysis Executive Summary

**LETTER FROM NEWCASTLE ART GALLERY EXPANSION WORKING PARTY:**

**From:** Cathy Tate  
**To:** Lord Mayor  
**Subject:** Art Gallery Expansion

Dear Lord Mayor

Late last year a delegation, consisting of yourself in your official capacity as Lord Mayor; Jeremy Bath, CEO City of Newcastle; Laretta Morton, Art Gallery Director; Suzie Galwey, Chairman of the Art Gallery Foundation and myself as Chairman of the Art Gallery Expansion Working Party, met with State Minister for the Arts the Hon. Don Harwin.

At this meeting the City of Newcastle's submission for funding for the Newcastle Art Gallery expansion was discussed. At this time the Foundation had pledged \$10 million to the expansion this included the \$1.2 million raised by the Community. The City of Newcastle had pledged \$10 million and was asking the State Government for \$16.5 million. This would allow the \$35.6 million expansion to be completed.

While the Minister was supportive of the need for the expansion to proceed he felt there was a need for the Council to increase its commitment. He also felt that a submission to the State Government of no more than \$10 million would be more likely to be viewed favourably.

Taking this into consideration I would like to request that you and the Council consider increasing the City of Newcastle's commitment to \$16 million and subsequently adjust the submission to the State Government. I feel this will have more likelihood of achieving a conclusion that will allow the expansion to proceed.

I have attached the Business Case Summary that was sent to the Minister as it clearly lays out the project.

On behalf of the Art Gallery Expansion Working Party I would like to thank you for your ongoing support of this important project and look forward to the Council agreeing to committing the additional funds needed to taking the next step to making this expansion a reality.

Yours sincerely

Cathy Tate  
Chairperson  
**Newcastle Art Gallery Expansion Working Party**



BIS OXFORD  
ECONOMICS

# NEWCASTLE ART GALLERY

STRATEGIC COST-BENEFIT ANALYSIS

ANDREW TESSLER AND  
STEPHANIE LUKINS

JUNE 2019

## **Oxford Economics**

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## **June 2019**

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The modelling and results presented here are based on information provided by third parties, upon which BIS Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

To discuss the report further please contact:

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# EXECUTIVE SUMMARY

## INTRODUCTION

The Newcastle Art Gallery (“NAG”) is located in Cooks Hill, at the centre of Newcastle’s civic space. NAG was Australia’s first purpose built regional gallery and the current building was officially opened by Queen Elizabeth II in 1977.

NAG holds one of NSW’s most substantial art collections dating from colonial times to the present day and is popular with local, interstate and international visitors. The great majority of NAG’s exhibitions and events are free of charge though some require payment of an entry fee. The facility received 76,925 exhibition visitors in the 2018 calendar year.

NAG is an important part of Newcastle’s growing cultural diversity. It has been active in presenting quality exhibitions and in purchasing the work of emerging artists, with a focus on artists who have lived and worked in the Hunter Region. NAG is also active in providing a range of public events and educational programs for children, students, adults and senior learners.

NAG’s total collection amounts to over 6,500 works of art with a value of over \$94 million. However, only 2% of these works can be displayed in any year, mainly due to a lack of space. Spatial constraints also mean that much of the current potential exhibition floorspace is given over to storage of art works, inhibiting the number, scale and diversity of potential exhibitions.

These constraints are a reflection of the current site’s age and the growing population and diversity of Newcastle and the broader Hunter region. There is growing demand for a larger range and number of exhibitions, educational and public programs and updated food and retail amenities to allow for a more attractive, flexible and contemporary NAG infrastructure that can better meet the current needs of the region.

The redevelopment of NAG will allow for an expanded exhibition and function space, increased community education facilities and amenities which will enhance the facility’s appeal. A larger and more attractive facility could also result in new tourism opportunities and enhance the region’s artistic and cultural appeal.

Accordingly, NAG has requested that BIS Oxford Economics undertake a Cost-Benefit Analysis (CBA) in order to assess the potential options for facility redevelopment. This Executive Summary outlines the context and basic findings of the CBA.

In order to undertake this analysis, the various options for redevelopment (the “Development Options”) must be compared to a Base Case. Development Option 1 involves an expansion of the existing NAG ( the “Expansion” Option) while Development Option 2 involves relocation of the NAG to a new site (the “New Build” Option).

## ASSESSING THE VALUE OF NAG

This CBA provides an economic appraisal of the proposed expansion options to support the Preliminary Business Case. The CBA follows the NSW Treasury

Guidelines as set out in the *NSW Government Guide to Cost-Benefit Analysis*, March 2017 (“*TPP 17-03*”).

As its name suggests, CBA involves comparing the benefits of a given project or initiative with its costs. On the cost side, capital costs associated with the construction of the redeveloped facility, operating and maintaining the redevelopment as well as the loss of other potential site uses (“opportunity costs”) must be taken into account.

The costs of both Development Options have been assessed based on information provided through NAG. In particular, the capital costs associated with the Expansion option were based on a costing provided by Muller Partnership dated 26 February 2019. Among other things, this costing included additional gallery and retail areas on the ground floor and an expansion of the gallery area on the first floor in lieu of the external terrace. The capital cost of this Option was assessed at \$28.4 million (excluding GST).

The capital costs associated with the New Build option were based on estimates provided through NAG and dated 6 March 2019. These amount to \$70.8 million (excluding GST).

Note that these capital costs (along with other items) have been expressed in discounted terms in the analysis below.

In return, the proposed redevelopment of NAG (along with its ongoing operations) would provide a wide range of benefits to society associated with its usage (“use value”). In addition to use value, the facility may also be of benefit to the broader NSW population, many of whom may never use it but value its existence as a social investment and derive benefit accordingly (“non-use value”).

These use and non-use value components may be described as follows:

- *Commercial revenue* – The redevelopment will allow for increased revenues flowing from sources such as new retail facilities and associated sales and increased commercial partners. As costs are taken into account on one side of the ledger, so must commercial revenues be allowed for on the benefits side. (Note that, from an economic perspective, government grants and donations count as transfers rather than revenues.)
- *Visitor value* – While NAG does not levy an admission fee for most events or exhibitions, visitors spend time and money in order to access the facility. This reflects their “willingness to pay” (WTP) to access NAG - or its visitor value (also known to economists as “consumer surplus”). The visitor value of NAG will increase with redevelopment, as a wider range of exhibitions and events draws in increased numbers of patrons.
- *Tourism value* – A larger facility may also act as a drawcard for interstate and international visitors to the region and NSW, with their spending producing profits for local businesses, outside of NAG itself. Note that these effects as measured in this assessment are generally relatively small, since the analysis takes into account the *net*

contribution to the State (i.e. local business *profits*- not revenues - from interstate and international visitors drawn to NSW at least in part by NAG).

- *Residual value* – This represents the terminal value of the redevelopment assets at the end of the 30 year assessment period.
- *Education benefits* – NAG plays host to many school and tertiary students during any given year who derive long term benefits from their interaction with the facility (as measured through the returns to education embedded in their future wages). The provision of improved educational facilities as a part of the facility’s redevelopment, and the consequent growth in student visitation, will increase the size of these benefits.
- *Non-use value* – Apart from users located in the immediate area of Newcastle, the NSW population as a whole may value the fact that NAG exists and is being redeveloped, regardless of whether they are users of it. Society’s ongoing willingness to subsidise cultural assets is a long term implicit indication of non-use value (NUV) and a number of past studies in the cultural and environmental fields have pointed its importance. In the case of the current work, a major survey of the NSW population was undertaken to determine how much they would be willing to pay in taxes to fund the redevelopment. The results were used to estimate the NUV of the redevelopment. The size of this component also reflects the fact that the relevant population for which it is measured includes NSW residents over 18. By comparison the number of direct users of the facility is much smaller.

More broadly, the expansion of NAG could fulfil a number of strategic objectives for the local area and beyond, such as the creation of a vibrant regional artistic scene and supporting the creative sector employment in the Hunter. While not all of these objectives are capable of being monetised in a strict sense, they may also be seen as an important part of the redevelopment. These objectives could be explored in a qualitative sense through the development of a Multi-Criteria Analysis (MCA) as a supplement to the BCA as a part of a Final Business Case.

Consistent with *TPP 17-03* both Benefit-Cost Ratios (BCRs) and Net Present Values (NPVs) are reported for each Development Option relative to a “do minimum” Base Case below. All results are preliminary and are subject to further change and refinement in the Final Business Case.

### **COST-BENEFIT ANALYSIS OF NAG DEVELOPMENT OPTIONS**

CBA reports the results of a “stream” of costs and benefits across a given timeframe, with adjustments made to allow for the fact that future costs and benefits are worth less than currently ones using a discount rate. Accordingly, the assessment was undertaken over a 30 year period (from the start of construction) with a real discount rate of 7% applied to all figures to derive present values (PV).

The PV of the assessed benefits was divided by the PV of costs to derive a BCR for the Development Options. Likewise, Development Option costs were deducted from benefits (both expressed in PV terms) to derive the NPV of the Development Options.

The BCR and NPV results for the Development Options are presented below. A number of sensitivity tests are also provided in chapter 10 of this report.

**Fig. 1. NAG Development Options: Cost-Benefit Analysis results**

Item	Expansion (\$m, PV)	New Build (\$m, PV)
<b>Costs</b>		
Capital costs and renewals	23.0	63.8
Operations & Maintenance costs, opportunity costs	8.5	9.8
<b>Total costs (1)</b>	<b>31.5</b>	<b>73.6</b>
<b>Benefits</b>		
Commercial revenue	4.3	6.3
Visitor value (consumer surplus)	6.0	10.0
Tourism value	0.4	0.6
Residual value	2.5	5.4
Education benefits	2.0	3.8
Non-use value	40.6	40.6
<b>Total Benefits (2)</b>	<b>55.6</b>	<b>66.7</b>
<b>Option BCR (2)/(1)</b>	<b>1.8</b>	<b>0.9</b>
<b>Option NPV (2) – (1)</b>	<b>24.1</b>	<b>(6.9)</b>

Source: BIS Oxford Economics

Figures in parenthesis indicate negative values

All figures subject to rounding.

As indicated by this figure, Development Option 1 (the Expansion option) records a BCR of 1.8 and a positive NPV (\$24.1 million). This indicates that the benefits of undertaking the Option exceed its costs.

The large non-use value is also notable for both Options. This is often the case for cultural and environmental institutions and effectively represents society's willingness to support long term cultural and environmental investments.

As indicated, this Preliminary CBA will be subject to further refinement in the course of developing the Final Business Case. The BCRs may well be conservative, as estimation of the benefits currently excludes some potentially quantifiable aspects such as online benefits and some elements of education benefits.