Consultancy Study on Mode of Governance of the Performing Arts Venues of the West Kowloon Cultural District

Final Report
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1. BRIEF AND METHODOLOGY

The purpose of this study has been to consider and recommend the most suitable mode of governance and external relationships with Government and non-Government organisations for the new performing arts (PA) venues of the West Kowloon Cultural District (WKCD).

The brief required the identification and analysis of the structures, policies, and practices of comparable venues in other countries and continents. Specifically, it required information on:

- governance
- management structure
- sources of income and fundraising mechanisms
- resident companies and their relationship to venues
- venues’ external relationships with, among others:
  - Government at all levels
  - the local community
  - foundations
  - the education sector
  - other PA venues (locally and overseas)
  - other cultural institutions
  - special interest organisations
  - tourism industry
  - sponsors.

The methodology employed for this study was as follows:

- A briefing meeting with members of the Performing Arts Committee of the West Kowloon Cultural District Authority (WKCDA).
- A review of the WKCDA Ordinance; the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of the WKCD; the organisational structure information contained on the WKCDA. A list of all documents reviewed is included at Appendix 1.
- Data collection from, and interviews with, venues in mainland China, Taiwan, Singapore, Australia, the UK and the USA, selected to reflect the PA venue types specified for the WKCD. This part of the research included:
  - interviews with two Chinese and 18 overseas venues, collation of supporting data and the preparation of a brief profile (case study) of each
  - interviews with 11 resident companies at the venues overseas.
- Interviews with seven venue managers in Hong Kong.
- Interviews with venue stakeholders in Hong Kong and internationally, including festivals that use the venues, other hirers, sponsors and Government funders.
- Interviews with representatives of the Home Affairs Bureau, Leisure and Cultural Services Department, and Education Bureau of Hong Kong.
- A workshop for the consultancy team to discuss findings and options.
- Attendance at the initial Public Engagement consultation sessions.
An Inception Report, two Progress Reports and a Draft Final Report preceded the preparation of this Final Report.

Interviewees are listed at Appendix 2.

The methodology adopted for the study is summarised in Chart 1.1 below.

Chart 1.1 Summary of Methodology

Following preparation of the Draft Final Report, presentations were made to the incoming CEO and to the Performing Arts Committee of WKCD, and three consultation sessions were arranged with a range of stakeholders within the arts and entertainment industry in Hong Kong. This Final Report incorporates a number of amendments in response to feedback received at these presentations and consultation sessions.

Local spelling has been respected in this report in the names of venues and organisations, and in direct quotes from interviewees. For example, Lincoln Center rather than Lincoln Centre.
2. CONTEXTUAL ISSUES

This section of the report looks at contextual issues that might influence decisions about the most appropriate modes of governance for the PA venues in WKCD. Some, but not all, of these issues have arisen from the study of venues elsewhere. This section includes:

- a brief summary of the policy contexts articulated by WKCDA or by the Government
- a scoping of the term ‘governance’ for the purposes of this study
- a description of the types of operator currently running PA venues in different countries
- an overview of the ‘business’ of PA venues, including:
  - their activities and operational functions
  - financing, financial management and risk management
  - performance measurement
  - implications for governance.

2.1 Aspirations and Policies

In establishing the governance arrangements for the venues in WKCD, it will be important to acknowledge the aspirations and guiding principles that have already been articulated for the development of the District and the PA venues within it. The recommendations, assumptions and aspirations of the Consultative Committee are reflected in the WKCDA Ordinance. These include:

- the vision for the precinct
- cultural principles
- governance and procurement arrangements
- financial assumptions.

The current vision adopted by the WKCDA and published in its first Annual Report 2008/09 states that it will:

*develop the WKCD into an integrated arts and cultural district that will:*
  - provide quality culture, entertainment and tourism programmes with a must-visit appeal to both local residents and visitors from around the world;
  - meet the long-term infrastructure needs of Hong Kong’s arts and cultural development and foster organic growth and development of culture and creative industries; and
  - become a cultural hub for attracting and nurturing talents, an impetus to improve quality of life, as well as a cultural gateway to the Pearl River Delta.

This broad vision is supported by a series of widely drawn objectives taken directly from the objectives set out in section 4(2) of Part 2 of the *West Kowloon Cultural District*
Authority Ordinance 2008. These are statutory requirements that must be met by the WKCDA. They are as follows:

a) to facilitate the long-term development of Hong Kong as an international arts and cultural metropolis;
b) to uphold and encourage freedom of artistic expression and creativity;
c) to enhance and promote excellence, innovation, creativity and diversity in arts and culture;
d) to enhance the appreciation of a diverse and pluralistic range of the arts;
e) to develop new and experimental works in arts and culture;
f) to cultivate and nurture local talents in the arts (including local artists) and local arts groups and arts-related personnel;
g) to encourage wider participation by the local community in arts and culture;
h) to promote and provide arts education to the local community;
i) to facilitate the development of cultural and creative industries;
j) to facilitate and enhance cultural exchange and co-operation between the mainland of China, Hong Kong and any other place;
k) to facilitate and enhance co-operation between any Government or non-Government body or organisation and providers of the arts, within and outside Hong Kong;
l) to encourage community, commercial and corporate support and sponsorship of arts and culture;
m) to provide or facilitate the provision of free and accessible open space within the WKCD to the general public; and
n) to strengthen the position of Hong Kong as a tourist destination.

These objectives were based on, and more explicitly stated in, a report of the Consultative Committee on the development of WKCD in 2007/08. That report set out the vision for WKCD as follows:

To develop a world-class arts and cultural district comprising local, traditional as well as international elements to enrich arts and cultural life for the people of Hong Kong and neighbouring areas, to create job opportunities and benefit the tourism industry, and to make Hong Kong an international cultural metropolis.

In presenting this vision, the Consultative Committee drew upon, among other things, the work of the Performing Arts and Tourism Advisory Group (PATAG), which set out 12 guiding principles for the proposed performing arts facilities. These are as follows:

- The performing arts facilities should be capable of meeting the long-term development needs of arts and culture and contribute to maintaining and sustaining the diversity and vibrancy of the performing arts scene.
- Both hardware and software should promote artistic excellence [so] ... becoming a world-class arts and cultural, entertainment and tourism district.
- WKCD should be a hub for local and international creative talents, and promote creative industries.
- The performing arts facilities should be capable of fostering strategic partnerships with other international arts and cultural organisations.
- There should be capacity for arts education and audience building both inside and outside Hong Kong.
- Performing arts facilities should be generally affordable to both performing arts groups and audiences so as to encourage maximum participation.
- The performing arts facilities should strive to operate on a self-financing basis with a level playing field and a healthy degree of competition amongst venues and performing arts groups.
- The performing arts venues and facilities should be suitably clustered together and integrated with the commercial facilities in the WKCD so creating synergy and vibrancy.
- There should be emphasis on the concept of a ‘central cultural district’ when planning and designing the facilities.
- The concept of organic growth and sustainable development should be taken into account. Sufficient space should be reserved for further development of facilities.
- The performance venues should be developed into an attraction for the local residents which would in turn attract tourists.
- Efforts should be made to integrate the arts and cultural facilities in WKCD with the neighbouring areas.

Some of these principles have implications for the mode of procurement, governance and management, planning and design of the new PA venues in WKCD.

2.2 Defining Governance

Corporate governance is usually defined as the system by which companies and other organisations are directed and controlled or the way in which companies are governed and how they deal with the various interests of their customers, shareholders, employees and society. In relation to the WKCD PA venues, it refers particularly to their legal and corporate structure, accountability, strategy and planning framework, risk management, oversight and monitoring processes, external relationships and the determination of the programming philosophy.

Strategy and planning framework describes where responsibility lies for developing and approving short and longer-term corporate objectives for the venue, and the form these objectives take.

Oversight and monitoring processes describe the formal and informal procedures by which external stakeholders in a venue ensure the delivery of their objectives by the Board; and the procedures by which the Board, in turn, ensures delivery by the CEO and his or her team. (These processes may include, for example, periodic reports to stakeholders, and the agreement by the CEO of key performance indicators and targets).

The determination of programming philosophy refers to the development and approval of a framework to guide the inclusion, or exclusion, of specific types of
programming activity (a venue may, for example, prioritise certain art forms and activities, or offer concessionary hiring rates to certain groups).

Key questions

In relation to the governance of the WKCD venues, a number of questions need to be considered.

- What constitutes ‘best practice’ in the governance arrangements for performing arts venues internationally?
- Do private, non-profit, and Governmental or other types of venue operator have distinctive strengths and weaknesses, and are any of these inherently more efficient or effective?
- Are there any critical success factors in the governance and management arrangements common to different types of venues?

Evidence relevant to these questions is included in Section 3 (Policy and Practice at Performing Arts Venues Internationally), with key points summarised in Section 6 (Lessons Learned and Issues for WKCDA) below.

The title of this study – *Mode of Governance* – suggests functional and structural choices that WKCDA will need to make regarding arrangements for the PA venues. However, ‘effective’ governance goes beyond structural choices and includes the development of appropriate internal and external relationships, and the encouragement of ethical conduct and effective decision-making.

2.3 Types of Operator

There are a range of operator ‘types’ evident in different performing arts venues internationally. These include:

- **Independent non-profit entities** that are established for the purpose of operating a single venue. These normally have their own Board of management, a dedicated in-house staff team, and in many cases enjoy beneficial tax status (for example, exemption from corporation taxes, and tax deductibility for the purpose of receiving donations). This is a common model in the US, Canada, the UK and Australia.

- **Statutory bodies** that are similar to independent non-profit entities in organisational structure and benefits, but that have been established under specific legislation (for example, the National Theatre, London, and the Sydney Opera House). These are usually major or national organisations.

- **Educational institutions** that operate one or more venues situated within or owned by the institution, within its existing corporate structure (for example, Hong Kong Academy for Performing Arts) or at arms length, through an entity that is partly or fully controlled by the education institution (Malthouse Theatre, Melbourne; Warwick Arts Centre, UK). Where these venues are operated within the existing corporate structure, there may be an advisory Board of some kind, but not a governing body with legal responsibility for the venue. If the education institution enjoys beneficial tax status, this is usually shared by the performing arts venue.

- **Government arts and cultural departments** that directly manage visual and performing arts facilities (and museums) in the UK, Australia, New Zealand and
elsewhere. It is the occurrence of this model in the UK that led the Audit Commission to provide guidelines for the periodic review of such venues. On a larger scale, the operation by the Leisure and Cultural Services Department (LCSD) of many of the PA venues in Hong Kong reflects this approach.

- **Government-owned corporations** that have their own Boards and staff, but that are controlled by the Government, sometimes with a high degree of autonomy, at other times with the Government maintaining a watching brief (for example, Queensland Performing Arts Centre).

- **Professional theatre management companies** that are contracted by the owner to provide venue management services to meet the requirements of the owner in return for a fee. Typically these are commercial companies which operate a number of venues, and can bring a level of expertise and experience that may not be available to a single operator. In some instances, venues are owned privately. Examples include the Really Useful Group (Andrew Lloyd Webber’s company), AEG (in North America and elsewhere) and Ambassador Theatre Group (in the UK). Under a management agreement, the manager operates the venue on behalf of the owner.

Although few venues are operated by independent, non-profit entities in Hong Kong, this form of management (and governance) does occur at several of the major performing arts organisations, at Hong Kong Arts Festival, and at other producing arts organisations.

Government-operated venues are familiar from the LCSD model, although the wide range of venues operated by LCSD has led to a more centralised management structure than is typical in other jurisdictions, where a local Government, for example, may operate only a single theatre or arts centre.

The model that is least common in the Hong Kong environment is the professional or commercial management group, although there are some examples, for example Hong Kong Convention and Exhibition Centre and Asia World Expo are managed by private companies.

To illustrate the different ways in which private management groups work, three theatre groups in different regions were interviewed for this study: Poly Theatre Management Group in China, Ambassador Theatre Group in the UK, and AEG Ogden in Australia. Information was also collected from AEG in the US and the UK.
Poly Theatre Management Group

Poly Theatre Management Group (Poly) is a subsidiary of the Poly Group. The business includes theatre management and operation. Poly will operate 15 theatres in China by the end of 2009. The venues are in three regional areas: Central China – primarily the Yangtze River Delta region; Northern China – primarily around Beijing; and Southern China – primarily the Pearl River Delta.

Prior to 2009, Poly managed seven theatres with 1,100 staff. In 2009, eight new theatres opened and were added to Poly’s list, while combined theatre staffing rose to 2,300. Poly will take responsibility for a further five venues in the near future. The venues range in capacity from 600 to 1,900. The only venue owned by Poly is the Poly Theatre in Beijing. All the others are operated on behalf of (local) Government owners.

All programme planning takes place in the Beijing office, although three of the venues – the Beijing Poly Theatre, Zhongshan Park Music Hall, and Shanghai Oriental Art Center – have more programming autonomy. Touring of selected artists around Poly’s network of venues is the most common method of programming. Poly considers its ability to present these touring performances at relatively low cost as one of its key strengths. Poly also produces a small number of its own performances. The venues have no resident companies.

The typical financial arrangement Poly enters into for their services includes a management fee paid by the venue owner, which comprises two components: one part based on the number and status of the performances presented, and the other part based on estimated overhead costs at the venue. The ‘status’ of performances is stratified into artists of international repute (Berlin Philharmonic Orchestra), artists of national standing, and local performers – with target proportions of each specified in Poly’s contract.

After meeting its annual programme target, individual venues are allowed to plan events that are unique to their venues. Sometimes these programmes are so successful they are included as touring programmes by the Beijing office in subsequent seasons. Out of the 1,500 performances presented in Poly theatres in 2008, about half were performances arranged by the Beijing headquarters, with the remaining half being outside hires or co-productions. Income from the latter is fully retained by Poly, which provides an incentive to maximise utilisation of the venue.

Local Government owners of the venues send representatives to observe audience reactions, attendance levels, and the quality of performances, as part of their monitoring of contract compliance. Contract periods tend to be for six to eight years. Programme composition, pricing structure, and subsidy levels are negotiated in the new contract.

Poly has three staff training centers in Beijing, Shanghai, and Guangdong. When a new theatre is opened, staff from the Beijing headquarters oversee the operation and train local staff, who eventually take over management responsibility. Poly has commented, however, that recruiting suitable personnel with arts management skills is a challenge.
AEG Ogden

AEG Ogden is responsible for AEG’s operations in the Asia Pacific region, and operates four types of venue: theatres, major arenas, sports stadia, and convention centres. AEG Ogden has a set of operating policies and practices that can be applied to these four types of venue, and also tailored to individual venues.

There is a Group Manager for each venue type. AEG Ogden adopts a decentralised approach to management. Each venue is treated as a relatively self-sufficient entity with responsibility for its own accounts department, human resources, IT and marketing, using approved AEG Ogden systems with support from the Head Office executive team, which also has oversight of business and financial planning and assists with scheduling and booking event activity. The individual managers are responsible for the operation of their venues, but can access support and expertise from the group, which would not normally be available to an independent operator.

The management agreement with the owner and the annual business plan are generally the two framing documents for each venue. AEG Ogden is keen to get objectives stated in the management agreement, and stresses the importance of having a vision statement for each venue. The owner needs to be confident that the operator understands their values and motivations.

AEG Ogden insists on agreeing on an asset management plan with the owner, which covers the whole of the venue’s anticipated life, to ensure the proper presentation quality and preservation of the venue on terms agreed between both parties. The asset management plan stipulates what capital investment the owner will make, and what maintenance costs the operator will have to finance from the operational revenue. Arrangements with the owner are structured in order to ensure that there are sufficient resources to drive programme activity, but also an incentive to optimise profits and encourage efficiency. A full annual budget is prepared and confirmed with the owner.

AEG Ogden operates four theatres in Perth for the Perth Theatre Trust. These theatres are not co-located. Each venue has a manager, who is a specialist in that venue’s type of artistic programme, and is responsible for securing events and, where required, working with the resident company. The venue manager also draws on the common resources of the AEG group including group international programming activities, in-house catering, technical service, asset management and finance and administration. AEG also oversees a fundraising Foundation on behalf of the Trust. It has tax exempt status and attracts funding for programming and venue works.
Ambassador Theatre Group

Ambassador Theatre Group (ATG) owns ten theatres in London’s West End, and operates a further 13 regional theatres on behalf of local Government owners in the UK. The firm has a large number of shareholders, the largest being an American property fund. ATG has established a Foundation to deliver the creative learning and community engagement activities which are considered important to the partnerships with the local Government owners.

Six of the London venues run by ATG belong to a single ATG company; the theatres do not have individual CEOs.

For its local Government theatres, ATG makes decisions centrally, but also works to reflect the character and needs of the local community in each case. Each of the regional venues is set up as a subsidiary company of ATG, and the CEO of each has budgetary responsibility. Objectives for each CEO are agreed annually and CEOs are appraised annually against the achievement of those objectives. There is a monthly review of each venue’s financial performance, supported by accounts. This is a desk-based exercise and the information is sent to all members of ATG’s Board.

Asset management tends to be shared, so that small matters are the responsibility of the operator with major items (for example, the fabric of the building) remaining the responsibility of the owner.

The operation of the venues is centrally controlled, to maximise the profit to ATG. For example, confectionary and wine are bought centrally – which presents an interesting challenge for venues in very different locations. The scale of ATG brings operational and cost-saving advantages, including a central human resources department, centrally-monitored health and safety compliance, and joint planning and auditing. Every venue has its own marketing manager and marketing team, but they all use the same designers and the same advertising agency for job vacancies. There are quarterly meetings of all regional CEOs at which strategic issues are discussed. Typically these last 60–90 minutes and involve the Executive Director and ATG’s group heads, for example the marketing director, head of creative learning, head of sales, head of health and safety, IT director and so on.

At Milton Keynes, the newly-built theatre was leased for 99 years by the local Government to a Trust which, in turn, sub-contracted operation to ATG, an arrangement which has run for ten years. Subsidy was provided by Milton Keynes Borough Council for the first ten years of operation. At Glasgow’s Kings Theatre, ATG has a 25-year lease and a management agreement that includes community service obligations, community involvement, and production of an annual pantomime, creative learning, and a specified maximum number of ‘dark’ weeks per year.
2.4 The Business of Performing Arts Venues

Activities

The activities that take place in performing arts venues include the presentation of events by resident companies, of product toured into the venue by outside hirers, or of product booked into the venue by the venue’s management. The latter may include product generated for, or initiated by, the venue, often through partnership arrangements with producers, arts organisations, festivals or other agencies. Beyond presentations in the main performance spaces, activities may also include:

- rehearsals by in-house or visiting companies of work that will be presented in the venue, or companies hiring the space to rehearse work that will be presented elsewhere
- education programmes linked to the artistic programme or stand-alone and taking place both at the venue and in other locations
- community engagement programmes, linked to the artistic programme or stand-alone, run by the venue but often taking place principally in other locations (that is, where the ‘community’ in question is)
- non-arts activities, including hires for other community uses, corporate hires, and civic and ceremonial events
- the provision of administrative and production facilities for producing arts organisations.

Venues that produce most of their own programme, or that have a permanent resident company making a large proportion of the venue’s work, are typically referred to as ‘producing houses’.

Venues that do not produce work but show work that has been made elsewhere (either paying companies to bring them the work, or hiring the space to other promoters) are typically referred to as ‘receiving houses’.

Many contemporary PA venues, however, are ‘hybrids’. While their predominant mode of operation may be as a receiving house, they also commission, produce or co-produce work in order to enhance the depth and range of their programme. This is true of several of the venues described later in this report.

Financial arrangements and risk

There are a range of different financial arrangements that apply between a receiving venue and a producer/ hirer. The full range of agreements might be in evidence over the course of a year:
### Table 2.1. Financial arrangements between a venue and a producer/hirer

<table>
<thead>
<tr>
<th>Arrangement</th>
<th>Comment</th>
<th>Risk to Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hire</strong></td>
<td>The venue is at little risk as a pre-determined hire charge is applied, supplemented by ‘contra’ charges for some aspects of technical and front-of-house support. The risk element applies only to the uncertainty over how much ancillary income the venue earns from bars, catering and retail. Contra charges (so-called because they are set <em>against</em> box office income), may be applied in the following models also. A disadvantage is that the venue has limited control over the types of event presented. Only very popular venues attract strong productions and acts on a hire basis.</td>
<td>low</td>
</tr>
<tr>
<td><strong>Income sharing</strong></td>
<td>The venue and the producer/promoter agree, beforehand, how the box office income will be split, whatever the total achieved. This reduces the risk for the venue and gives it a greater choice of programme.</td>
<td>moderate</td>
</tr>
<tr>
<td><strong>First call</strong></td>
<td>The producer receives the box office income up to a pre-agreed threshold. Different arrangements apply for any income above that threshold. Where the producer receives the ‘first call’, this increases the range of events the producer will offer the venue (because the venue is prepared to take on more of the risk).</td>
<td>moderate to high</td>
</tr>
<tr>
<td><strong>Second call</strong></td>
<td>The producer receives the box office income above a pre-agreed threshold. This may be up to a second, pre-agreed threshold (above which different arrangements may apply for sharing box office income).</td>
<td>low</td>
</tr>
<tr>
<td><strong>Guarantee</strong></td>
<td>The producer agrees a fee, and the venue receives all of any box office income. This may be the only way for the venue to secure some of the most popular and high quality performers/shows. This gives the venue greater control over the programme, but at heightened risk of losses.</td>
<td>high</td>
</tr>
</tbody>
</table>

Appendix 3 provides an illustration of the income and expenditure flows where the venue is hired.

Income from hires is only one of a venue’s sources of income. The following summarises overall income and expenditure categories:

### Table 2.2 PA venue income and expenditure categories

<table>
<thead>
<tr>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ticket sales (typically referred to as box office)</td>
<td>Salaries</td>
</tr>
<tr>
<td>Hire fees and associated charges</td>
<td>Artists’ fees, programming, production costs</td>
</tr>
<tr>
<td>Bar, catering and retail (rent from contractors or franchisees, or profit from the venue’s own management of these outlets)</td>
<td>Marketing</td>
</tr>
<tr>
<td>Sponsorship and fundraising</td>
<td>Sponsorship and fundraising costs</td>
</tr>
<tr>
<td>Subsidy from the owner (may be divided between subsidy for base operations and subsidy for specific programme elements)</td>
<td>Premises, maintenance, refurbishment</td>
</tr>
<tr>
<td></td>
<td>Administrative overheads</td>
</tr>
</tbody>
</table>
Booking arrangements

Typically, over the course of a year the Board or controlling stakeholder in a receiving house will set a programming budget which provides the financial target for the management of the venue. The management will aim to achieve this through the mix of arrangements into which it enters, balancing the security of income from hires with the risk attached to the other arrangements. Overall, the programming budget may be a surplus figure for the venue, or it may be an approved shortfall figure for the venue. The definition of programming costs may include artists’ fees only, or may also include elements of marketing, technical and other expenditure.

Venue hiring procedures vary, but typically the venue opens up its schedule to outside hirers at a predetermined point (for example, six or 12 months in advance of the date of performance). Hirers may ‘pencil’ a booking, which will be held by the venue until the hirer confirms, usually with payment of a deposit. Venue managements accept ‘second’ or ‘third’ pencilled bookings to insure themselves against the risk of the first proposed hirer failing to confirm the booking. In many venues, priority booking arrangements apply to a shortlist of prioritised organisations, such as local producers with whom the venue has a strong relationship or local arts organisations and festivals to which the venue owes a community service obligation.

The overall objective of the hiring procedures in a receiving house is to maximise utilisation and financial return, often within the framework of agreed programming principles, such as a balance of different types of arts, entertainment, sports and other uses, and cultural or community service obligations which may depend upon the priorities of the venue owner.

Producing houses are subject to a different set of financial and scheduling dynamics. Programming priorities are established by a resident producing company, typically a theatre company, for which the venue is its permanent home. The resident company is synonymous with the venue – it is the ‘brand’ – and may provide 40 weeks or more of the venue’s programme in any given year.

The main cost drivers, in this case, relate to the nature, frequency and scale of the resident company’s productions. Often, although not universally, the producing company and venue are part of the same legal entity, with no clear division between their finances. The risks accepted by the Board and senior management of producing houses are predominantly determined by the work of the resident company and the confidence with which its production costs and box office income can be predicted.

Operational functions at performing arts venues

Below the level of governance, a number of operational functions are required in a performing arts venue. These include a range of skills which are common to many other forms of venue management, and skills which are specific to the performing arts.
Table 2.3. Three levels of venue operational functions – common, customised, and unique

<table>
<thead>
<tr>
<th>Common to Property Management</th>
<th>Customised to the Arts</th>
<th>Unique to the Arts and Entertainment Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and equipment maintenance</td>
<td>Marketing</td>
<td>Arts programming</td>
</tr>
<tr>
<td>Security</td>
<td>Sponsorship</td>
<td>Ticketing services¹</td>
</tr>
<tr>
<td>Cleaning</td>
<td>Fundraising</td>
<td>Production</td>
</tr>
<tr>
<td>Catering</td>
<td>Technical services</td>
<td>Arts development</td>
</tr>
<tr>
<td>Human resource management</td>
<td></td>
<td>Arts education</td>
</tr>
<tr>
<td>Financial administration</td>
<td></td>
<td>Outreach</td>
</tr>
</tbody>
</table>

One implication of this differentiation in levels of specialism is that some of these functions are more easily contracted out to external providers than others, and may therefore benefit from the specialisation and cost efficiency of those providers.

Security, maintenance and cleaning include elements that are common to all premises, and elements that are particular to performing arts and entertainment environment, and that may require different methods of service delivery. For example, security covers night-time protection of premises, but it may also describe crowd-control and safety, especially at arena venues. This creates very different demands and requires specialised training and supervision. Most venues prefer to retain direct control over this aspect of security, and separate it from a more generalised premises security contract. Similarly, there are aspects of technical equipment maintenance and cleaning requirements (for example, in dressing rooms) that may require customised servicing, and that are normally handled in-house.

The distinctive requirements of PA venues, therefore, have implications for modes of service delivery, monitoring of quality, and management arrangements.

Measuring success

In a receiving house or in a ‘hybrid’ venue (where the programme includes hires and produced/commissioned work) the success of the venue is determined by a number of factors, including the availability of suitable product, the fitness-for-purpose of the venue’s design, to the quality of cost control, and the competition (although competition can also generate positive critical mass, as in the West End and Broadway).

The quality of a venue’s senior management is a pre-eminent success factor. Wide-ranging product knowledge, a close understanding of production and other organisational dynamics, strong negotiating skills and a talent for relationship-building are prerequisites for a successful venue manager.

In a producing house, the success of the venue will be determined by similar factors to those for a receiving house, but also by the vision and leadership of the resident company’s artistic director and creative team.

While the practice of performance measurement and target setting varies widely from one venue to another, there are broadly four areas that are commonly monitored. First, the level of utilisation of the venue, the spread of hirers, the number and breadth of the

¹ Ticketing is also relevant for sports events, but the use of patron data for targeted marketing is more developed in arts-related box office systems.

WKCD Mode of Governance for PA Venues:
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audiences reached, and customer satisfaction. These may be described as ‘user measures’. Second, financial results, which may be indicated by elements such as, among other things, the level of surplus or deficit, specific income targets, ticket yield, and balance sheet ratios. Striking the right balance of programming risks, as described above, plays a large part in determining these financial outcomes. The third commonly monitored element is related to the type of work presented, for example the range of events and activities, or the number of new productions or new artists presented. Fourth, the venue’s reputation is monitored through positive critical response, its profile in the press and media, and the attractiveness of the venue to artists and potential employees.

In organisations in receipt of public funding, it is common for the funding body to negotiate performance measures linked to its policy priorities.

An illustration of performance indicators drawn from a range of performing arts venues – not limited to those benchmarked for this study – is included at Appendix 4. The issue of determining and measuring success is addressed further below, with reference to the overseas benchmarked PA venues.

Governance implications

Both the vision and principles articulated by WKCDA to date, and the preceding overview of business and operating arrangements at PA venues, highlight issues of relevance to WKCDA’s determination of governance arrangements.

The WKCDA Ordinance, for example, includes a range of objectives, such as upholding freedom of artistic expression, and encouraging wider participation by the local community in arts and culture. These objectives will inform the selection process for operators at the PA venues, and will also need to be reflected in the leases, funding agreements and other contractual arrangements with appointed operators (including internal service level agreements in the event that WKCDA operates venues itself).

Each venue needs a clear sense of purpose that is comprehensively understood by the owner, operator and venue manager. The organisational systems, financial decisions and risks adopted need to be informed by this common sense of direction, and agreement on what will constitute success for each venue.

A second key to the successful operation of a PA venue is the appropriate management of risk. The more hires a venue secures, the lower the level of financial risk. However, venues cannot provide a full and diverse programme – as aspired to in the guiding principles adopted by WKCDA – without also sharing risk on some events through box office income-sharing or, in some cases, through paying a fee or guarantee to an artist or company.

Even in a venue where most events are likely to be hires, there is an issue of opportunity cost. For example, accepting a hire from one organisation may mean turning down a hire from another – and the second might have been an event which would attract much higher bar, catering or merchandising sales in the venue. For some venues, those ancillary income streams are a significant proportion of income – and income foregone represents a cost to the venue.
The governance implications of promoting a diverse programme are linked to these financial dynamics. The risks that the venue manager or programmer is permitted to take, and the targets they need to achieve by month-end or year-end, must be clearly understood. Ideally, they will be articulated by the owner or funder of the venue and reflected in policies laid down by the Board or senior management of the operator of the venue.

In the matter of booking arrangements, policy articulation is important in determining the answers to questions such as: Who has priority? Are there special arrangements for resident organisations or other artistic partners? What is the framework within which a ‘pencilling’ is accepted or confirmed? At a higher level, how clearly are the artistic, educational or other policies of the venue expressed? The answers to these questions will guide the senior management and other staff in their day-to-day decision making.

Finally, the determination of delivery methods and the means of monitoring quality of delivery falls to the governing body or higher levels of management within a commercial venue operator. Choices about in-house and externally contracted elements will differ, but the governance ‘function’ has responsibility for ensuring effective, satisfactory delivery.

What constitutes success varies from one PA venue to another. While it is the prerogative of the owner, and perhaps other stakeholders, to determine particular goals and objectives for the venue, the adoption of clear performance indicators and targets is a necessary part of the governance framework. To arrive at suitable performance measures, the purpose of the venue, and the expectations and requirements of its stakeholders, must be clearly defined.

3 POLICY AND PRACTICE AT PERFORMING ARTS VENUES INTERNATIONALLY

3.1 Selection of Venues

The purpose of this section of the report is to present information on the mode of governance and management structures of a range of PA venues overseas; to describe the funding and income sources of these venues, and their fund-raising mechanisms; and to describe how they manage a range of key external relationships. The applicability of this information to WKCD is considered later in this report.

The selection of venues was made in light of the need to examine governance and management arrangements in a range of jurisdictions, and the need to reflect venue types and scales envisaged for WKCD. The sample includes different operator models from the statutory, non-profit and commercial or private sector, but because the WKCDA has been established at arms-length from Government, it does not include venues directly operated by Government.

The following table relates the venues back to the venue-types specified for WKCD, with an indication of the seating capacities of the overseas venues’ auditoria. In a number of cases, a multi-auditorium venue contained performance spaces which reflected two or more of the PA venues proposed for WKCD.
<table>
<thead>
<tr>
<th>Venue</th>
<th>Comparable Venues</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mega venue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Singapore Indoor Stadium</td>
<td>13,000</td>
</tr>
<tr>
<td>2</td>
<td>02 Arena, London</td>
<td>20,000</td>
</tr>
<tr>
<td>3</td>
<td>Nokia Theater, LA Live</td>
<td>7,100</td>
</tr>
<tr>
<td><strong>Great Theatre</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Esplanade, Singapore</td>
<td>2,000</td>
</tr>
<tr>
<td>5</td>
<td>The Lowry Lyric Theatre, Salford, UK</td>
<td>1,730</td>
</tr>
<tr>
<td>6</td>
<td>His Majesty’s Theatre, Perth</td>
<td>1,200</td>
</tr>
<tr>
<td>7</td>
<td>Sadler’s Wells Theatre, London</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Medium-sized theatre</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Olivier Theatre, National Theatre, London</td>
<td>1,150</td>
</tr>
<tr>
<td>9</td>
<td>Lyttleton Theatre, National Theatre, London</td>
<td>890</td>
</tr>
<tr>
<td>10</td>
<td>Mark Taper Forum, LA Performing Arts Center</td>
<td>750</td>
</tr>
<tr>
<td>11</td>
<td>Playhouse Theatre, Perth</td>
<td>427</td>
</tr>
<tr>
<td>12</td>
<td>Powerhouse Theatre, Brisbane Powerhouse</td>
<td>533</td>
</tr>
<tr>
<td>13</td>
<td>Novel Hall for Performing Arts, Taipei</td>
<td>935</td>
</tr>
<tr>
<td><strong>Blackbox theatre</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Theatre Studio, Esplanade, Singapore</td>
<td>220</td>
</tr>
<tr>
<td>8</td>
<td>Cottesloe Theatre, National Theatre, London</td>
<td>400</td>
</tr>
<tr>
<td>6</td>
<td>Subiaco Theatre Centre, Perth</td>
<td>305</td>
</tr>
<tr>
<td>10</td>
<td>Visy Theatre, Brisbane Powerhouse</td>
<td>200</td>
</tr>
<tr>
<td><strong>Concert hall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Walt Disney Concert Hall, LA Performing Arts Center</td>
<td>2,000</td>
</tr>
<tr>
<td>4</td>
<td>Esplanade, Singapore</td>
<td>1,600</td>
</tr>
<tr>
<td>6</td>
<td>Perth Concert Hall</td>
<td>1,729</td>
</tr>
<tr>
<td>12</td>
<td>Royal Festival Hall, South Bank Centre, London</td>
<td>2,500</td>
</tr>
<tr>
<td>13</td>
<td>Hall One, The Sage Gateshead, UK</td>
<td>1,700</td>
</tr>
<tr>
<td><strong>Chamber Music Hall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Alice Tully Hall, Lincoln Center</td>
<td>1,096</td>
</tr>
<tr>
<td>14</td>
<td>Paul Recital Hall, Lincoln Center</td>
<td>278</td>
</tr>
<tr>
<td>12</td>
<td>Queen Elizabeth Hall, South Bank Centre, London</td>
<td>900</td>
</tr>
<tr>
<td>12</td>
<td>Purcell Room, South Bank Centre, London</td>
<td>365</td>
</tr>
<tr>
<td>13</td>
<td>Hall Two, The Sage Gateshead, UK</td>
<td>400</td>
</tr>
<tr>
<td><strong>Xiqu Centre</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Mei Lanfang Grand Theatre, Beijing</td>
<td>1,028</td>
</tr>
<tr>
<td>16</td>
<td>Yifu Theatre, Shanghai</td>
<td>928</td>
</tr>
<tr>
<td><strong>Piazza</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>South Bank, Brisbane (including Piazza)</td>
<td>2,500²</td>
</tr>
<tr>
<td>18</td>
<td>Federation Square, Melbourne (including Square)</td>
<td>10,000³</td>
</tr>
</tbody>
</table>

Supplementary information was collected from the Shanghai Grand Theatre and the Victorian Arts Centre, Melbourne. Two of the venues here might be more appropriately

² Capacity of the Piazza entertainment area.
³ Approximate crowd capacity of the central Square for events.
described as ‘cultural precincts’ than venues – South Bank, Brisbane, and Federation Square, Melbourne (FSPL). These, and the South Bank Centre in London, were included because they are both multi-venue clusters, and because they include open public spaces, indoors and outdoors, which are actively programmed with free or ticketed events. A brief description of the facilities contained in these precincts, and of each of the other benchmarked venues, is contained in Appendix 5.

11 producing arts companies resident at nine of the venues were interviewed to secure alternative perspectives on the nature and success of residency arrangements. Venue stakeholders were interviewed, to secure a range of perspectives on their expectations of the venues, and on communications and relationship-building. These stakeholders included corporate sponsors, festivals, and Government funding agencies.

Additional data was gathered from three theatre management groups with regard to their structures, governance and operating processes. These included AEG Ogden (who were sub-consultants on this study, and who operate venues in the Asia-Pacific), Ambassador Theatre Group (UK), and Poly Theatre Management (China).

### 3.2 Ownership and Operator Arrangements

Seven of the 18 venues and precincts researched are owned by state or national Government, three by local Governments, three by private owners, and the remaining five by independent trusts or similar non-profit entities.

Operating arrangements for the non-arena venues include:

1. Operation by an in-house entity established for the specific purpose of managing the venue (for example Esplanade Co Ltd, Lowry Centre Ltd, North Music Trust at the Sage, Gateshead, and LA Music Center at the Los Angeles Performing Arts Center).
2. Precinct-wide operation by one entity (for example Federation Square Pty Ltd) with different operating arrangements for individual venues in the precinct – such as FSPL, South Bank Corporation, Brisbane, and the Lincoln Center. In the case of FSPL and South Bank Corporation the precinct operator directly operates one or more venues (for example The BMW Edge at Federation Square and the Piazza at South Bank) as well as managing public domain areas, whilst a range of independent entities operate other venues across the precinct.
3. Operation by a professional theatre management organisation under contract, such as the four venues managed by AEG Ogden for the Perth Theatre Trust.

In the UK, Europe, Australia, and elsewhere, there are examples where Government both owns and operates a venue. However, the trend over the last 15 to 20 years has been towards either contracting out or establishing an arms-length or subsidiary entity customised to handle operations.

Where a venue is operated independently of the owner, as in most of the benchmark venues, the expectations and mutual obligations of owner and operator are normally laid out in a lease, a service level agreement, a funding agreement, or other framing documents.
The operating arrangements for each venue have been established in light of its history and the objectives that originally drove its development. To illustrate this, the stories of the founding of three of the venues studied – the Lincoln Center, the Sage Gateshead, and Novel Hall, Taipei – are provided in Appendix 6. The venues share an understanding of key factors influencing ownership and operator arrangements, including:

- the importance of a clarity of purpose for the venue
- clear allocation of responsibilities – with expectations laid out in leases, funding agreements or other forms of contract
- the value of day-to-day autonomy for the venue’s management.

This last point is one of the single clearest messages made by both the non-profit venues and those operated by professional venue management companies. **Programming and other operational decisions are, in almost every case, most efficiently handled at the venue level.** The exception was in the AEG-operated arena venues where the knowledge and purchasing power which sits at higher levels in the organisation enables tours of world-class performers to be assembled more effectively.

Two of the arena venues are privately owned and operated – they are fully commercial entities. The 935-seat Novel Hall is privately owned and operated, but the operator receives annual subsidy from CTC Bank. The Perth Theatres range from the 1729-seat Concert Hall to the 305-seat Subiaco Arts Centre. The four Perth venues are operated under contract by AEG Ogden. While small venues may be inherently unattractive to a professional venue management company – because there is little financial incentive attached to successful operation – the Perth arrangement, which has been in place for ten years, illustrates that bundling or clustering venues can create the option of attracting such an operator.

### 3.3 Asset Management and Maintenance

In this and the following sub-sections 3.4 to 3.10, information from the benchmark venues has been briefly summarised. A more detailed account is provided at Appendix 7.

Asset management and maintenance at most of the benchmark venues is the responsibility of the operator. Where this is the case, there are various different financial arrangements for meeting the costs. These are described in Appendix 8.

Only the arena venues generate sufficient operating surpluses to meet maintenance and improvement costs. All other venues require additional funding, whether planned into their annual subsidy arrangements or dealt with on a one-off basis when major replacements or improvement costs are incurred.

AEG Ogden stresses the importance of a comprehensive asset management plan agreed between owner and operator. In the initial period of operating the Perth venues, such a plan was agreed with the Theatre Trust, although it is now in need of updating.

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4 Although it should be noted that 02 in London was originally constructed as The Millennium Dome, with substantial public subsidy via the National Lottery, that is construction costs were not met by the private sector.
One of the venues reviewed for this study drew attention to the problems that had been generated by lack of clarity between the owner and the operator on specific areas of maintenance responsibility.

Beyond the experience of the benchmark venues, there are many examples of both Government-operated and independently operated PA venues where asset management and maintenance have suffered from inadequate planning or resourcing. One aim of this study has been to identify and learn from best practice. It is evident that, in the area of asset management and maintenance, good practice has been more talked about than implemented. For WKCD this is an important issue. **For the venues to maintain high standards of customer service, for the District as a whole to establish and retain a reputation for excellence, it will be unacceptable to see the slow, steady deterioration resulting from poor planning or resourcing that has characterised too many PA venues elsewhere in the world.** Three key issues in avoiding this are:

- the benefit of adopting a whole-of-life asset management plan for each venue
- clear divisions of responsibility between owner and operator regarding specific aspects of maintenance and refurbishment
- long-term capital budgeting, to ensure the availability of adequate resources.

The issue of delivery mechanisms for maintenance services, and the possibility of clustered, or District-wide, arrangements are addressed later in this paper.

### 3.4 Operating Structures

Several of the venues operated by non-profit entities have established subsidiary companies to handle particular aspects of their operation. For example:

<table>
<thead>
<tr>
<th>Parent Organisation</th>
<th>Subsidiary</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Lowry Centre</td>
<td>Lowry Centre Development Company</td>
<td>Property-related matters</td>
</tr>
<tr>
<td>The National Theatre</td>
<td>National Theatre Enterprises Ltd</td>
<td>Catering, publications, bookshop and parking</td>
</tr>
<tr>
<td>North Music Trust</td>
<td>Music North Ltd</td>
<td>Responsible for all trading</td>
</tr>
<tr>
<td>Sadler’s Wells Foundation</td>
<td>Sadler’s Wells Trust Ltd</td>
<td>Runs the venue</td>
</tr>
<tr>
<td></td>
<td>Sadler’s Wells Ltd</td>
<td>Catering and other commercial activity</td>
</tr>
<tr>
<td></td>
<td>Sadler’s Wells Development Trust</td>
<td>Fundraising</td>
</tr>
</tbody>
</table>

Other features of the operating structures of the benchmark venues include:

- the harnessing, in some venues, of professional expertise and fundraising networks through the Board’s composition. Board size varies widely, but most of the non-profit entities have Boards of between eight and 15 members. In professional theatre management groups, the individual venue manager reports to higher levels of management rather than to a Board
- the use of Board Committees to provide oversight of specific functions or developments, and to facilitate more manageable Board meetings (examples of Board Committees are provided in Appendix 15)
- the grouping of functional specialisms – in some cases the artistic programming and related marketing activities are brought together under one wing, with production and other ‘operations’ services under another; whilst premises and general administration services may sit in a third area. However, there are variations on these groupings, with some venues having six or more senior managers reporting to the CEO. Examples of senior management structures are provided in Appendix 16
- in professional theatre (or arena) management groups, some operational functions sit at HQ level rather than venue level – this structure is explored further below
- a small number of venues have two staff at executive level – one leading artistic operations, another leading ‘business’ operations. However, most have a single CEO, a post which may explicitly include artistic direction, as at Sadler’s Wells.

In most of the benchmark venues the operation of catering and bars is contracted out, or a specified area rented out. Only at the Lowry, the National Theatre, and the Perth venues were these functions identified as being operated on an in-house basis.\(^5\) The operator at the Perth venues referred to the existence of sufficient expertise in the operator’s business to run successful catering and bar operations, and to generate a better financial return both to the (private) operator and to the Perth Theatre Trust. The same operator runs catering and bars in-house at other arena and convention centre venues.

A trend worth noting is the increasing breadth and sophistication of the catering and retail offer at some PA venues during the last ten-to-15 years. Three examples from the benchmark venues that demonstrate this trend – the South Bank Centre, London, the Brisbane Powerhouse and Esplanade, Singapore – are described in Appendix 7.5.

3.5 Articulating the Vision

Many of the benchmark venues have clear and distinctive statements of their purpose, their vision and their values. These top-level statements provide an anchor for programming and the venue’s strategic planning. For example, the National Theatre describes its mission in the following terms:

*The National endeavours to maintain and re-energise the great traditions of the British stage and to expand the horizons of audiences and artists alike. It aspires to reflect in its repertoire the diversity of the nation’s culture and an engagement with the theatrical culture of other countries.*

*The National’s continuing objective is to present a balanced artistic programme. The repertory system is a key to this, not as a good in itself, but as the means of taking artistic risks and responding to audience demand.*

\(^5\) Sadler’s Wells’ catering is currently contracted but in the process of being brought back in-house.
The National Theatre was built solely as the home of a permanent resident company, unlike most of the other benchmarked venues. The rationale for the building is determined by the vision and mission for that (national) company. The strong artistic statements above provide a point of reference against which future programming proposals, and new areas of artistic and educational activity, can be tested.

**The Lincoln Center**

*Celebrates the performing arts with a dazzling array of programming – from the classical to the cutting edge – performed by an international roster of virtuoso artists and musicians.*

*Engages thousands of schoolchildren in active learning via a variety of artistic disciplines and professional performances presented by our arts-in-education organisation, Lincoln Center Institute, the nation’s leader in the field.*

*Extends the range of the performing arts presented at Lincoln Center, complementing the extraordinary offerings of the eleven other Lincoln Center Resident Companies, all of which are flagship institutions in the world of the arts.*

*Provides support and services for the Resident Companies and the 16-acre Lincoln Center campus, which together make up the world’s largest performing arts centre.*

It is tempting to devalue such mission and vision statements as vague, albeit admirably aspirational, yet many PA organisations strive to capture the core purpose and spirit of the organisation in these key phrases in an attempt to send a strong signal, both internally and externally, about what matters to the organisation. In some cases, the statements of value or principle, which sit below the level of mission statement or vision statement, encapsulate the cultural priorities of the organisation.

For example, the **Sage Gateshead professes that**:  
*We value all kinds of music equally and are committed to including, inspiring and encouraging everyone through participation and performance.*

*We are passionate about offering the best experience for all who work and play here, nurturing an invigorating, inspirational environment.*

*We are at the forefront of innovation and excellence, enthusiastically embracing new work, new trends and new thinking.*

*We include everyone in building meaningful relationships through shared experiences and creative journeys.*

*We are proud to use our national and international position to pioneer social, creative and economic opportunities for our region.*
3.6 Strategic Planning Processes and Programme Planning

At Singapore Indoor Stadium, 02 Arena, Nokia Theatre and the Perth theatres, an annual planning process precedes the development of the following year’s budget. The CEO or Venue Manager is closely involved in the planning process, before the draft Plan is submitted to higher levels of management for approval. Financial targets and other performance measures are also agreed at this point. At Perth, the principles driving the planning process are described as follows:

*The Annual Planning process takes into consideration the requirements of the Resident Companies, and other considerations within the Management Agreement [with Perth Theatre Trust], but outside of this, AEG Ogden develops a Business Plan that captures the best commercial result for the venues.*

At other venues, various degrees of formality in the strategic or business planning process were evident. Some do not have a formal process, but the CEO and senior management are guided by specific targets.

At Federation Square, a Civic and Cultural Charter is the key framing document for the venue. The Charter identifies the objectives of the Square, the outcomes required, and a range of operating principles. It forms a key reference point to which strategic planning, operational planning, and staff structure and performance appraisals are linked. The Board has overall responsibility for FSPL’s planning processes. Planning documentation includes:

*Corporate Plan 2009–2012*
*Marketing Plan 2009–10*
*Programme Plan*

The Programme Plan is a detailed document which expresses the philosophy and rationale for the programme, including the linkage to the Civic and Cultural Charter, the FSPL Corporate Plan, and Federation Square’s brand positioning. The programme comprises five streams:

1. Third Party Activity
2. Regular Events (Federation Square’s owned and managed events)
3. Multimedia Programme
4. Creative Programme (also owned and managed by FSPL in addition to enabling third party creative initiatives)

In the Programme Framework for July 2009 to June 2010, each of these strands is supported by a clear plan, an indication of the specific activities within the strand, and Key Performance Indicators (KPIs). Alongside the quantum of activities, there are also targets for the status of programme presenters or initiators.

Venues can be more or less proactive in their approach to curating or programming, depending on the philosophy which informs the venue, the financial resources available, and the expectations of key stakeholders.
Singapore Indoor Stadium’s programme planning is driven by, in the venue’s own words, “the requirement to be totally self sustaining including major maintenance requirements.” The majority of the Stadium’s programming is described as concerts, including canto pop and other Asian concert artists. Financial drivers feature strongly at several of the other PA venues, including the Lowry Theatre and Sage Gateshead. Another feature of these venues is their active role in producing and co-producing work, and therefore becoming more closely identified with a stable of artists and companies. Both believe this helps to build audience loyalty and interest, as well as making the venue a more interesting place to work.

Three-quarters of the performances at the Yifu Theatre are traditional Xiqu performances, with a majority being Peking opera. The resident Shanghai Peking Opera Troupe (SPOT) has booking priority of up to 120 performances and decides what is presented. Although hirers are required to book one year in advance, programmes are only finalised two to three months prior, in order to accommodate special requests from Government for “star artists” from the Troupe to perform for dignitaries and overseas heads of state visiting China.

### AEG Ogden and the Perth Theatres

For AEG Ogden as operator, the only constraints on programming relate to those events which require financial underwriting by the Perth Theatre Trust, and to the minimum guaranteed periods for the resident companies.

The Manager has the authority to negotiate deals with hirers where there may be some risk sharing, and will have a call system whereby the venue’s income might not be the first call but the second or third call. The General Manager of each venue has the authority to manage this risk.

The first programming priority is to address the agreed requirements of the local resident professional performing companies. These companies cover the standard, traditional Western arts forms – opera, ballet, concerts, plays, contemporary dance, and an annual festival – and have priority in selecting the dates that they require for their seasons.

The second programming priority requires Venue Managers direct their efforts towards securing as many commercial hires as possible from a range of local, national, and occasionally international, professional performing arts events. These companies/ events must be willing to pay rent and other costs, presenting their seasons at their own risk.

The third priority is the requirement that Venue Managers either present or produce programmes themselves. This means either buying-in quality touring professional productions which otherwise would not come to Perth, or producing an event, sometimes in association with local partners.

The above is a reasonably well accepted model for Australian capital city venues. In Perth it is more important than elsewhere to have the balance between these priorities because it is such a remote city, and requires additional initiatives to continue to achieve fully-booked venues.

### Non-arts activities
Although some of the benchmarked PA venues focus on one art-form, such as music or dance, nearly all of them programme other arts activity, and occasionally also non-arts activity. For example, at South Bank Centre, London, an analysis of a recent year’s programme indicates that nearly 50% of the performances are related to music but 10% of the performances to theatre and dance, nearly 25% to ‘other arts and entertainment activities’ and a small number to non-arts activities.

3.7 Sponsorship and Fundraising

Sponsorship and fundraising are sometimes referred to as ‘development’, especially in US venues. The professional staff leading these functions are, therefore, sometimes called Development Directors, or similar. Sponsorship refers to a commercial arrangement between an arts organisation and a business – a range of benefits offered by the arts organisation in return for cash and possibly other inputs. Fundraising refers to philanthropic support from individuals, corporations or Foundations.

The differences in investment in, and benefit secured from, sponsorship and fundraising activities are distinguished both by the scale and nature of the venue, and by the cultural/ regional context within which it operates. However, the principles of what constitute effective strategies, and the fundamental drivers underpinning sponsorship and fundraising, are common.

In order to appreciate the wide range of actual development income secured, the total for the most recent year was converted to US dollars for each of the venues:

<table>
<thead>
<tr>
<th>Venue*</th>
<th>Development Income US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venue K, USA</td>
<td>121,027,917</td>
</tr>
<tr>
<td>Venue F, USA</td>
<td>18,023,509</td>
</tr>
<tr>
<td>Venue E, UK</td>
<td>9,944,458</td>
</tr>
<tr>
<td>Venue D, UK</td>
<td>4,707,154</td>
</tr>
<tr>
<td>Venue I, UK</td>
<td>3,812,261</td>
</tr>
<tr>
<td>Venue A, Asia-Pacific</td>
<td>2,722,445</td>
</tr>
<tr>
<td>Venue J, UK</td>
<td>2,017,183</td>
</tr>
<tr>
<td>Venue O, Asia-Pacific</td>
<td>1,007,639</td>
</tr>
<tr>
<td>Venue B, UK</td>
<td>792,244</td>
</tr>
<tr>
<td>Venue G, Asia-Pacific</td>
<td>573,342</td>
</tr>
<tr>
<td>Venue C, Asia-Pacific</td>
<td>271,948</td>
</tr>
</tbody>
</table>

At the arena venues in London and Los Angeles sponsorship is considered an important part of the income mix. At London’s 02, roughly half of all income is linked to sponsorship and corporate sales. AEG commented that:

Executive management is involved in sponsorships, as in this case very large numbers are involved, and these types of sponsors need to meet the people at

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6 Note that the venue lettering correlates to venue lettering used in illustrating unattributed financial data in Appendix 7.4.
the top of the company . . . The strength of the sponsorship activity is that it is very Return on Investment focused. The days of people putting up some money because it is something ‘nice to be involved in’ and then putting up a poster in the venue are long gone. These days they need to know if they spend a certain amount they are going to get a return for it, and this return needs to be significant.

A corporate division of AEG, Global Partnerships, handles sponsorship sales at Nokia Theatre and LA Live, as it does for most of AEG’s US and European venues. Global Partnerships states that it focuses on “delivering expertise and market leverage not possible at individual venue level.” However, as at 02, a high priority is placed at the venue level also: “Anyone and everyone will assist to support sales including the executive management or Board members. Event activity is key to maximising and retaining sponsorships for Nokia Theatre.”

The sponsorship and fundraising organisational staffing resources, and the overall contribution of development income (sponsorship, philanthropy and special project grants), are as follows:

Table 3.4 Organisational resources for development

<table>
<thead>
<tr>
<th>Venue</th>
<th>Organisational Resources for Development</th>
<th>Development as % of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Esplanade</td>
<td>Partnership development department</td>
<td>15%</td>
</tr>
<tr>
<td>Lowry</td>
<td>Five staff</td>
<td>3%</td>
</tr>
<tr>
<td>Sadler’s Wells</td>
<td>Five staff, led by a Development Consultant</td>
<td>14%</td>
</tr>
<tr>
<td>National Theatre</td>
<td>21 staff led by a Director of Development and a Development Council, which includes two Board members</td>
<td>11%</td>
</tr>
<tr>
<td>Los Angeles Music Center</td>
<td>Four divisions, led by a Vice President for Advancement – Major Gifts, Corporate and Foundation, Donor Relations and Founders</td>
<td>25%</td>
</tr>
<tr>
<td>Perth Theatres</td>
<td>Venue General Managers</td>
<td></td>
</tr>
<tr>
<td>Perth Theatre Trust</td>
<td>Foundation with two staff members</td>
<td>2%</td>
</tr>
<tr>
<td>Novel Hall</td>
<td>Corporate sponsorship precluded as a result of CTC Bank’s ownership</td>
<td></td>
</tr>
<tr>
<td>Brisbane Powerhouse</td>
<td>One member of staff, to be increased to 1.5</td>
<td>8%</td>
</tr>
<tr>
<td>South Bank Centre, London</td>
<td>15 staff</td>
<td>6%</td>
</tr>
<tr>
<td>Lincoln Center</td>
<td>33 staff led by a Vice President Planning and Development (excluding staff at the 11 resident companies)</td>
<td>71%</td>
</tr>
<tr>
<td>Sage Gateshead</td>
<td>Five staff, led by a Head of Development</td>
<td>8%</td>
</tr>
<tr>
<td>Mei Lanfang</td>
<td>No development staff</td>
<td></td>
</tr>
<tr>
<td>Yifu Theatre</td>
<td>No development staff</td>
<td></td>
</tr>
<tr>
<td>South Bank, Brisbane</td>
<td>No development staff</td>
<td></td>
</tr>
<tr>
<td>Federation Square</td>
<td>CEO and Manager: Programme and Marketing lead partnership development</td>
<td>5%</td>
</tr>
</tbody>
</table>

It is significant that:

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- many of the PA venues are securing sustained income streams from sponsorship or fundraising
- the US venues secure much higher levels of income from such ‘development’ activity than other venues
- most of the medium and larger-scale venues devote significant staffing resources to sponsorship and fundraising
- in some cases – Federation Square, Los Angeles Music Center, and the arena venues – sponsorship and fundraising are wholly integrated with senior management functions and also involve active Board participation
- while sponsorship is part of the day-to-day operations of the venue, capital fundraising, endowment-building and similar big-target campaigns are sometimes segregated into a separate legal entity, such as a Foundation, with its own Board or Trustees
- all sponsorship and fundraising is driven by the commitment and close organisational and programme knowledge of the venue’s staff or Board. Development activity amongst the benchmarked venues is not contracted out, although specialist consultants may be called upon to advise on major campaigns or the establishment of a development department.

While sources of private income are segmented, it is also the case that the destination of these funds can be multi-strand. For example, at the Sage, fundraising is directed into four channels:

- contributions to the endowment fund held for Sage by Tyne and Wear Community Development Foundation
- fundraising towards the organisation’s revenue bottom line
- fundraising for the orchestra (via the Northern Sinfonia Trust – but same fundraising team)
- capital projects.

3.8 Resident Companies

The term ‘resident’ company can cover a number of different arrangements:

- a producing company which operates its own venue, like the National Theatre and many theatre companies in the UK and USA
- a company which is housed on-site (administration and rehearsals), which has long-term and preferential access arrangements to the performance venues, but which does not have control over the venue
- a company which is housed offsite but has long-term or preferential access arrangements to the performance venues
- a time-limited presence in the venue, presenting performances, running workshops and sometimes industry development programmes, and through these activities contributing to the realisation of the venue’s programme philosophy.

Several of the PA benchmark venues indicated that they do not have resident companies: Singapore Indoor Stadium, 02 Arena, Nokia Theatre, Esplanade, and Novel Hall. Resident companies at the other venues are shown in Table 3.5 below.
Table 3.5  Venue resident companies

<table>
<thead>
<tr>
<th>Category of Venue</th>
<th>Resident Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowry</td>
<td>No resident companies but five ‘partner’ companies (or regular visitors): Rambert, Birmingham Royal Ballet, the National Theatre, Opera North and the Donmar.</td>
</tr>
<tr>
<td>Sadler’s Wells</td>
<td>Two resident companies Wayne McGregor/ Random Dance and New Adventures, and currently, 11 associate artists.</td>
</tr>
<tr>
<td>The National Theatre</td>
<td>National Theatre Company.</td>
</tr>
<tr>
<td>Los Angeles Music Center</td>
<td>Four resident companies: The Los Angeles Philharmonic, Center Theatre Group, LA Opera and Los Angeles Master Chorale.</td>
</tr>
<tr>
<td>Perth Theatres</td>
<td>Four resident companies: West Australian Ballet, West Australian Opera Company, Perth Theatre Company and Barking Gecko Theatre Company. West Australian Symphony Orchestra and Black Swan Theatre Company are not full residents (that is, operating out of one of the venues), but still regard the venues as their home base and are closely associated with the venue’s identity.</td>
</tr>
<tr>
<td>Brisbane Powerhouse</td>
<td>Brisbane Powerhouse has two ‘cultural tenants’, Access Arts and Vulcana Women’s Circus, but they are not considered resident companies, that is, are not associated with the venue’s programme. There are currently short-term residency relationships with three companies who contribute to the overall programme but are not housed in the building.</td>
</tr>
<tr>
<td>South Bank Centre, London</td>
<td>Four ‘Resident Orchestras’ at South Bank Centre: the London Philharmonic Orchestra, Philharmonia Orchestra, London Sinfonietta, and Orchestra of the Age of Enlightenment. There are also eight ‘Artists in Residence’ .</td>
</tr>
</tbody>
</table>
| Lincoln Center     | There are 11 Resident Companies at the Lincoln Center:  
|                    | - The Chamber Music Society of the Lincoln Center  
|                    | - The Film Society of Lincoln Center  
|                    | - Jazz at Lincoln Center  
|                    | - The Juilliard School  
|                    | - Lincoln Center Theater  
|                    | - The Metropolitan Opera  
|                    | - New York City Ballet  
|                    | - New York City Opera  
|                    | - New York Philharmonic  
|                    | - The New York Public Library for the Performing Arts  
|                    | - The School of American Ballet. |
| Sage Gateshead     | The Sage Gateshead does not have any independently constituted resident companies. The region’s largest professional orchestra, Northern Sinfonia is constitutionally part of North Music Trust. It is based at the venue and provides some 70% of the annual classical subscription series (21 out of 29 concerts in 2008/09). |
| Mei Lanfang Grand Theatre, Beijing | National Peking Opera Company. |
| Yifu Theatre, Shanghai | Shanghai Peking Opera Troupe is the resident company. |
| South Bank, Brisbane | No resident companies, but several producing organisations housed on-site, including Opera Queensland. |
| Federation Square, Melbourne | There are no resident companies, but shorter-term residencies feature as part of the programme. |

Several of the benchmark venues denied that their relationship with individual producing companies were ‘residencies’, but still drew attention to the significance of ‘partner’ arrangements or artist-in-residence arrangements.

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Some venues were conceived as a home for a specific producing company – for example, the National Theatre for the National Theatre Company, and the original development of Los Angeles Performing Arts Center as a home for the Los Angeles Philharmonic Orchestra. Interestingly, the Lincoln Center was conceived as a home for music and performing arts, and individual ‘constituents’ were then progressively attracted over a period of 20 years or more – including the New York Philharmonic, the Julliard School, the Metropolitan Opera, and Jazz at Lincoln Center, among others. A venue’s brand, its programming philosophy, and the presence of resident companies are closely inter-dependent.

Benefits offered to residents who are either fully accommodated in the venue, or have a close, long-term relationship, include:

- preferential bookings – the capacity to select performance dates and access to rehearsal space prior to the calendar being opened up to others, and, in some cases, discounted hiring rates
- discounts on rental of studio space and office space
- commissioning work from the resident organisation
- avoidance of programming competition.

In return, benefits to the venue include:

- a guaranteed range of programme input
- participation in the venue’s public engagement and education programmes
- coordinated audience development
- cooperative forward planning
- building brand and identity.

A spokesperson at Perth Theatres commented:

“I’m very much in favour of this arrangement, I think that the model of the performing companies being located within the performing venue creates a higher level of professionalism and excitement, and presents marketing opportunities to the whole operation.”

Perth Theatres

From the residents’ perspective

In addition to hearing the venues’ views, 11 resident companies at a selection of the benchmark venues were interviewed. These companies included theatre, opera, ballet and music organisations, and one company which produces visual and performing arts linked to climate change issues resident at South Bank Centre, London.

Five of the residencies receive on-site office accommodation and priority access to performance slots; although in several cases rehearsals take place partly or fully at other locations. Two of the companies are housed off-site, but have long-term access arrangements to the performance venue. One company’s residency is in the form of time-limited projects in the venue.

7 Including the National Theatre Company, London, Shanghai and Peking Opera Troupe at Yifu Theatre, and the National Peking Opera Company at Mei Lanfang Theatre, Beijing. A list is included at Appendix 2.
In addition to access to performance slots, several of the resident companies enjoy administrative, marketing and other functional support from the PA venue’s management and staff. This can extend to payroll, human resources and legal services. In the larger arts centres – for example, the Lincoln Center and the LA Music Center – the arrangements and mutual obligations are highly structured and formal. In these cases, the venue’s programme is dependent on the outputs of the resident company, and the numbers of performances per year are specified. At LA Music Center, under-delivery incurs financial penalties. In other venues, the resident company does not have formal input into the venue’s programming choices.

The Lincoln Center and LA Music Center also have protocols to protect the ‘primacy’ of the resident company, in order to prevent competitive programming. At the Lincoln Center these arrangements ensure that the 11 resident organisations focus on their core arts business, and don’t drift into delivering work which may be the province of another resident company.

At the Perth venues, the resident companies have a tenancy agreement with Perth Theatres Trust covering office accommodation, and enter into separate agreements with AEG Ogden in relation to their individual performances and seasons of work.

Most of the resident companies interviewed have written agreements outlining the terms, benefits and obligations of the residency. This ranges from a simple exchange of letters (for the residency which comprised time-limited projects) to detailed agreements, some of which have evolved over 20 years or more.

Key factors and advice for successful resident-venue partnerships include:

- clearly defined roles of operator, resident company and owner – including the strategy for programming the venue
- investment of time and energy in the relationship, commitment to regular communication
- openness and honesty, clarity
- a shared vision and willingness to explore new ideas
- adequate funding for the venue – as this has flow-on effects to the resident and other hirers
- enough freedom within the relationship for the resident to build work at other venues or in other contexts
- venue and resident need to work to ensure that both their brands are equally visible, and that the relationship is celebrated
- develop the personal links between functions in the organisations – between marketing staff, finance, production, so that issues can be quickly resolved.

Issues raised which are of relevance for WKCDA include:

- the benefit of having a guaranteed level of product in the venue’s programming schedule
- the opportunity for resident companies to contribute to the education, community engagement and other programmes of the venue
the risk of a single resident organisation, or group of organisations, monopolising the resources of the venue, and making it difficult for other arts organisations to gain access to rehearsal or performance space

- the venue’s brand being too closely dependent upon the fortunes and reputation of the resident organisation/s
- the distinction between ‘accommodation’ and ‘residency’, with the latter needing to imply a genuine contribution to the venue’s programme
- the degree of generosity which can be offered to resident companies, and whether any below-market-rate office, rehearsal or performance access will be financed by a third party (WKCDCA or LCSD or another), or whether such arrangements should be on a full-market-rate basis
- the importance of establishing protocols which prevent unhelpful programming competition between resident companies, or between the venue and resident companies
- the need for protocols to frame sponsorship and fundraising activities, and particularly to clarify joint or independent activity.

Although some of the benchmark venues have the resident companies rehearsing within the PA venue, there are other examples where office and rehearsal space are remote from the venue (although regular performance occurs at the venue). Orchestras tend to be the exception to this, as performances need to be adjusted to the venue’s acoustics – which needs to occur during rehearsal.

### 3.9 Relationship Management

Comment on relationship building with sponsors and donors was provided above in section 3.7. The PA venues identified a range of other significant stakeholders, including Government (local, state or national), quasi-Governmental funding agencies, media, education institutions, arts industry contacts and tourism interests. A summary of the stakeholders mentioned at five of the venues, and the allocation of responsibility for maintaining these relationships is provided below (a full list for all the venues is provided in Appendix 7.8).

<table>
<thead>
<tr>
<th>Venue</th>
<th>Key Stakeholders Identified by the Venue</th>
<th>Responsible Contact/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>02 Arena in London</td>
<td>Government, Tourism (for example, Visit London), Associated agencies</td>
<td>Senior management (not specified)</td>
</tr>
<tr>
<td>National Theatre</td>
<td>Theatre industry, Arts Council England, Government: Department of Culture, Media and Sport</td>
<td>Executive, Executive Director</td>
</tr>
<tr>
<td></td>
<td>Media, Sponsors, Education establishments, Local community</td>
<td>Executive and Board</td>
</tr>
<tr>
<td>Perth theatres</td>
<td>Government, Perth Theatre Trust</td>
<td>Perth Theatre Trust</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>Venue managers</td>
</tr>
</tbody>
</table>

*WKCD Mode of Governance for PA Venues: Final Report – 29 October 2010*
<table>
<thead>
<tr>
<th>Venue</th>
<th>Key Stakeholders Identified by the Venue</th>
<th>Responsible Contact/s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Arts and cultural organisations</td>
<td>Venue managers, but CEO for international contacts</td>
</tr>
<tr>
<td></td>
<td>Tourism industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other PA venues</td>
<td></td>
</tr>
<tr>
<td>Lincoln Center</td>
<td>Government</td>
<td>President and Board, Planning and Development</td>
</tr>
<tr>
<td></td>
<td>Educational institutions</td>
<td>Executive Director Lincoln Center Institute</td>
</tr>
<tr>
<td></td>
<td>Arts and cultural organisations</td>
<td>Managers</td>
</tr>
<tr>
<td></td>
<td>Tourism industry interests</td>
<td>VP Marketing and Business Development</td>
</tr>
<tr>
<td></td>
<td>Other arts or entertainment venues</td>
<td>Producers and Programming Department</td>
</tr>
<tr>
<td></td>
<td>Special interest organisations</td>
<td>Managers</td>
</tr>
<tr>
<td>Yifu Theatre, Shanghai</td>
<td>Peking-Kuan Arts Centre⁸ and Shanghai Peking Opera Troupe</td>
<td>General Manager</td>
</tr>
</tbody>
</table>

In nearly all cases, face to face meetings between the Board or staff member and relevant contacts in the stakeholder organisation are the means of building and maintaining the relationship. Participation in industry groups and associations, provision of guided tours for schools, targeted marketing campaigns, and telephone updates were also mentioned as tools. Staff and Board time is the key resource allocated to stakeholder relationship management.

A detailed account of relationship management was provided by the CEO at Federation Square.

**Managing the external relationships at Federation Square**

The Board, CEO and senior staff of FSPL place a high priority on relationship building and management. The CEO estimates that 20% of management time may be devoted to such activity.

**Government:** Key departmental connections are with Department of Industry and Regional Development, Tourism and Treasury. The CEO meets approximately six-weekly with departmental secretaries, and the CEO and selected Board members meet three or four times per year with the relevant Ministers to keep them informed of FSPL developments. At other staff levels within FSPL, connections are maintained with appropriate bureaucrat counterparts. Links with Melbourne City Council are maintained through CEO-level meetings three or four times per year, and an annual meeting with the Mayor and other Councilors.

**Education:** One full-time staff member manages FSPL’s education activities, and maintains regular links with the Education Department. The substantial ground-work needed to sustain links with schools and other institutions has benefited from a seconded teacher.

A MOU is under development with the Council of Adult Education.

⁸ Approximate English translation, not an official English name for the venue
Arts sector: FSPL endeavors to make itself integral to new developments and initiatives occurring in Melbourne, through maintaining links with cultural organisations. The CEO, Manager for Programme and Marketing and Events Manager are all involved in this process.

Tourism: There is a Visitor Centre on-site at FSPL (which has a high visibility central location in Melbourne). FSPL hosts around 50 tourism familiarisation sessions per year, and has a customer excellence programme to maintain high standards. In cooperation with Tourism Victoria, FSPL has worked at profile-building in the New Zealand, UK and Singapore markets. FSPL senior management are members or Board members of the Tourism Excellence Strategy Steering Committee, the Victorian Tourism Industry Council, Tourism Alliance Victoria-Attractions Group Committee, Melbourne Convention and Visitor Bureau Board and the Cultural Tourism Industry Group.

Other relationships considered important are those with the tenants on-site (there are around 46 different businesses in the precinct).

3.10 Performance Measurement and Accountability

Where the benchmark venues studied operate as independent entities with their own Board, the CEO is normally held accountable by the Board through monitoring performance against a strategic plan and a set of Key Performance Indicators (KPIs). These may cover artistic outputs, financial results, marketing and audience development outputs, fundraising targets, and organisational development criteria. In several instances the CEO plays an active part in proposing or ‘negotiating’ the performance measures. In other venues, the CEO’s performance is measured against their job description and contract of employment, but not more precisely against a strategic plan or KPIs.

A number of the venues (Brisbane Powerhouse, National Theatre, Sage, Lowry) have funding agreements with their key funding stakeholders which specify outputs precisely, and which provide the framework for monitoring performance. This is common practice in the UK and Australia where the venue includes an active producing or arts development function.

Reporting frequency to key external stakeholders ranges from an annual written report and meeting to regular, even monthly, informal meetings designed to maintain communication flow and build relationships and understanding of mutual expectations.

In the case of venues operated under commercial or group management arrangements there are two drivers underpinning accountability – the contract with the owner of the venue, and the commercial management’s own cost and revenue expectations (for example acceptable profit or cost margin on specific areas of operation). In China, the UK, and Australia, a range of different contract arrangements have been identified which, for example:

- specify programme outputs and cultural development obligations
- guarantee the commercial operator recovery of their costs
- provide incentives for the operator to exceed programme and financial targets
- protect the interests of resident companies or local arts producers
- clarify maintenance obligations by the owner and operator.

The large performing arts centres with independent resident companies (for example LA Performing Arts Centre, Lincoln Center) referred to their resident companies as key stakeholders to whom they felt a strong sense of obligation, and with whom good communications were important.

Appendix 4 contains examples of performance indicators collated from a range of medium and larger-scale performing arts centres in Australia and New Zealand.

4. CURRENT VENUE ARRANGEMENTS IN HONG KONG

At present there are 27 PA venues in Hong Kong, including:

- 16 purpose-built PA venues
- 2 sports/entertainment venues
- 5 PA venues in tertiary institutions
- 3 PA venues in exhibition centres
- 1 PA venue in a community arts centre

There are 58 auditoriums/PA spaces in these venues, providing a total seating capacity of over 75,000. It should be noted that over half of the seating capacity is provided by five large auditoria (3,000 to 13,500 seats) in four venues.

Outside WKCD, there are new facilities at the planning and development stage that will add a further 65,000 seats to the existing supply. Some of these will be completed before the commissioning of WKCD Phase 1 facilities. These include:

- expansion of 1 existing PA venue
- 1 PA venue converted from a cinema
- 1 PA venue converted from a police station
- 2 new purpose built PA venues
- 2 sports/entertainment venues

The governance models of PA venues in Hong Kong range from full public ownership and management to full private ownership and management. Whilst there are a range of models, in fact the Government is the largest owner and operator of cultural facilities in Hong Kong, 15 out of the 27 venues are Government owned and are operated by Leisure and Cultural Services Department. In addition, LCSD is building three new venues and expanding one existing venue.

LCSD is also the major presenter of PA programmes in Hong Kong, setting standards for hiring charges and subsidies as well as ticket prices and concessions. The Government is also driving the planning and development of the WKCD project by setting up the WKCDA and providing the funding mechanism. There is also a West Kowloon Cultural District office under the HAB to oversee the West Kowloon project. In almost all cases, public funding (through subvention, subsidies, land grants and provision of supporting facilities and services) has been provided to support the development or operation of PA venues.
venues in Hong Kong. The reliance on public subsidies, and resulting monopoly, are key issues for the PA sector in Hong Kong.

The remaining 12 venues include four privately managed venues; five attached to tertiary educational establishments; and three exhibition venues which also accommodate occasional performances.

The consultants selected seven cases to cover the range of different governance models in Hong Kong to act as reference for the study team in considering how international models may be relevant to Hong Kong, and how existing governance arrangements may be relevant to the PA venues in West Kowloon. The seven selected venues were:

- Hong Kong Cultural Centre (HKCC)
- Hong Kong Coliseum (HKC)
- AsiaWorld-Expo (AWE)
- Hong Kong Academy for Performing Arts (HKAPA)
- Hong Kong Arts Centre (HKAC)
- Fringe Club
- Sunbeam Theatre.

The consultants conducted structured interviews with HAB, LCSD, Education Bureau and the venue management of the selected venues. A summary of findings is presented below.

### 4.1 Ownership and Management

Table 4.1 summarises, and Chart 4.1 plots, the ownership and operator arrangements of the selected venues.

<table>
<thead>
<tr>
<th>Type</th>
<th>Ownership</th>
<th>Operating Models</th>
<th>Board / Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>HKCC  Purpose built PA venue</td>
<td>Government</td>
<td>In house</td>
<td>Nil</td>
</tr>
<tr>
<td>HKC   Sports / entertainment venue</td>
<td>Government</td>
<td>In house</td>
<td>Nil</td>
</tr>
<tr>
<td>AWE   PA venue in exhibition centre</td>
<td>Joint Government and private</td>
<td>Contracted to a private operator</td>
<td>Mixed public and private (owner), majority of directors on Board are appointed by the Government and Airport Authority Private (operator)</td>
</tr>
<tr>
<td>HKAPA PA venues in tertiary institution</td>
<td>Statutory body</td>
<td>In house</td>
<td>Mixed public and private, council members are appointed by the Government</td>
</tr>
<tr>
<td>HKAC  Purpose built PA venue</td>
<td>Statutory body</td>
<td>In house</td>
<td>Private, Chairman and three members are appointed by the Government</td>
</tr>
<tr>
<td>Fringe Club Adaptive re-use PA venue</td>
<td>Private (not for profit)</td>
<td>In house</td>
<td>Private</td>
</tr>
</tbody>
</table>

The discussion with AWE is not reported as requested by AWE.
### Chart 4.1 Ownership and operator arrangements of the selected venues

<table>
<thead>
<tr>
<th>Type</th>
<th>Ownership</th>
<th>Operating Models</th>
<th>Board / Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunbeam Theatre</td>
<td>Purpose built PA venue</td>
<td>Private Contracted to a private operator</td>
<td>Private (owner and operator)</td>
</tr>
</tbody>
</table>

Most Hong Kong case study venues are managed in-house, with some services (cleaning, security, horticulture etc.) outsourced to private sector service providers. AWE and Sunbeam Theatre have contracted out their management and operation to private operators with different contractual arrangements; AWE maintains a management and operating agreement and Sunbeam Theatre a lease.

Although there are some examples of privately run venues in Hong Kong; compared with overseas experience, the ownership and management of cultural facilities is less diversified. The involvement of the non-profit and commercial sectors is much lower in Hong Kong. Excluding those venues operating under the aegis of an educational institution, only four are independently run – which is the most common model amongst the 18 overseas benchmarked venues. None of the PA venues in Hong Kong are managed by major commercial operators with an international network of PA venues; and none of the PA venues are operated by performing companies or community organisations. As a consequence, there are currently few experienced commercial/community operators in the sector.

#### 4.2 Board and Executive Management Structures
Government-run venues are operated by the Cultural Services Branch of the LCSD. The Cultural Services Branch is headed by a Deputy Director (DD). There are three Assistant Directors (AD) under the DD – two of which are responsible for overseeing PA venues, cultural/entertainment programmes, and the ticketing system. Many functions are centralised, from programming, marketing and ticketing services to finance, human resources and procurement. Responsibilities are divided and the Government’s career posting practice moves staff from one position to another regularly to let people gain experience in both programming and venue management. As Government bureau and department, HAB and LCSD are accountable to the public and answerable to LegCo. Nonetheless, civil servants in Hong Kong are rarely penalised for poor performance or not meeting targets. Targets or performance indicators are set by department directors but primarily for budgetary purposes.

For statutory bodies, the Council of the HKAPA and the Board of Governors of the HKAC are the governing and executive body of the HKAPA and the HKAC respectively. They may exercise all the powers conferred and perform all the duties imposed by the relevant ordinances. The council and the Board are represented by both Government officials and the private sector and many members, including the chairpersons, are appointed by the Government. For AWE, a Public Private Partnership project, the majority of the board of directors of its owner Hong Kong IEC Ltd, are appointed by the Government and the Airport Authority.

For privately managed venues, including those run by commercial operators or non-profit organisations, their operation is generally more streamlined, with some multi-skilled staff. The management team is usually small and comprised of experienced professionals.

4.3 Programme Planning and Development

Most PA venues in Hong Kong are receiving houses. Of all the case study venues, the Fringe Club is the only one that produces its own performing arts programmes (at least 30% of programmes are its own programmes), although HKAC occasionally presents a few PA programmes. For LCSD managed venues, programming occurs centrally, not at the venue level, however, venues are involved in the hirer selection process and organise some audience development activities. For major LCSD venues, the selection of hirers is the responsibility of an internal committee headed by the Deputy Director. Recently, LCSD launched a venue partnership scheme where venue partners are provided with some priorities in hiring of facilities. LCSD also tries to present programmes that complement the programmes of their venue partners. It is reported that LCSD has considered venue based programming, but this was not pursued due to manpower constraints.

4.4 Sponsorship, Fundraising and Relationship Management

Hong Kong venues dedicate very limited resources to, and generate very limited income from, sponsorship and fund raising activities. The status as a Government department or a private company, and the limited manpower resources, of non-profit organisations are reported to make it difficult for venues to raise funds. In some venues, the Board drives sponsorship and fundraising activities.
Venues generally have a good relationship with the arts community, but relationships with other sectors, particularly the tourism industry, seem not to be as strong. Notably, Fringe Club has successfully established long term relationships with programme partners in Hong Kong and overseas, as well as commercial sponsors.

4.5 Ancillary Trading Activities

Rental from commercial activity is a key source of income for HKAC and Fringe Club, both of which are self-financing. HKAC also generates income from the operation of an art school. For LCSD venues and other venues, there are limited commercial uses and activities that generate limited income to cross subsidise venue operation.

4.6 Characteristics of the Hong Kong PA Market

LCSD PA Venues
- Strengths:
  o stable source of funding
  o experienced staff
  o well-established systems and procedures
  o affordability for hirers.
- Weaknesses:
  o inflexible (in terms of booking, use of space and facilities, hiring charges etc.)
  o low level of management autonomy at the level of individual venues, weak in-house marketing function
  o limited resources and limited incentive for marketing and audience development
  o high subsidy level, low levels of ancillary income, little incentive to maximize box office income
  o no venue based programming (difficult for centralised Cultural Presentation Office to understand local needs and preferences), “venue partners” to build up identity – still in early stage
  o difficult to learn from other modes of operation and management style as all staff are recruited at Assistant Manager level
  o frequent re-posting of staff.

Other Venues

Strengths:
  o small team of professionals, flexibility
  o experienced staff, good relationship with arts community
  o multiple sources of income through commercial uses or art school (although financial well-being of HKAC is dependent on office rental rate in Hong Kong).

Weaknesses:
  o few independent and private operators
  o limited experience and resources for sponsorship and fundraising activities
o no incentive from Government on business sponsorship such as matching grants or tax benefits
o lack of diversity of funding sources
o non-profit venues do not enjoy regular public subsidy
o direct competition with subsidised LCSD venues
o greater financial vulnerability than Government-operated venues
o limited ability in handling asset management
o limited ability to present programmes because of financial constraints
o difficulty retaining staff.

5. OWNERSHIP AND OPERATOR VEHICLES FOR PERFORMING ARTS FACILITIES IN WKCD

Under the West Kowloon Cultural District Ordinance (Cap 601), the WKCDA is empowered to establish any body corporate (including a subsidiary) or trust or non-profit making organisation to provide, operate, manage, maintain, or otherwise deal with the cultural and art facilities.

5.1 Ownership Vehicles for Venues

The paragraphs that follow describe some of the vehicles that might be used for the ownership and/or operation of the performing arts venues in the WKCD.

Trust

A trustee can be appointed under a trust deed to take legal ownership of a facility. Alternatively, the trustee can enter into a lease for the use of the facility where the WKCDA remains as the legal owner of the facility. The trustee may operate the facility itself or, more likely, engage an operator to operate it under a service contract or a management and operation contract.

Where there is more significant private sector participation, for example in the case of Build-Operate-Transfer (BOT) or concession arrangements, the private contractor can enter into these arrangements with the trustee provided the trustee is allowed to do so in the trust deed.

A trust is most useful where it is necessary or desirable to protect assets. In this case, the trustee will hold the assets transferred to it for the benefit of the beneficiaries. The trust assets will remain separate from the trustee's own assets. A trust is sometimes used where it is anticipated that the project will receive significant donations and endowments. Alternatively, an entity may also set up a separate trust to receive donations and endowments.

Limited Company

The Companies Ordinance (Cap 32) allows for the establishment of:

- companies limited by guarantee; and
- companies limited by shares.

These are both companies with limited liability. Companies limited by guarantee are often found in the case of charities and non-profit organisations. Unlike companies limited by shares, no initial share capital is required for such company, and it should only be used if there is no intention to distribute profits.

Despite the regulatory requirements, a company structure is generally preferred as a project vehicle. A company can enter into contracts, borrow money, and hold property in its own name as a separate legal entity to shareholders.

**Joint Venture**

Another possible structure is a contractual joint venture between the WKCD and a private operator. The WKCD may form a joint venture with the private sector in owning and/or operating the relevant venue. Such joint venture can be incorporated (that is, the company is jointly owned by the private operator and the WKCD or its subsidiary) or unincorporated (that is, contractual, where the WKCD and the private operator may enter into a contract to establish an unincorporated joint venture to own and operate the facility).

A key requirement of this structure is good corporate governance, in particular the ability of the joint venture to maintain independence from the Government as the Government/the WKCD are both part owner and regulator.

**Statutory Body**

The WKCD can own and operate the arts and cultural facilities itself. Alternatively, it can also set up statutory bodies to do so. The WKCD or the statutory bodies can outsource certain operational tasks to private operators, for example, under a service contract. However, direct ownership by WKCD or a statutory body may not be a suitable option where more significant private sector involvement (such as BOT arrangement) is intended.

Another issue to consider in using statutory bodies (including the WKCD) is that it may give the impression that the venues are not independent of the Government, which may render the management of the facilities more subject to public scrutiny. Such concern can be minimised if the statutory bodies own, but are not involved in the management and operation of, the facilities. Another significant disadvantage of this option is the lack of flexibility in dealing with unforeseen circumstances as the WKCD and statutory bodies can only exercise its authority and operate in accordance with the ordinances which establish them.

**Society Established Under the Societies Ordinance (Cap 151)**

Less formal, non-profit industry associations and recreational groups are sometimes established as societies. The major drawback is that these are not separate legal entities, and members of the management may be personally liable. This model is unlikely to be suitable to be a project vehicle for the development or operation of a cultural or arts facility.
In summary, the first four legal structures described above are generally compatible with the common forms of private sector participation that WKCDA may involve in the development and/or operation of the venues (for example service contracts, management contracts, build–operate–transfer (BOT)/similar arrangements and concessions). The only important point to note here is that a statutory body may not be suitable for more significant private sector involvement (such as BOT arrangement).

5.2 Separate Vehicles for Fundraising

Although section 5(2) (f) of the West Kowloon Cultural District Authority Ordinance has empowered the WKCDA to solicit and receive donations for the WKCD, an independent entity may be more effective in soliciting donations for the venues. A venue may choose to solicit and receive donations itself, or it may set up a separate vehicle to do this. Such an arrangement is not necessary for commercial sponsorship, since this is considered a business service, and treated consistently with other sales income.

For the venues, or separate fundraising vehicles to qualify as charity, their objective and purpose must fall within one of the recognised categories of charitable purpose, listed below:

- the relief of poverty
- advancement of education
- advancement of religion
- other purposes of a charitable nature beneficial to the community.

The most common structures to be adopted for the establishment of charities in Hong Kong include:

- a trust
- a company
- a society
- a statutory body.

Although a charitable institution or trust does not require registration in Hong Kong, it does need to apply to the Inland Revenue Department for recognition as an approved charitable institution or trust of a public character. There are various requirements that must be satisfied before an exemption is granted. To simplify the administrative work involved, it is possible to establish an overall institution or trust to receive donations and endowments for all venues. In general, such an institution or trust may receive donations and endowments from the public and distribute them to the different venues as it considers appropriate. However, the charter document may also allow the administrator of an institution or the trustee of a trust to receive donations for, and distribute the same to, specified venues.

6. LESSONS LEARNED AND ISSUES FOR WKCDA

Information has been provided on governance and management practices at the 18 overseas benchmarked venues, and on the current arrangements for governance of PA
venues in Hong Kong. This section highlights a number of the lessons which emerge from this overview and considers the implications these have for WKCD in its decision-making regarding the governance of PA venues in WKCD.

### 6.1 Summary of Success Factors

Section 3 provided a description of characteristics and success factors observed at benchmarked venues. To reiterate, these included:

- the importance of setting a clear purpose for the venue, and articulating this accurately
- clear allocation of responsibilities between the owner and venue operator – with expectations laid out in leases, funding agreements or other forms of contract
- the value of day-to-day autonomy for the venue’s management
- the possibility of bundling small venues with larger venues for purposes of operator efficiency or increasing the range of potentially interested operators (although this does not require physical clustering)
- the benefit of adopting a whole-of-life asset management plan for each venue, and ensuring adequate resources are set aside, including long-term capital budgeting
- the arena venues alone generate sufficient operating surpluses to meet maintenance and improvement costs
- the establishment of dedicated subsidiary companies in some venues – typically to handle trading activities, but also occasionally to handle major development programmes
- the use of Board Committees to provide oversight of specific functions or developments, and to facilitate more manageable Board meetings
- the importance of highly experienced and dedicated staff in venue leadership positions
- the retention of some functions at HQ level rather than venue level in commercial theatre management groups
- the various degrees of formality evident in the strategic or business planning process. Some venues do not have a formal process, but the CEO and senior management are guided by specific targets. Even where formal annual processes do not occur, the Board is involved in discussing any changes of direction or periodic review
- the primacy of financial drivers alongside creative drivers at most of the venues, including non-profit venues
- the active role adopted by many of the (non-arena) venues in producing and co-producing work in order to complement the work of resident companies and to build audience loyalty and interest
- the presence of sophisticated education, learning and community engagement functions
- the presence of resident companies at several of the benchmarked venues, and the cultivation of artistic partnerships and other long-term relationships; the opportunity for resident companies to contribute to the education, community engagement and other programmes of the venue
- the cooperative programming agreements in evidence at the Lincoln Center and LA Music Center
- the occasional use of venues for corporate and other non-arts activity to generate income and broaden the community utility of the venue
- the common, but not universal, practice of contracting out catering and bar operations; and the growing trend to providing a busy and sophisticated mix of retail and catering, including through tenancies
- the commitment to sponsorship and fundraising activity, and the engagement of Boards and senior management in this activity
- the commitment to stakeholder relationship building, with some organisations devoting significant senior staff and Board time to this
- the adoption of performance measures and/or regular written reports for internal monitoring and accountability, and for external reporting to stakeholders.

6.2 Issues and Decisions for WKCD

Decisions on the nature of catering and retail elements within, and immediately adjacent to, the PA venues will need to be considered during the design development process in order to inform refinement of the Masterplan and the design brief for individual PA venues.

Issues which will need to be considered during the process of establishing or procuring operators for the PA venues include specifying, for each venue, the programme parameters, marketing and audience development objectives, financial arrangements, and reporting and accountability processes, among other things. It is recommended (below) that a specification be written for each PA venue, sitting alongside the design specification, but focusing on these 'software' elements. This advice applies regardless of the nature of the operator selected, including where WKCD intends to operate a venue itself either directly or through establishing a subsidiary entity.

During the output of the planning phase, WKCD will provide a number of briefs for the PA venues as part of the procurement process.\(^{10}\) These will include, but not be limited to:

- design briefs, outlining all aspects of physical development to be covered for the phase 1 PA venues under the scope of the development plan consultants
- operator briefs, covering all aspects of operations including liaison with other venues, operations and maintenance requirements, among other things

\(^{10}\) It may be that for some venues the design/design and build elements may be combined with the operations and maintenance depending on the eventual selected procurement mode. It should be noted that under the recommendations of the Financial Matters Advisory Group (FMAG), the procurement mode was proposed to be judged by WKCD on a case by case basis.

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other site-wide services to be provided for PA and other venues jointly, if required (for example, security and cleaning).

The governance aspects covered in this report will help to inform the WKCD with respect to these three types of brief or specification. The main focus, however, is on the operator brief. For clarity, Tables 6.1 and 6.2 below set out the decisions that will need to be made with respect to governance as preparation for writing the eventual briefs.

Table 6.1 sets out issues which will need to be considered during the process of establishing or procuring operators for the PA venues. Since it is preferable that the operators are selected early, the procurement of operators can take place in conjunction with design; and certainly many experienced operators would wish to have an involvement at the design development stage. Table 6.2 sets out issues that can be addressed at a later stage, after the selection of operators.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural policy</td>
<td>Whether or not WKCD adopts a detailed ‘Charter’, it will be necessary</td>
</tr>
<tr>
<td></td>
<td>to specify the expectations and programming parameters for each of the</td>
</tr>
<tr>
<td></td>
<td>PA venues prior to proceeding with operator set-up or selection.</td>
</tr>
<tr>
<td>Residency arrangements</td>
<td>Decisions will need to be made on whether there are to be any resident</td>
</tr>
<tr>
<td></td>
<td>companies, what form the residencies should take, the criteria to use</td>
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<td></td>
<td>in selecting resident companies, the kind of residents’ accommodation</td>
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<tr>
<td></td>
<td>that should be planned into the District, and what the obligations of</td>
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<tr>
<td></td>
<td>residents and venue operators should be to each other. A wide range of</td>
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<td></td>
<td>resident arrangements has been observed at the benchmarked venues, and</td>
</tr>
<tr>
<td></td>
<td>additional comment is provided below.</td>
</tr>
<tr>
<td>Pricing, access, and audience</td>
<td>Affordability was a guiding principle articulated by PATAG. This affects</td>
</tr>
<tr>
<td>development</td>
<td>ticket pricing to the public, and charges to venue hirers. WKCD will</td>
</tr>
<tr>
<td></td>
<td>need to determine whether any ‘social pricing’ obligations are to be</td>
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<tr>
<td></td>
<td>imposed on operators, and decide who would meet the cost of this.</td>
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<tr>
<td></td>
<td>It is assumed that WKCD will insist on international best practice in</td>
</tr>
<tr>
<td></td>
<td>the design of the PA venues with respect to physical access, and facilities for people with disabilities – including for people working at the venues.</td>
</tr>
<tr>
<td></td>
<td>WKCD will need to determine how far audience development initiatives</td>
</tr>
<tr>
<td></td>
<td>should be mandated or encouraged in the District, potentially in cooperation with the Government.</td>
</tr>
<tr>
<td>Trading income</td>
<td>WKCD will need to determine what discretion the venue operators will</td>
</tr>
<tr>
<td></td>
<td>have with regards to the operation of retail, catering and bar activities, and which retail and dining elements will be managed separately from the venue operators. Given the potential for significant income generation from these trading areas, WKCD will need to determine who benefits from the income flow, in order to strike a balance between providing incentives for the operators and capturing financial benefit to the District as a whole.</td>
</tr>
<tr>
<td>Asset management</td>
<td>A consistent policy approach to asset management will need to be</td>
</tr>
<tr>
<td></td>
<td>translated into individual arrangements and mutual obligations with each</td>
</tr>
<tr>
<td></td>
<td>operator.</td>
</tr>
<tr>
<td>Clustered functions</td>
<td>Some non-specialist operating functions will be particularly amenable to</td>
</tr>
<tr>
<td></td>
<td>clustered or District-wide delivery arrangements – premises maintenance,</td>
</tr>
<tr>
<td></td>
<td>cleaning, security, ticketing, possibly aspects of corporate functions</td>
</tr>
<tr>
<td></td>
<td>servicing. If this is pursued, WKCD will need to exclude some of these</td>
</tr>
<tr>
<td></td>
<td>functions from the agreements with operators.</td>
</tr>
</tbody>
</table>
## Actions required at a later stage

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme coordination</td>
<td>To avoid unhelpful competition between venues – although some competition may be regarded as healthy in a mature arts and entertainment economy – WKCDA will need to establish guidelines and cooperative planning arrangements between venue operators. The support and engagement of most of the venue managements will be important for outdoor events, public domain activity, and District-wide festivals. Expectations and obligations will need to be part of the agreements with venue operators.</td>
</tr>
<tr>
<td>Sponsorship and fundraising</td>
<td>The success of sponsorship and fundraising at PA venues has been seen to be a factor of enterprise and determination at the level of the individual venue. WKCDA will need to provide a framework and protocols which enable the operators to pursue sponsorship and fundraising without unhelpful competition – and WKCDA will need to set out the boundaries for its own sponsorship and fundraising activities. It will be important to find ways of encouraging a culture of business engagement and individual philanthropy – this might be undertaken in cooperation with Government.</td>
</tr>
<tr>
<td>Personnel recruitment</td>
<td>The need for a large number of skilled and experienced staff in a short period of time will create temptation for ‘poaching’. WKCDA will need to establish guidelines to minimise the disruption and friction this could potentially cause; and will need to determine what support will be required from venue operators in contributing to the professional development of existing and future personnel.</td>
</tr>
</tbody>
</table>

In relation to its own organisation, WKCDA will need to determine the scope of its client-side role to confirm its own further staffing arrangements. Key client functions will include:

- policy articulation and establishment of procedures and protocols (as above)
- operator procurement and contracting
- monitoring contract compliance
- establishment of one or more new operating entities (potentially)
- direct management of one or more of the PA venues (potentially).

### 6.3 The Hong Kong Marketplace

The current arrangements for operation of PA venues in Hong Kong were summarised in Section 4. Some of the characteristics of the local performing arts ‘market’ which have implications for WKCDA are:

- because of its dominant position, LCSD hiring charges and ticket pricing charges set the benchmark for the market. Heavily subsidised ticket prices result in relatively low income from box office. Equally, hiring charges for non-profit organisations are heavily discounted
- venues and producing companies are both funded by Government
- modest levels of support are secured in the form of sponsorship or philanthropy

*WKCD Mode of Governance for PA Venues: Final Report – 29 October 2010*
- with the exception of the Fringe Club, individual venues do not have a developed producer or co-producer role. Nearly all venues operate as receiving houses.
- most programming decisions in the LCSD venues are taken centrally rather than at the venue level; and for major venues the selection of hirers is the responsibility of an internal committee which is headed by the Deputy Director.
- LCSD’s venue partnership scheme has provided priority hiring arrangements for some of the producing organisations.
- there are very few performing arts venue staff outside the Government sector.
- there are very few private/commercial presenters or artists agencies in the arts sector.

To establish a level playing field with LCSD-operated venues financially would require significant subsidy to most of the WKCD venues or to their hirers. To some extent, the novelty and quality of WKCD will command a premium – but affordability has already been identified as an issue in the Public Engagement consultation sessions, as it is amongst arts hirers around the world.

The issue of personnel supply will require careful advance preparation. Training of staff will need a coordinated multi-year plan, including attracting in experience from elsewhere, transferring and building skills amongst locals and, where possible, avoiding undue disruption to existing venues or supply blockages to new venues. The final decisions on phasing of WKCD will have a bearing on this issue, but assuming several of the intended Phase 1 venues are brought on-line simultaneously, this problem will be more acute for WKCD than for other cultural precincts around the world, all of which have evolved over much longer periods of time. As with some of the other issues identified, the most effective approach to this will require coordination with Government.

Another aspect of personnel supply is the availability of Board members to occupy positions in any newly-established non-profit entities. There is certainly an element of risk in setting up new entities. However, the range of industry experience, the strength of the professional service sectors, and the vibrancy of entrepreneurship in Hong Kong suggests that there is no shortage of supply of capable individuals. The issue is rather one of ensuring that the induction and role-clarity of arts Boards matches best practice, and that independent arts Boards are precisely that, acting with only the best interests of the arts organisation (or venue) in mind. Further comment is provided below.

The high level of sponsorship and fundraising income in the US, and moderate levels in the UK and Australia, may not be achievable in the short to medium-term by venues in Hong Kong. However, a thriving business community and the patron and sponsor precedents set by Hong Kong Arts Festival, Hong Kong Philharmonic and other producing arts organisations indicates that fundraising and sponsorship may increase over time.

7. SELECTING THE MODE OF GOVERNANCE

In determining the mode of governance for individual PA venues, or clusters of venues, in WKCD, necessary decisions and considerations include:

1. Confirming the vision and purpose for each of the PA venues, within the context of a broader cultural plan or charter for WKCD.
2. Selecting the most appropriate legal vehicle for ownership of the venues.
3. Identifying the type of operator envisaged for individual PA venues (subject to confirmation following a procurement process).
4. Clarifying which of the PA venues should be considered for managerial clustering arrangements (that is, which may be co-managed by a single operator).
5. Clarifying whether any specific operating functions of the PA venues should be provided on a clustered or site-wide basis, independent of the individual PA operators.
6. Selecting the form of contract, lease or service level agreement which will specify WKCD’s expectations of the venue operators.
7. Clarifying how venue success will be measured and monitored.
8. Determining the financial arrangements between WKCD and the venue operators.

7.1 Vision and Purpose

A clear statement of purpose or artistic vision needs to be articulated for each venue. In the event that new entities are established to operate any of the PA venues, the fitness for purpose of these entities can be assessed in light of the artistic vision to be realised. Similarly, in the event that existing operators are invited to tender for operation of one or more of the venues, the statements of purpose will provide a starting point for the informing brief for these potential operators.

Statements of principle have been expressed for WKCD and for the PA venues within it, and the consultancy team understands that WKCD is developing detailed visions for each of the individual venues.

7.2 Ownership Arrangements

It is acknowledged that the land grant will determine lease arrangements for WKCD, and that land ownership will necessarily stay with WKCD. Regarding PA venue ownership, for purposes of simplicity and control, it is assumed that WKCD will retain direct ownership, except where there is a pressing case for an alternative approach.

The motives and potential rationale for putting ownership of one or more of the venues at arms length from WKCD, potentially through a Trust or a company limited by guarantee, are outlined in Table 7.1.

<table>
<thead>
<tr>
<th>Motive</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harness investment resources via a joint venture.</td>
<td>This may be relevant for construction of the MPV and, potentially, the Great Theatre or other large venues, where there is potential to generate an operating surplus, and therefore to be attractive to a commercial partner or investor.</td>
</tr>
<tr>
<td>Ability to leverage the asset to access other forms of financing, for example, loans.</td>
<td>There is a growing awareness internationally that a sound asset base is an important element in the stability and sustainability of arts and cultural organisations; and that such an asset base enables the organisation to operate in</td>
</tr>
<tr>
<td>Motive</td>
<td>Rationale</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>an entrepreneurial and self-sufficient fashion. However, transfer of</td>
<td>an entrepreneurial and self-sufficient fashion. However, transfer of ownership (or granting of a long lease) restricts WKCDA’s flexibility</td>
</tr>
<tr>
<td>ownership (or granting of a long lease) restricts WKCDA’s flexibility</td>
<td>WKCDA’s flexibility</td>
</tr>
<tr>
<td>A body charged with asset maintenance and development would address</td>
<td>The quarantining of the PA venue-assets is a means of ensuring that</td>
</tr>
<tr>
<td>this priority with a clearer focus,</td>
<td>appropriate care and attention is devoted to protection of assets, and</td>
</tr>
<tr>
<td></td>
<td>that this does not become compromised by competing demands.</td>
</tr>
<tr>
<td>Create a vehicle to harness additional, focused expertise through a</td>
<td>Linked to the preceding motive, but specialist expertise can be harnessed</td>
</tr>
<tr>
<td>Board structure,</td>
<td>in a number of alternative ways.</td>
</tr>
</tbody>
</table>

At this stage, the case for arrangements other than direct WKCDA ownership would appear to be most relevant for the MPV, and potentially one or two of the other large venues. The degree of partner investment could potentially extend from entirely privately financed, to WKCDA being the majority shareholder. It is beyond the scope of this study to advise on the most appropriate arrangement – but the choice does have governance implications. For example, a joint venture partner may only be interested in investing if they also secure operating rights for an agreed period.

For most of the PA venues, the importance of retaining operational control, especially during the early years of establishment of the District, will outweigh the potential benefits of arms-length arrangements.

### 7.3 Selecting the Type of Operator

**Characteristics of operator types**

Before commenting on the possible advantages and disadvantages of different operator types, it is noted that many factors other than operator type have been identified as contributing to an effective and respected PA venue, including clear purpose, quality and experience of management, appropriate resourcing, and reasonable day-to-day autonomy.

There are perceptions in the arts sector internationally that professional venue managements – which are predominantly commercial companies – are less concerned with artistic excellence than their non-profit counterparts, and that bottom-line results are their dominant focus. In turn, within the commercial venue management sector there are perceptions that non-profit venue managements can be inefficient and inexperienced. Both these sets of perceptions have some truth to them, but both are also generalisations which need to be treated with caution. There are examples of professional/commercial venue managements which have a strong reputation for the breadth and quality of their programmes, and which provide educational and other public engagement activities in their venues. There are also examples of excellent managers in the non-profit sector with leadership, creative, and entrepreneurial skills that any commercial operator would prize.

The results achieved at PA venues will depend not only on the selection of the operator type (and individual operator), but also on the clarity with which expectations of the venue operator are articulated, and the establishment of other conditions for success (some of which are outlined below). For example, a commercial venue management
may be appointed to operate a medium-sized theatre or chamber music hall on the basis of their experience, and the agreement for operating such a venue may include anticipated artistic outputs, programme quality thresholds, education programmes or other activities. The agreement will also need to ensure that the financial arrangements enable the operator to deliver this range of services, while also securing an agreed, reasonable commercial return or surplus.

Artistic excellence, effective partnerships, and other objectives may be achieved under a number of operator types. These criteria are important in fine-tuning the selection, contractual, and management arrangements for the PA venues, but they do not imply or preclude any single category of operator.

Bearing in mind the preceding caveat regarding generalisations, the following provides a brief commentary on the potential advantages and disadvantages of different operator types short-listed for consideration, including WKCD as a potential operator.

Table 7.2 Potential advantages and disadvantages of shortlisted operator types

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential Advantages</th>
<th>Potential Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing professional/commercial theatre management groups¹¹</td>
<td>- experience</td>
<td>- likely to be less interested in smaller venues</td>
</tr>
<tr>
<td>Examples: AEG, Ambassador Theatre Group, Poly Theatre Management, Nederlander Organisation, Live Nation, AEG Ogden</td>
<td>- established systems</td>
<td>- requires experienced client-side advice in selection, contracting and monitoring process</td>
</tr>
<tr>
<td></td>
<td>- existing track record assists with assessment¹²</td>
<td>- may have little or no experience of arts development, audience development, education programmes</td>
</tr>
<tr>
<td></td>
<td>- potential economies of scale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- strong awareness of cost control and efficiency – staff overheads often lower than other forms of operator access to product links through other venues or circuits managed by the operator</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- subject to due diligence checks, likely to be low risk of corporate failure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- potential to build local industry capabilities over time through knowledge transfer (see below)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- relatively low maintenance relationship for WKCD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- may have existing experience</td>
<td>- venue management is not core business</td>
</tr>
</tbody>
</table>

¹¹ A variation would be for WKCD to establish a new, for-profit entity which it partly or wholly owns, to operate one or more of the PA venues. Such an entity could be established in partnership with an existing commercial operator in order to secure investment in the construction and fit-out costs for the venue, and to benefit from the operator’s expertise and systems, with a view to building up local experience over a period of five or ten years – a ‘knowledge transfer’ arrangement which may include an exit strategy for the commercial operator partner. Further comment on this option is provided in Appendix 9.

¹² that is, WKCD can consider the operator’s previous track record during a procurement or selection process.

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<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential Advantages</th>
<th>Potential Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples:</strong> HKAPA, Warwick Arts Centre at Warwick University, UK; National Institute of Dramatic Art at UNSW, Sydney</td>
<td>specialist industry and education knowledge - potential to integrate with other operations, and secure internal economies of scale - may have local knowledge and cultural awareness - may have charity status which will assist in fundraising activities</td>
<td>venue operations may be vulnerable to finances and fortunes of the parent education organisation - risk of facilities being monopolised for education purposes – limiting industry and public access - may constrain development of the venue brand and profile</td>
</tr>
<tr>
<td><strong>Note:</strong> HKAPA, one of the Hong Kong universities, or an overseas arts education institution could be persuaded to establish a campus presence in WKCD, including operation of one or more performing arts venues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Existing non-profit organisations</strong></td>
<td>relevant experience, though likely to be limited to small and medium-sized venues - existing track record assists with assessment - local cultural knowledge and awareness - potentially, local reputation and trust - build on existing brand - build local industry capacity and skills - potentially, low cost-base because of constraints of the non-profit environment</td>
<td>danger of over-stretching a small or medium-sized organisation with limited resources and expertise - danger of diverting from core business - may be less efficient than a larger unit (for example, group management) - may have limited entrepreneurial experience</td>
</tr>
<tr>
<td><strong>Examples:</strong> HKAC, Hong Kong Fringe Club</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Note:</strong> An existing non-profit operator (local or further afield) could be invited to operate one or more WKCD venues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Newly established non-profit organisations</strong></td>
<td>customised to suit the governance and management needs of the venue/s - contributes to diversity of operator and management skills in Hong Kong - opportunity to explore new structures and systems - WKCDA can determine the level of control it exerts - harness and increase local expertise</td>
<td>requirement to build from scratch in terms of Board, staff and systems. Time-consuming for WKCDA - higher risk, because there is no track record, and because WKCDA will be more closely associated with failure (and success) - less efficient than group management arrangements</td>
</tr>
<tr>
<td><strong>Note:</strong> A customised and dedicated entity to operate individual venues or clusters of venues – this was a common model observed at the international benchmarked venues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>WKCDA direct management</strong></td>
<td>structure of WKCDA can be customised to suit the governance and management needs of the venue/s - WKCDA is steward of the vision for WKCD, and can express this through directly-organised programmes - control - venue/s have financial security of WKCDA behind</td>
<td>no venue management track record - requirement to build from scratch in terms of management arrangements, staff and systems. - most time-consuming option for WKCDA - higher reputational risk because WKCDA will be directly responsible for results - may limit artistic freedom</td>
</tr>
<tr>
<td><strong>Examples:</strong> Federation Square Pty Ltd operates the BMW Edge and the Square; South Bank Corporation, Brisbane, operates the Piazza (a 2,500-seat arena)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Note:</strong> One or more venues could be operated directly by WKCDA staff either through normal line management or through setting up semi-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
auto business units.

- builds WKCD’s own brand
- contributes to diversity of operator and management skills in Hong Kong

(For example, if challenging or politically sensitive work is discouraged from being presented under the WKCD banner)
- will absorb resources which are better employed at a strategic level than in direct service provision
- risk of developing a WKCD and LCSD duopoly, rather than a diverse operator market

A Venue by Venue Commentary

The following commentary considers the above observations – and the results of the international benchmarking – in relation to each of the PA venue types planned for WKCD. For the purpose of this analysis, education institutions have been considered as part of the broader body of existing non-profit organisations. Each commentary is accompanied by notes on the possible organisational clustering of the venues. Physical clustering is considered later in this report.

Table 7.3 Potential advantages and disadvantages of shortlisted operator types – Mega Performance Venue

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing professional/commercial theatre management group | - attractive to commercial operators  
- low risk  
- harnesses accumulated experience, networks and systems  
- opportunity for knowledge and skills transfer  
- many precedents globally  
- economies of scale, and potential access to existing international booking circuits – including touring of artists presented at the operator’s other venues  
- possible source of co-investment in construction costs  
- most likely choice to guarantee a strong financial result | - perceived tension between operator’s motivation to maximise returns to its owners, and WKCD’s desire to utilise MPV surpluses  
- Canto-pop is a distinctive market. Few private operators have experience of this  
- industry scepticism about operation by non-Hong Kong organisation |
| Existing non-profit organisations (including)     | - not appropriate – a key driver for MPV will be to                                  |                                                                                       |
### Mega Performance Venue

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>education institutions)</td>
<td></td>
<td>maximise the surplus, and existing non-profits are most unlikely to have the relevant experience to achieve this</td>
</tr>
<tr>
<td>Newly established non-profit organisations</td>
<td></td>
<td>as above</td>
</tr>
<tr>
<td>WKCDA direct management</td>
<td>precedent exists at Hong Kong Coliseum and other Government-linked venues (for example, Singapore Indoor Stadium)</td>
<td>lack of in-house experience, fails to harness existing expertise and economies of scale, may diminish entrepreneurial freedom and motivation of venue management, will absorb a lot of WKCDA time, in light of availability of experienced operators, appears to represent an unnecessary adoption of risk</td>
</tr>
<tr>
<td></td>
<td>avoids sharing surpluses with other operators</td>
<td></td>
</tr>
</tbody>
</table>

### Potential clustering:

While the MPV operator could also operate other WKCD venues, there is little perceived benefit in operational clustering of MPV with other facilities, apart from, potentially, the convention facilities envisaged at M+ (which fall outside the remit of this study).

There may be a case for leveraging the attractiveness of an operator contract for MPV with an obligation to operate other, less commercially attractive, venues. However, there is also a risk of market dominance within WKCD if the MPV operator also operates other venues. Cooperative arrangements, including MOUs, could exist between MPV’s operator and other operators to encourage sharing of technical staff, or coordination of other functional arrangements.

For Great Theatre 1, it is assumed in the following commentary that one rationale for constructing the Theatre is to accommodate longer runs of commercial productions than is currently possible in Hong Kong, therefore complementing the existing programme at Hong Kong Cultural Centre. For Great Theatre 2 it is assumed that a mixed programme would be introduced. These are working assumptions at this stage, however, and decisions on the scope and programming of these theatres will be decided later by the WKCDA CEO and Board.

Table 7.4  **Potential advantages and disadvantages of short listed operator types – Great Theatres**

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing professional/commercial theatre</td>
<td>may be attractive to commercial operators – especially those which can generate synergy with other theatres in the region</td>
<td>may not be attractive unless the potential exists to operate several venues in WKCD or regionally</td>
</tr>
<tr>
<td>Operator type</td>
<td>Potential advantages</td>
<td>Potential disadvantages</td>
</tr>
<tr>
<td>----------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>management group</td>
<td>- low risk</td>
<td>- perceived tension between operator’s motivation to maximise returns to its owners, and WKCD’s desire to utilise surpluses</td>
</tr>
<tr>
<td></td>
<td>- commercial theatre production is highly specialised and results are volatile – existing operators have accumulated valuable experience, networks and systems</td>
<td>- industry scepticism about operation by non-Hong Kong organisation</td>
</tr>
<tr>
<td></td>
<td>- potential access to existing international booking circuits – including touring of artists presented at the operator’s other venues</td>
<td>- readiness of Hong Kong market for long-run musicals and other anticipated Great Theatre product is untested – difficult to structure an appropriate, flexible agreement</td>
</tr>
<tr>
<td></td>
<td>- opportunity for knowledge and skills transfer</td>
<td>- continuity of HKCC’s operation, and development of new large theatres by Government is unknown – competitive uncertainty also creates a challenge to forge an appropriate agreement</td>
</tr>
<tr>
<td></td>
<td>- many precedents globally</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- a number of the leading commercial operators are accustomed to working in disparate cultural and political environments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- economies of scale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- possible source of co-investment in construction costs – although less likely than with MPV</td>
<td></td>
</tr>
<tr>
<td>Existing non-profit</td>
<td>- there are large theatres in different countries which are operated on a non-profit basis, but with a similar entrepreneurship and programming policy to commercial operators</td>
<td>- very limited number of possible local candidate organisations – and with little or no experience of commercial theatre production and marketing processes</td>
</tr>
<tr>
<td>organisations</td>
<td>- potentially, less tension between operator’s desire for a return and cultural obligations which may be placed upon the Great Theatre13</td>
<td>- closest in size and format is HKCC – which is Government operated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- level of experience and entrepreneurship will be lower than commercial operators – most non-profit operators are likely to operate only one venue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- risk that profitability will be lower than under a commercial operator</td>
</tr>
<tr>
<td>Newly established</td>
<td>- may be customised to meet the demands of the venue remains an option if appropriate existing operators cannot be attracted</td>
<td>- time-intensive for WKCD</td>
</tr>
<tr>
<td>non-profit organisations</td>
<td></td>
<td>- higher risk of failure to secure a profit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- risk that profitability will be lower than under a commercial operator</td>
</tr>
<tr>
<td>WKCD direct management</td>
<td>- retains flexibility in the event that long-run musicals, for example, do not eventuate and</td>
<td>- lack of in-house experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- fails to harness existing expertise and economies of scale</td>
</tr>
</tbody>
</table>

13 In the absence of a clearly stated policy for each PA venue at this stage, it is not possible to gauge fully WKCD’s expectations.
Great Theatres

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
|               | that policy boundaries need to be reconsidered | - may diminish entrepreneurial freedom and motivation of venue management  
|               |                       | - time-intensive for WKCD  
|               |                       | - higher risk of failure to secure a profit  
|               |                       | - in light of availability of experienced operators appears to represent an unnecessary adoption of risk |

Potential clustering:
One or both of the Great Theatres could be operationally clustered with other PA venues to exploit synergies and benefit from economies of scale – potentially making for a more attractive contract for an existing operator. However, the higher priority likely to be afforded to educational and arts development functions in some of the other venues may also make it difficult to identify an operator with the breadth of experience to manage a Great Theatre and a smaller venue with equal effectiveness.

In the case of the medium-sized and smaller (black box) theatres, the advantages and disadvantages of different types of operator will be more closely affected by WKCD’s determination of the policy and intended programme for each venue. For example, it may be intended that one of the medium-sized theatres should present a varied and relatively un-curated programme in order to be responsive to the needs of hirers as they arise. Another of the medium-sized theatres may focus on a particular artform or type of work – dance or contemporary work, for example, so that a more active curatorial function will be played by the venue’s management. These choices, among others, will influence the relative advantages of operator types.

Table 7.5. Potential advantages and disadvantages of short listed operator types – Medium Sized Theatres

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing professional/commercial theatre management group | - may be attractive to some commercial operators – especially those who can generate synergy with other theatres in the region or WKCD  
| | - low risk  
| | - builds on accumulated experience and systems  
| | - economies of scale  
| | - a number of the leading theatre management groups are accustomed to addressing community and cultural obligations | - little prospect of generating profit, which limits financial incentives for the operator  
| | - may not be attractive unless the potential to operate several venues exists  
| | - if an active arts development role is anticipated, likely to be few operators with relevant experience  
| | - industry scepticism about operation by non-Hong Kong organisation, and/ or by a for-profit organisation  
| | - continuity of existing medium-sized theatres in Hong Kong, and development of new medium-sized theatres by Government, is |

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### Medium Sized Theatres

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing non-profit organisations     | - several organisations, including education institutions, might have an interest and relevant experience  
- local cultural awareness and market knowledge  
- track record                                                                         | - danger of over-stretching a small or medium-sized organisation with limited resources and expertise  
- danger of diverting from core business  
- existing relationships may either be a benefit or a barrier |
| Newly established non-profit organisations | - may be customised to meet the demands of the venue  
- common model internationally for this venue type                                           | - time-intensive for WKCDA  
- higher risk of failing to achieve objectives than an existing operator (commercial or non-profit) |
| WKCDA direct management              | - commitment to the cultural vision  
- control  
- financial security of WKCDA’s backing  
- builds WKCDA’s brand                                                                  | - time-intensive for WKCDA  
- lack of in-house experience  
- may limit artistic freedom (for example, if challenging or politically sensitive work is discouraged from being presented under the WKCDA banner) |

### Potential clustering:
There are opportunities to managerially cluster a medium-sized theatre with a black box theatre, with another medium-sized theatre, or with the concert hall and/ or recital hall in order to generate operational efficiencies. Subject to the experience of the specific operator, a medium-sized theatre could also be clustered with a Great Theatre.

### Table 7.6 Potential advantages and disadvantages of short listed operator types – Concert Hall and Chamber Music Hall

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing professional/ commercial theatre management group | - there are precedents at a number of concert halls and recital halls  
- potential for a commercial operator to maximise income from non-arts uses of the venue/s, for example, corporate and trade events  
- simpler to operate than the Great Theatre (because little or no need to be an active producer of events), and therefore a wider range of venue managements with | - group economies of scale less significant than in theatre venues  
- few operators with experience of managing resident company relationships which, in some form, are likely to apply to the music venues  
- industry scepticism about operation by non-Hong Kong organisation, and/ or by a for-profit organisation  
- continuity of HKCC Concert Hall is unknown – competitive |

---

14 The combination of these two venues in a single table is not intended to prejudge the physical or managerial clustering arrangements, but only to reflect the fact that the advantages and disadvantages of different operator types are the same for both venues.

WKCD Mode of Governance for PA Venues:
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Concert Hall and Chamber Music Hall

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing non-profit organisations</td>
<td>capability, several organisations, including education institutions, might have an interest</td>
<td>danger of over-stretching a small or medium-sized organisation with limited resources and expertise</td>
</tr>
<tr>
<td></td>
<td>- local cultural awareness and market knowledge</td>
<td>- danger of diverting from core business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- music venue experience is held predominantly within Government</td>
</tr>
<tr>
<td>Newly established non-profit organisations</td>
<td>- may be customised to meet the demands of the venue</td>
<td>- time-intensive for WKCDDA</td>
</tr>
<tr>
<td></td>
<td>- common model internationally for this venue type</td>
<td>- higher risk of failing to achieve objectives than an existing operator (commercial or non-profit)</td>
</tr>
<tr>
<td></td>
<td>- simpler to operate than the Great Theatre (because little or no need to be an active producer of events), and therefore easier to establish</td>
<td></td>
</tr>
<tr>
<td>WKCDA direct management</td>
<td>- commitment to the cultural vision, control, financial security of WKCDA’s backing, builds WKCDA’s brand</td>
<td>- time-intensive for WKCDA, lack of in-house experience, may be less effective than a commercial operator at maximising income from non-arts uses of the venue/s, for example, corporate and trade events</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Potential clustering:
There are opportunities to operationally cluster the concert hall and chamber music hall, or to cluster one or both of these venues with a Great Theatre, and with one or more of the medium-sized theatres. There are fewer synergies to be gained from clustering with the other venue types.

Serious music is a distinct and specialist discipline, and there may be an argument for maintaining separate management to build and maintain the integrity of the respective brands of the Concert Hall and the Chamber Music Hall.

Table 7.7. Potential advantages and disadvantages of shortlisted operator types – Xiqu Centre

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing professional/commercial theatre management group</td>
<td>- potential for some staffing synergies, if the operator is also responsible for other WKCD venues, Sunbeam Theatre provides a precedent, may be regarded as 'culturally independent' of</td>
<td>- most commercial operators will not have experience of the artform or sector, group economies of scale less significant than in theatre venues, there may be some resistance from Xiqu community</td>
</tr>
</tbody>
</table>
### Xiqu Centre

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing non-profit organisations</td>
<td>- local knowledge</td>
<td>- question over cultural appropriateness, and artform knowledge&lt;br&gt;- unlikely to be synergies with current operations&lt;br&gt;- existing Xiqu organisations in Hong Kong do not have experience in managing venues</td>
</tr>
<tr>
<td>Newly established non-profit organisations</td>
<td>- may be customised to meet the demands of the venue, and to address Xiqu sector’s concern with programming neutrality&lt;br&gt;- experience of Sunbeam Theatre can be drawn upon&lt;br&gt;- simple to operate, and therefore easier to establish</td>
<td>- time-intensive for WKCDA&lt;br&gt;- higher risk of failing to achieve objectives than an existing operator&lt;br&gt;- possibly could be run as a for-profit entity</td>
</tr>
<tr>
<td>WKCD direct management</td>
<td>- commitment to the cultural vision&lt;br&gt;- control&lt;br&gt;- financial security of WKCD’s backing&lt;br&gt;- builds WKCD’s brand, especially through direct association with Chinese culture</td>
<td>- time-intensive for WKCDA&lt;br&gt;- lack of in-house experience</td>
</tr>
</tbody>
</table>

### Potential clustering:

Most of the venues will be accommodating Western cultural activity, or fusions of Chinese and Western culture. Uniquely, the Xiqu Centre will present only traditional Chinese culture. To ensure an appropriate focus on a significant and distinctive sector, and to create the opportunity for customised management and governance arrangements if needed, it is not recommended that operation of the Xiqu Centre be clustered with other venues.

### Table 7.8 Potential advantages and disadvantages of shortlisted operator types – Black Box Theatres

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing professional/commercial theatre management group</td>
<td>- could be clustered with other venue/s</td>
<td>- group economies of scale not significant&lt;br&gt;- low motivation for a commercial operator&lt;br&gt;- operators will not have experience of managing artform development or contemporary work on the small scale&lt;br&gt;- industry scepticism about operation by non-Hong Kong organisation, and/ or by a for-profit organisation</td>
</tr>
</tbody>
</table>
Black Box Theatres

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing non-profit organisations | - several organisations, including education institutions, might have an interest and relevant experience  
- local cultural awareness and market knowledge  
- track record                           | - danger of over-stretching a small or medium-sized organisation with limited resources  
- existing relationships may either be a benefit or a barrier  
- misses an opportunity to create a more diverse and fringe culture |
| Newly established non-profit organisations | - may be customised to meet the demands of the venue  
- common model internationally for this venue type  
- lower financial and reputational risk than for medium sized and larger venues | - time intensive  
- potentially disproportionate use of Board and management expertise for a small venue |
| WKCDA direct management           | - commitment to the cultural vision  
- control  
- financial security of WKCDA’s backing  
- builds WKCDA’s brand                  | - time-intensive for WKCDA  
- lack of in-house experience  
- may limit artistic freedom (for example, if challenging or politically sensitive work is discouraged from being presented under the WKCDA banner)  
- misses an opportunity to create a more diverse and fringe culture |

Potential clustering:
There are opportunities to cluster two or three black box theatres together operationally, or to cluster one or more black box theatres with a medium-sized theatre. However, the cultural rationale of the studio style or black box venue is its independence, ability to take risks, and close arts development role. It would be important to ensure that these qualities are not compromised by clustering under an inappropriate operator.

Table 7.9 Potential advantages and disadvantages of short listed operator types – Piazzas

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
</table>
| Existing professional/commercial theatre management group | - could be clustered with operation of other venue/s                                | - most events free, so little or no income generation opportunities  
- low motivation for a commercial operator          |
| Existing non-profit organisations                  | - local cultural awareness and market knowledge                                       | - unlikely to be synergies with current operations  
- not a strong track record of public domain events in Hong Kong |
| Newly established non-profit organisations         | - may be customised to meet the demands of the venue                                | - time-intensive  
- festivals and events expertise in Hong Kong not focused on outdoor and free events – may |
### Piazzas

<table>
<thead>
<tr>
<th>Operator type</th>
<th>Potential advantages</th>
<th>Potential disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>WKCD direct management</td>
<td>- high visibility for WKCD</td>
<td>- time-intensive</td>
</tr>
<tr>
<td></td>
<td>- successful piazza and public domain events require support and cooperation of many of the other tenants and operators – WKCD in best position to negotiate these relationships</td>
<td>- lack of in-house experience</td>
</tr>
<tr>
<td></td>
<td>- public domain events are a critical part of the WKCD brand – close control may be advisable</td>
<td>- fails to harness existing expertise within festivals and events sector</td>
</tr>
<tr>
<td></td>
<td>- a range of useful precedents internationally</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- maintains an active programming role for WKCD without competing with other venue operators</td>
<td></td>
</tr>
</tbody>
</table>

**Potential clustering:**

The 'Piazza' operator will have responsibility for arts and entertainment, and other activities, in all spaces in-between the buildings, along boardwalks and possibly in Retail, Dining and Entertainment areas; not just in the Piazzas. For this reason, it will be important for the operator to be regarded as a neutral party within the District, and therefore it will not be appropriate to cluster this function with other venues. There may be some synergies to secure from shared technical or production staffing with one or more of the venues, however it is recommended that this be pursued through separate contractual arrangements.

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### 8. RECOMMENDATIONS

This section of the Report provides provisional recommendations on the mode of governance for each of the PA venues, or clusters of venues, in relation to the proposed type of operator for each venue or cluster, and with respect to clustered or site-wide functions which may not be under the control of venue operators. Advice is provided on:

- selecting the mode of governance in respect of operator-types
- contractual arrangements to frame the relationship between the venue operators and WKCD
- the determination of funding or other financial arrangements for the PA venues
- the determination of venue hiring charges
- the selection of resident companies
- the measurement and monitoring of success on the part of PA venue operators
- other elements of effective governance.

### 8.1 Guiding Principles

WKCD is not faced with a series of discrete and unrelated choices about the type of operator or the specific individual operators it selects. The Authority will need to bear in
mind the overall ‘mix’ which results from the possible individual choices. Taking this into consideration, the consultants propose that the following **seven guiding principles** be adopted to inform the Authority’s decision-making process:

1. **For reasons of diversity, risk mitigation, flexibility and community acceptance no single operator will be appointed to manage all PA venues in the District.** It is in WKCD’s interest to maintain a mix of operators, regardless of what category of operator is determined as most appropriate on a venue by venue basis. Equally, it will be advisable **not to have a large number of PA operators on-site** as this will preclude potential economies of scale and demand a high level of procurement and contract-management time on the part of the WKCD Executive team.

2. **The selection of operators will be focused on the core arts and entertainment functions** of programming, production, event marketing and partnership building. Other functions – such as ticketing, premises security, cleaning, and catering – may come under the control of the individual operator or may be provided on a District-wide basis, but this will form a secondary and distinct set of decisions.

3. **An essential role for WKCD will be in specifying cultural and community outcomes, and monitoring their fulfilment.** This will apply even where WKCD takes direct responsibility for operating a venue.

4. **It is advisable for WKCD to source suitable independent operators who may have an interest and capacity in operating one or more venues in WKCD** (see 8.3 below). However, since there is currently an under-developed operator market in Hong Kong – because Government has been the dominant operator of existing PA venues – there may be difficulties in finding suitable non-profit operators. Establishment of new entities or direct management by WKCD will only be the preferred delivery mechanisms where other forms of operation are unavailable or deemed ineffective to achieve the stated outcomes.

5. **Best practice management behaviours are not endemic to one type of operator.** Sponsorship success, relationship-building, clarity of planning, and management accountability are less linked to the form of operator than to the operator’s experience and commitment, and to the clarity with which the venue owner and/or funder articulates expectations.

6. **It is not assumed that the adoption or adaptation of an existing model from elsewhere will necessarily produce the best result for WKCD, even if there is much valuable overseas experience to draw from.** Within the boundaries of sensible risk management there is an opportunity to consider new models and new forms of partnership at the inception of this unique cultural development.

7. **It will be important to appoint the specific operators at an early stage of development but also to avoid hasty decision-making on operators or operator-types.** There are complex management and governance issues at stake, and these require appropriate reflection and debate.

### 8.2 Provisional Operator Recommendations

The operator recommendations are ‘provisional’ because they will need to be reviewed in the context of:

- the confirmed range of PA venues
- the phasing of construction of the venues
- clarification of the cultural and other objectives for each venue
- the views and relative strengths of the CEO and Executive team
- the level of market response to invitations to submit Expressions of Interest for venue operation.

### Table 8.1 Provisional operator recommendation and rationale

<table>
<thead>
<tr>
<th>Venue Type</th>
<th>Provisional Operator Recommendation</th>
<th>Rationale</th>
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<tbody>
<tr>
<td>MPV</td>
<td>An existing venue management group, with financial arrangement dependent upon whether the operator is also an investor in the construction costs.</td>
<td>Experience, networks and economies of scale likely to generate better programming and financial results than any alternative approach. Minimises WKCDA risk of failing to meet surplus targets for this venue; surplus will be needed to cross-subsidize other venues. Harnesses existing operators’ strengths.</td>
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<td></td>
<td>For logistical and managerial reasons it is recommended that the MPV be a stand-alone venue physically.</td>
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<td>In order to discourage market dominance it is proposed that the operator of the MPV be precluded from operating other PA venues.</td>
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<tr>
<td>Great Theatre 1</td>
<td>An existing venue management group, with financial arrangement dependent upon whether the operator is also an investor in the construction costs.</td>
<td>Experience, networks and economies of scale likely to generate better programming and financial results than any alternative approach. Harnesses existing operators’ strengths.</td>
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<td></td>
<td>Because the Great Theatre may accommodate long-run musicals, it is recommended that it be a stand-alone venue physically.</td>
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<tr>
<td>Great Theatre 2</td>
<td>Either an existing venue management group (which could be the same operator as for Great Theatre 1), or a newly established non-profit entity.</td>
<td>As for Great Theatre 1 above. However, the programming parameters may make a dedicated entity more appropriate for this Theatre (for example, if it is not intended to host long-running shows).</td>
</tr>
<tr>
<td>Medium-sized theatres 1</td>
<td>To be operated separately; one by an existing venue management group or non-profit operator, the other by a newly established non-profit, customised for this purpose, and probably with an artform-development mandate (for example, drama or dance house).</td>
<td>Risk spreading and industry development – uses expertise that is available, but also builds independent managerial capacity. Increases WKCDA flexibility to respond to changing environment in the future.</td>
</tr>
<tr>
<td>and 2</td>
<td>The operator/s of the Great Theatres should be eligible also to tender for operation of one of the medium-sized theatres.</td>
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<tr>
<td></td>
<td>Because it is proposed that these theatres be separately operated they should also be physically separate from each other (which will also assist in building a distinctive venue brand).</td>
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<tr>
<td>Medium-sized theatres 3</td>
<td>To be operated by an existing venue management group or non-profit operator, or by a newly established non-profit, customised for this purpose, and with an artform-development mandate (for example, drama or dance house).</td>
<td>Selection of operator type can be determined in light of the choices made for operators of Medium-sized theatres 1 and 2 in the earlier phase of WKCD’s</td>
</tr>
<tr>
<td>and 4</td>
<td></td>
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<tr>
<td>Venue Type</td>
<td>Provisional Operator Recommendation</td>
<td>Rationale</td>
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<tr>
<td>Concert Hall</td>
<td>Existing venue management group or existing non-profit operator. The contract could be bundled with operation of the Great Theatre (and one medium-sized theatre) or issued to a separate operator.</td>
<td>Experience, networks and economies of scale likely to generate better programming and financial results than alternative approaches. Harnesses existing operators’ strengths or establishes new entity to achieve the stated purpose.</td>
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<tr>
<td>Chamber Music Hall</td>
<td>If the Hall is physically integrated with the Concert Hall it should be managed by the same operator. If it is physically separated (not under one roof) its operation may be: &lt;ul&gt;&lt;li&gt;bundled with the operator contract for one of the medium-sized theatres or the Concert Hall, or, &lt;/li&gt;&lt;li&gt;undertaken by a newly established non-profit, customised for this purpose.&lt;/li&gt;&lt;/ul&gt; If suitable design proposals emerge from the Concept Plan teams, the Chamber Music Hall could be physically integrated with one of the medium-sized theatres as an alternative to integration with the Concert Hall (or being a stand-alone venue).</td>
<td>More efficient to cluster with another venue’s operation, but not a high-risk or complex operation, and therefore relatively easy to be handled by a newly-established entity.</td>
</tr>
<tr>
<td>Xiqu Centre</td>
<td>Newly established non-profit, customised for this purpose. Because Xiqu has its own distinctive cultural contexts, and calls for customised décor and ambience, it is recommended that this be a stand-alone venue.</td>
<td>The operator needs to have close knowledge of the artform, and to adopt a developmental role in relation to artform support, training, marketing and audience development. A customised entity is likely to be required. Builds local management capacity.</td>
</tr>
<tr>
<td>Four black box theatres</td>
<td>One black box theatre to be bundled with operation of one of the medium-sized theatres. A second black box theatre to be operated by a newly established non-profit, customised for this purpose or by an existing non-profit organisation. &lt;br&gt; The third and fourth black box theatre either to be bundled together into a ‘mini arts centre’ under a single operator (existing or newly established non-profit) or the two could be bundled together into a ‘mini arts centre’ under a single operator (existing or newly established non-profit).</td>
<td>Balances efficiencies of scale with need to encourage creative freedom in these small venues where a high proportion of new work will be presented. Builds local management capacity.</td>
</tr>
<tr>
<td>Venue Type</td>
<td>Provisional Operator Recommendation</td>
<td>Rationale</td>
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<tr>
<td>Piazzas and all open, public domain areas</td>
<td>Direct operation by a business unit or subsidiary of WKCDA.</td>
<td>The visibility of piazza and other open-air events will be a significant part of the District’s branding. Presents a public face for WKCDA. VKCDA in a position to negotiate cooperation and participation from the various venue operators on-site. There will be low income from open air events – nearly all will be free. Little incentive for a venue management group.</td>
</tr>
</tbody>
</table>

Bearing in mind the need to balance the benefits of a diverse range of operators and an appropriate spreading of risk with the demands of monitoring and maintaining communication with a wide range of operator entities, it is recommended that WKCDA seek to limit the number of operators of the PA venues to between four and eight, including WKCDA itself.

Charts 8.1 to 8.3 provide illustrations of how the mix of operators and PA venues could be realised with, respectively, four, five, or six operators on site, including WKCDA itself. These charts are not proposals; rather they provide scenarios to assist in visualising where the recommendations might lead. Although the charts assume that all the proposed PA venues have been constructed, it is important to note that this may only be completed in a second or subsequent phase of WKCD’s development.

**Chart 8.1 Scenario 1: Four operators**

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<tbody>
<tr>
<td>Mega Performance Venue</td>
<td>Piazzas</td>
<td>Great Theatre 1</td>
<td>Xiqu Centre</td>
</tr>
<tr>
<td></td>
<td>Medium Theatre 4</td>
<td>Medium Theatre 2</td>
<td></td>
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<tr>
<td></td>
<td>Black Box Theatre 2</td>
<td>Black Box Theatre 1</td>
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<td></td>
<td>Black Box Theatre 2</td>
<td>Black Box Theatre 2</td>
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<tr>
<td></td>
<td>Medium Theatre 3</td>
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</tbody>
</table>

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In this four-operator scenario, only the Mega Performance Venue is managed by a professional venue management group. A non-profit entity operates the Xiqu Centre, and a separate non-profit entity operates a cluster of eight venues. These non-profit entities may be existing organisations or – and this is perhaps more likely – new organisations established at arms-length from WKCDA. Finally, through a newly established subsidiary company, WKCDA operates five venues, including the Piazzas. At a later stage in the evolution of the Hong Kong operator market, it is possible that one or more of these directly-operated venues could be subject to a tendering process to transfer them to independent operation.

It is noted that the significant impact and high visibility of WKCD is likely to attract arts and entertainment-management talent to Hong Kong, including those who may have left Hong Kong in earlier years to pursue career opportunities overseas. This increase in employment opportunities, and subsequent attraction of specialised professionals, may accelerate the maturing of the local operator market.

Chart 8.2 Scenario 2: Five Operators

Operator 1: Venue Management Group
- Mega Performance Venue

Operator 2: WKCDA Subsidiary
- Piazzas
- Medium Theatre 2
- Black Box Theatre 1

Operator 3: Venue Management Group
- Great Theatre 1
- Medium Theatre 1
- Medium Theatre 3
- Black Box Theatre 2
- Concert Hall
- Chamber Music Hall

Operator 4: Non-Profit
- Xiqu Centre

Operator 5: Non-Profit
- Great Theatre 2
- Medium Theatre 4
- Black Box Theatre 3
- Black Box Theatre 4
It is recommended that during the operator selection and negotiation process, WKCD secure specialist client-side advice from experienced PA venue operators who are free of any actual or perceived conflict of interest. The criteria to be applied during selection may include, amongst others:

- programme excellence in the programme proposals submitted
- the quality of operator proposals for community engagement, education and audience development
- contribution to industry capacity-building, commitment to training, knowledge transfer and local employment
- operational experience, especially in the fields most relevant for the venue types concerned
- quality of management and Board
- financial proposals and operator financial track record
- overall cost-effectiveness.

The weighting for each of these criteria may vary according to the individual venue-type.

Following the selection of each operator, it is recommended that a lease and a linked management agreement be drafted that reflects the brief, proponent’s proposals, and any amendments agreed. The content of such an agreement is outlined in section 8.4 below.

It is recommended that several of the venues (whether comprising one auditorium or a cluster of two or more auditoria) be operated by newly-established non-profit entities. In
some cases, this is a fall-back position if the preferred option (appointment of an existing venue management company or non-profit operator) cannot be secured. In other cases a newly-established non-profit entity is the preferred option.

Where a newly-established non-profit entity operates a venue, its Board would have direct governance responsibility, as is the case in many of the international benchmarked venues. The Board of the non-profit entity would, among other responsibilities:

- appoint the CEO of the venue (whatever their title) and monitor their performance
- approve strategic plans, annual business plans and programme plans (subject to their endorsement by the Board of WKCDA)
- approve budgets and monitor financial performance
- take ultimate responsibility for the venue’s operation
- be accountable for the venue’s operation to key stakeholders (and, most importantly, to the Board of WKCDA through the proposed Performing Arts Committee).

The most appropriate legal vehicle for these non-profit entities is likely to be a company limited by guarantee. In this case, the Boards of these newly-established non-profit entities would have the same responsibilities as the Boards of other non-profit corporations.

Options for the appointment process for the Board members of newly established entities are outlined in Appendix 10. Some of these are, in brief:

- when a non-profit operator entity is first established, it is proposed either that all its initial Board members be appointed by the Board of WKCDA or that a small number of the entity’s Board members (at least sufficient to meet the requirements of a quorum according to the entity’s Constitution), be appointed directly by the Board of WKCDA. Subsequently the initial appointees should have the power of co-option of further Board members up to the limit provided in the entity’s Constitution (these additional founder members should also be subject to WKCDA Board approval)
- to fill later vacancies, the Board of the non-profit entity should be empowered to co-opt replacement Board members, seeking new skills and experience in light of the venue’s strategic plan. Optionally, these subsequent co-options may be subject to WKCDA Board approval; and/ or WKCDA may retain the right to nominate a proportion of the non-profit entity’s Board members, with the remaining proportion being co-opted independently by the Board of the entity.

It is assumed that Board members of the non-profit entity – however appointed – would be subject to fixed terms, would have a job description and code of conduct, and be guided by a Board or Governance Charter – in keeping with current best practice in the non-profit sector.

8.3 The Rationale for Independent Operators

The advice provided in this report is that - other than the Piazzas and public domain areas – as many venues as possible should be operated independently from WKCDA, but in pursuit of objectives established by WKCDA. In the event that an appropriate existing operator cannot be procured for a specific venue or group of venues, it is
recommended that WKCDA establish a new entity to fill this gap. The rationale for this advice is as follows:

1. With several venues to be opened in the initial phase – and possibly as many as 12 or 13 – taking direct operational responsibility represents an intense workload and high level of risk for WKCDA.

2. While there is currently an under-developed operator market in Hong Kong – because Government has been the dominant operator of PA venues – there are many existing operators overseas, both commercial and non-profit, who may have an interest in operating one or more venues in WKCD. Over time, local expertise can be built and a local operator market nurtured. Indeed, in some cases, the transfer of knowledge can be part of the contracted operators’ obligations over a period of several years. WKCDA is encouraged to take a long-term view of the evolution of the venues on-site, recognising that a fully home-grown management and governance structure can be achieved over five to ten years.

3. Through its contract specification and procurement negotiation processes, WKCDA can retain control over key aspects of the programme framework, the contractors’ obligations to resident or other local arts organisations, hiring and pricing policies, and distribution of any financial surpluses. In the event that an independent operator underperforms, WKCDA can establish alternative operating arrangements.

4. Direct operation of several of the venues by WKCDA would represent a parallel arrangement to LCSD operation of PA venues. It is understood that Government’s aspiration is to diversify the operator market, not to establish an operator duopoly of LCSD and WKCDA.

5. Maintaining a purchaser-provider split, with WKCDA adopting the purchaser role, will be more effective in protecting public interest and securing best value. Put simply, WKCDA will be less compromising in ensuring that independent operators deliver effectively and economically than it would be with itself if it were the provider. Moreover, focusing on policy articulation and contract specification will enable WKCDA to concentrate on the bigger picture and maintain a strategic role in the Cultural District’s performing arts development.

6. The 2007 Financial Advisor Report identified that PA venues operated within the public sector were more expensive to run than venues run by independent operators.15 This is because public sector terms and conditions of employment are more generous than in non-profit organisations, and because commercial operators run a very tight ship in relation to cost control (and in some cases benefit from economies of scale by operating a large number of venues, as illustrated earlier in this report). It is probable that venues operated by WKCDA will be more expensive to run than venues operated by either non-profit or commercial operators.

7. If the successes, failures and public profiles of the PA venues are directly linked to WKCDA on a day-to-day basis, it will be very difficult to avoid stealthy (and possibly unintentional) influence of programming and other management decisions – for example discouraging controversial or challenging work which may bring unwelcome media coverage to the Authority. This runs counter to the objective of upholding and encouraging freedom of artistic expression and creativity, as stated in the WKCDA Ordinance.

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Independent operators include both non-profit entities and commercial or for-profit entities. There may be some suspicion in relation to the introduction of commercial operators for several of the PA venues. It is important, therefore, to be clear about what ‘commercial operation’ means in this context. The term ‘commercial’ relates to the legal status of the operator – indicating a company that distributes profits to its owners – not to the financial arrangements agreed for the specific venue. Where commercial operators are contracted to run PA venues it is normal for:

- specific programming outcomes to be required of the operator in line with the venue owner’s philosophy and objectives
- obligations to resident companies, local arts organisations or other nominated users to form part of the management agreement
- hiring charges, ticket pricing parameters and access policies to conform to an agreed framework
- management fees and programme subsidy levels to be confirmed in advance
- arrangements for sharing any financial surpluses (or positive variations against budget) to be confirmed in advance.

In short, commercial operation does not mean running a venue with the primary purpose of maximising profits (with the operator retaining those profits). It means contracting a privately-owned firm to operate the venue within an agreed fee arrangement, and with obligations to deliver specific cultural or other outputs. The MPV may, however, be an exception to this, because WKCDA’s specification for it may include a primary objective to “maximise the financial surplus generated by the venue.”

In light of the recommendation for independent operation of the PA venues, it is reasonable to ask why direct WKCDA operation of the Piazzas and public domain areas is proposed. It is certainly the case that contracting to an independent operator remains an option for delivery of the programmes in these outdoor areas, however:

- successful Piazza and public domain events will often require the support and cooperation of many of the tenants and operators on-site and WKCDA is in the best position to negotiate these relationships or, if necessary, to impose obligations through contract arrangements and annual business plans
- the visibility of the outdoor events will have a strong impact on WKCDA’s brand, as perceived by all visitors to the District regardless of whether they are attending ticketed events. It will be important for the Authority to maintain close control over this aspect of image management
- there will be very few opportunities to secure commercial returns from outdoor events (other than through sponsorship), making commercial experience less significant
- there are precedents internationally for an area management body (like WKCDA) to fulfil this role successfully – for example, South Bank Centre, London, Federation Square and South Bank, Brisbane.

Despite the WKCDA staff time and resources that direct operation will require, it is felt that the advantages of an active day-to-day engagement with organisation of the Piazza and other outdoor programmes will outweigh the disadvantages.

It is recommended that the planning and reporting regime proposed for independent operators should also be adopted for the Piazzas, and any other venues directly
managed by WKCD. Maintaining a purchaser-provider split within WKCD will ensure that the same focus on ensuring best-value will apply to directly-delivered services as to services provided by external contractors. In the context of the organisational structure which has been adopted by WKCD, for example, the purchaser (or ‘client’) role could be fulfilled by the Executive Director: Performing Arts Policy and Management Services (Performing Arts ED), and the provider (‘contractor’) role could be fulfilled by the Executive Director: Marketing, Communication and Programming. This is consistent with the aim of the Performing Arts ED fulfilling a strategic rather than an operational delivery role.

8.4 Relationship between WKCD and the PA Venue Operators

Regardless of the nature of the operator, the relationship between operator and WKCD should be framed by:

1. a common set of principles
2. a collaborative and flexible approach to achieving WKCD’s objectives
3. a clear planning and reporting framework
4. periodic review and contract-renewal processes and, where necessary, exit strategies
5. a lease (or licence to occupy) and a linked management agreement which confirms the specific outputs required, and articulates items 1 to 4 above.

It is not recommended that there be overlap in the membership of the Boards of the operator non-profit entities and the Board of WKCD. If one or two Board members of operators are on the Board of WKCD, but others are not, there may be a perception of bias. And if all operators had representation on WKCD’s Board (or Performing Arts Committee) it would risk being ‘captured’ by vested interests. An arms-length arrangement is therefore more appropriate.

The purpose of the detailed planning regime proposed (lease, management agreement, strategic plan, annual business plan, and budget) is to allow the PA venue operators to get on with their business on a day-to-day basis, with periodic reporting to the Performing Arts ED, Performing Arts Committee and WKCD Board. The Performing Arts ED, for example, will not have the power to ‘direct’ specific decisions of the venue operators. Ultimately, if WKCD is unhappy with the performance of a specific operator – or if an operator fails to comply with the terms of their management agreement or plans – WKCD will have authority to impose penalties or to terminate the agreement with that operator.

It is hoped that, over time, the frequency of reporting will be relaxed, as trust builds between individual operators and WKCD. For example, the monthly reports may become quarterly or six-monthly after an initial settling-in period.

Common principles

These should include:

- a commitment to innovation, entrepreneurship and artistic vibrancy
- flexibility in responding to an evolving industry and market environment
affordability and access obligations (for hirers and audiences)
- an endeavour to maximise venue utilisation
- cooperative relationships between WKCDA, presenters and producers, other venues, tourist agencies, and other bodies.

It is anticipated that agreements with venue operators will also encapsulate the cultural and other objectives articulated in Part 2 of the West Kowloon Cultural District Authority Ordinance 2008.

The principles above are not intended to stand only as broad aspirations, but to inform discussion between operator and WKCDA during the contract negotiation and establishment phase, and during subsequent progress reviews. These principles will also inform the selection of performance measures, and the WKCDA Board’s evaluation of the success of the PA venues.

A collaborative and flexible approach

While clear contractual arrangements are a prerequisite for successful relationships with operators, there are limits to, and some risks associated with, an over-formalised approach in the delivery of complex services such as arts and cultural activities. In the early years of WKCD’s establishment, there are likely to be uncertainties in relation to elements such as market development, competition, and product supply. As a result of this uncertainty, the financial outcomes of core arts activities and ancillary trading activities cannot be predicted with confidence, any more than they can in any new business venture. While WKCD will wish, quite properly, to drive the best bargain it can, it will be important to build performance incentives into agreements with operators that allow for a proper sharing of positive results and reasonable protection – for the operator and WKCD – where results do not match original expectations. It will also be important to adopt a reasonable and flexible approach to reviewing financial and other arrangements in the light of experience and changing market conditions during the first few years.

While the operator agreements represent firm commitments and obligations, it is important to recognise that WKCD and the operators are embarking on a journey together. An over-bureaucratic or adversarial relationship will not be in the interest of either party; this point was emphasised by several interviewees from the overseas benchmarked venues.

Clear planning and reporting framework

This may include, for example:

- preparation and approval of a three to five year strategic plan for each venue
- preparation and approval of an annual business plan for each venue
- provision of a monthly report by the venue operator to the Performing Arts ED, describing programme activities, financial results, risk assessment update, and operational issues. The form of the report would be specified by WKCD and might include summary charts or ‘dashboard’ techniques for communicating and comparing results easily between operators, or between one period and the next
- periodic meetings with the Performing Arts ED
- quarterly or twice-yearly presentation to and discussion with a Performing Arts Committee, and quarterly written report to the WKCD Board.

The strategic plan will confirm the purpose, vision and medium-term priorities and directions for the venue, along with the means by which progress and success are to be measured.

The annual business plan will elaborate the terms of the management agreement (see below) and respond to a statement of priorities issued annually by WKCD. A draft of the business plan will be prepared by the operator containing quantified programme outputs and initiatives, personnel and operational developments, short-term asset management targets, and other elements. The programme outputs will be linked to WKCD programme funding available (other than in the case of MPV, and possibly the Great Theatre, where programmes will be expected to generate financial surpluses). The draft business plan will be discussed and negotiated with the Performing Arts ED prior to approval.

The purpose of the planning and reporting framework will be to ensure contract compliance on the part of the operator – but also to specify communication processes which facilitate a productive relationship and enable problems to be highlighted and resolved at an early stage. The annual planning process will enable adjustments in outputs and targets to be made in the light of results achieved to date and resources available.

Chart 8.4 illustrates the proposed communication flow between the operator and WKCD. In the case of contract award, confirmation of annual business plan and submission of quarterly report it is proposed that the operator interact with the Board, via the Performing Arts ED and the CEO. In the case of other reporting elements, it is proposed that the operator interact at a staff level only.

![Chart 8.4 Communication flow between operator and WKCD](chart)

The reporting structure proposed is illustrated in Chart 8.5, shown here for

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Operator 1 (and assuming that this operator is responsible for three venues). Similar reporting lines would apply for each operator.

**Chart 8.5 Operator reporting structure**

**Notes**
1. Monthly reporting – through Performing Arts ED to Performing Arts Committee.
2. Quarterly reporting – through Performing Arts ED and Performing Arts Committee to WKCD Board.
3. Contract relationship – negotiated with Performing Arts ED and Performing Arts Committee, signed off by Board.
4. Day to day communication – with Performing Arts ED.
5. Trouble-shooting – with Performing Arts ED, and with CEO if necessary.

The benefits of periodic meetings between the operator and the Performing Arts Committee will be as follows: to incrementally build the Committee’s knowledge of the cultural businesses (that is, the venues) for which it has ultimate responsibility; to provide the operator with an opportunity to raise and explore strategic issues; and, as a matter of prudent risk management, to ensure that communications are not wholly routed through one individual (the Performing Arts ED).

The Performing Arts ED is shown above as reporting to the CEO. There may, of course, be additional reporting obligations to the Performing Arts Committee. It is recommended that such a Committee of the WKCD Board be retained, with the purpose of providing expert advice and recommendations to the Board on matters related to the performing arts venues, and to arts and entertainment activities throughout WKCD. The role of the Performing Arts Committee is described in section 8.10 below and in Appendix 12. The role and reporting arrangements for the Performing Arts ED are also outlined further in section 8.10.

**Periodic review and contract-renewal processes**

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It is proposed that an annual review of performance occur, within an agreed framework, and that the review process include a meeting with the WKCD Board or a Performing Arts Committee of the Board (which could form one of the meetings recommended above). The confirmation or termination arrangements should be clearly expressed in advance, and should provide both WKCD and the operator with sufficient planning time to put any necessary contingencies in place. This is likely to require reconfirmation or non-renewal of a contract to occur at least six months prior to the conclusion of a current contract period; and to require appropriate compensation allowance for early termination of an operator contract.

A lease and a linked management agreement

The preceding elements would be confirmed in a lease and linked management agreement. The latter would clearly state the objectives and aspirations for the individual PA venues. It is recommended that rather than quantifying multi-year outputs at the start of an operator agreement, the agreement cross-refer to an output schedule which will be negotiated on an annual basis as part of the business plan approval process. This will leave room to adjust expectations upwards or downwards in the light of results to date and changing environmental conditions (including, of course, funding available from WKCD or elsewhere to support elements of the venues’ programmes).

The schedule could include, amongst other elements:
- programme outputs required for the next year (quantum and spread)
- education and public engagement outputs required for the next year
- parameters for hiring charges, and classes of hiring charges (for example, differential rates, if adopted, for specified users)
- parameters for ticket pricing, including requirement for proportion of low-priced tickets to encourage accessibility and first-time attendance
- access and hiring arrangements for nominated resident companies and artists, if any.

The main management agreement would specify other obligations, including cooperative programming within WKCD as a whole, and would describe the division of asset management responsibilities between owner and operator. An indicative structure for such an agreement is included at Appendix 13, although this should be taken as one of a number of possible approaches to the form of contract.

In the event that WKCD adopts a competitive selection process for operation of many of the venues, as recommended in this report, a schedule for the initial period of operation would need to be drafted to form part of the Request for Proposals documentation. This would enable independent operators to prepare their bids on a level playing field (for instance, so that the financial offer attached to competing bids to manage the MPV was based on a like-for-like range of outputs; or that the subsidy requirement estimated for bids to manage the small-scale venues was based on a like-for-like range of outputs).

The steps in the development and formalisation of the relationship between WKCD and each operator are illustrated in Chart 8.6:
Evolution of the operator arrangements

The venues in WKCD will have a life of 30 to 50 years, or more. The arrangements recommended in this report apply to the initial period of establishment – a period of perhaps ten years. In the event that a joint venture approach is adopted in the case of the MPV (or Great Theatre), it is possible that an agreement of ten years or more may have to be concluded in order to attract partner investment. If the partner is also the operator; ten years will allow time for a reasonable return on investment. In the case of all the other PA venues, however, it will be preferable to conclude agreements with shorter contracts – for example five year terms.

As local experience, and WKCDA’s own expertise, increases, the operator market will change. Similarly, the nature of the overseas operator market will continue to evolve. In ten years, it is likely that the environment will be very different. The operator recommendations in this report will therefore need to be reconsidered in the context of these and other market developments.

Further detail of the proposed linkage between WKCDA and the venue operators is provided in Appendix 10.

The case for a Cultural Trust

A further possibility for structuring arrangements between WKCDA and the PA venues is to establish a cultural trust. There are precedents internationally for such an arrangement, for example, Queensland Performing Arts Trust at South Bank, Brisbane. Normally, the motivation for establishing a cultural trust is either:

- to place the operation of one or more PA venues (or museums or galleries) at arms length from Government, in order to create dedicated Boards responsible for the venues, and to secure some of the benefits indicated above in relation to independent operators, or
- to create a vehicle which is tax-efficient and more attractive to potential donors, because it is not perceived as part of Government.

It may be necessary to establish a donor vehicle separate from the operators in WKCD in order to ensure that commercially-operated venues can access philanthropic support for specific aspects of their programmes, such as youth activities or special community projects (note, for example, the recent establishment of such a vehicle by the Ambassador Theatre Group in the UK). In the case of WKCD, it will likely be more appropriate to have a single site-wide vehicle than several operator-specific vehicles.

If a cultural trust were established to oversight the venues, specialist operators would still be necessary for the reasons outlined above. The consequence for WKCD is that oversight of the venues would be once-removed from the Board. This brings two attendant risks. First, the risk that, over time, the cultural trust’s priorities and the Board’s priorities could move in different directions, leading to friction; and second, that while the cultural trust built up industry knowledge and awareness, the Board would become divorced from these key businesses within WKCD. For this reason it is not recommended that a cultural trust be established with oversight of the PA venues. If it is felt that the Board’s agenda is too demanding for it to deal frequently with PA venue issues, the consultants’ preferred approach would be to continue to evolve the Performing Arts Committee’s composition and processes for it to take on this oversight role, as a Committee of the Board.

8.5 Funding the PA Venues

In the case of the MPV, the Great Theatre, and possibly other venues, the financial arrangements will need to specify how any operating surplus is to be shared between the operator and WKCD. With regard to most of the venues it is likely that operating subsidies will be required, with no expectation of surplus. The determination of this subsidy (or management fee) will require an annual budget to be agreed between WKCD and operator, against which financial results can be measured. It is recommended that:

- WKCD prepare indicative budgets for each PA venue in order to provide a framework for negotiation with shortlisted operators – although these will be subject to amendment in light of the operators’ proposals and cost-dynamics
- consideration be given to separating subsidy to meet premises and other overheads from subsidy for specific programme outcomes required
- financial arrangements with the operators be geared to providing incentives for the venue operator to maximise revenue through box office, hires, sponsorship and fundraising, catering and retail/ merchandising.

The venue funding arrangements should reflect current best practice in arts funding, whether for producing arts organisations or venues, and should be similar for both non-profit venue operators and for-profit venue management companies in WKCD. That is:

1. A management agreement should be prepared for each venue, specifying responsibilities of the operator and of WKCD.
2. A three-to-five year strategic plan should be prepared (initially by WKCD, in later years updated by the venue operators themselves for WKCD approval). This will
restate the purpose of the venue, the rationale underpinning its programme, and the
development priorities for the next few years. It will clarify the link between the venue
and WKCD’s vision and objectives.

3. A draft annual business plan should be prepared (for the first year by WKCD,
subsequently by the venue operators as above) which specifies short-term actions,
programme outputs, organisational development and – most importantly for the
funding agreement – the financial forecasts and asset management priorities for the
next year. The draft annual business plan will be accompanied by a statement of
funding required to deliver the programme and other outputs specified in the annual
business plan. In the case of the MPV, and possibly the Great Theatres, there may
be no funding required by the operator. Instead, there may be a proposed share of
the anticipated surplus with WKCD (that is, funding will flow in the other direction).

4. The venue’s CEO (and, if agreed, selected Board members) will meet with the
Performing Arts ED to discuss, and if necessary amend, the annual business plan
and the accompanying financial projections, including cashflow.

5. The amended business plan should be submitted to the WKCD Board (via
Performing Arts Committee) for approval.

6. The approved business plan should include targets, specify monitoring arrangements
and be accompanied by a schedule of payments (subject to satisfactory
performance).

The preparation of each year’s draft business plan may be influenced by a statement
from WKCD indicating its own short and medium-term priorities, and indicating likely
funding parameters for each venue, to avoid dealing with unhelpful ambit claims.

Prior to the appointment of operators, it will be helpful to give consideration to the system
of incentives and penalties which should also form part of the funding arrangements. It
will be in WKCD’s interest to reward good performance on the part of operators, and to
discourage or penalise poor performance.16

Chart 8.7 provides a summary of this proposed funding process:

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16 It is worth noting the study being commissioned by HAB into the Funding Mechanism for
Performing Arts Organisations. This study will review arts funding regimes internationally, and
provide recommendations on good practice, some of which may be relevant to the design of
funding arrangements for WKCD venues.

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8.6 Determining the Venue Hiring Charges

Local arts organisations and other producers will seek reassurance that hiring charges for the PA venues are maintained at levels which make the venues affordable for a wide range of events and activities.

The overall framework for determining hire charges should be confirmed in the management agreement with each operator. It is anticipated that this will be a common framework for all operators.

Hire charges will be confirmed on a year-by-year basis through the process of approving the annual business plan and budget for each PA venue, and approving any financial support to be provided, or share in financial surplus to be enjoyed, by WKCD. It will, therefore, be important for the business planning cycle to be concluded well in advance of the start of each financial/planning year. Indicative hiring charges, however, could be flagged in the three-to-five year strategic plan for each PA venue to give greater certainty – the annual business plan would be an opportunity to vary from these longer-term hire charge intentions by mutual agreement, in order to take into account changes in market conditions.

It is recommended that WKCD provide a policy framework within which hire charges are determined. This will include:

1. Confirming whether certain classes of hirer are to enjoy lower hiring charges than others (for example, local arts companies and/or schools may be charged lower rates than commercial, non-arts hirers for corporate events). Where lower rates are to be charged, the hirer’s access – to performance and rehearsal slots – will need to be capped to protect the venue operator’s ability to meet income targets. Potentially, such ‘differential’ hiring charges may be excluded from the larger, more commercial venues, such as MPV and Great Theatre.
2. Establishing usage targets for the proportion of arts usage, other community usage, and commercial usage of the venue. This will be part of clarifying the intended programme mix for the venue, and would be articulated in the three-to-five year strategic plan for the venue.

It is recommended that any ‘subsidised’ hires are effected by allocating a budget or fund to provide support to selected/ priority hirers. Such a fund could be under the control of the PA venue operator, working to an agreed set of principles and priorities (for example, first call on the fund goes to local arts companies, then to arts companies from elsewhere, then to schools or other community users). Alternatively, the fund could be administered by the Performing Arts Committee, or a small Panel formed from this Committee. The establishment of a dedicated fund would confine the number of subsidised hires to a pre-determined level, and avoid undermining the venue operator’s capacity to optimise income (because the difference between subsidised and normal hiring charges would be made up from the fund).

Any such hire charge framework should be drafted by the Performing Arts Committee (and Performing Arts ED), for approval by the WKCDA Board. WKCDA will need to balance the desire to make the venues as affordable as possible to hirers with the need to keep subsidy to each PA venue at a sustainable level. Actual hiring charges will also be influenced by periodic reviews of the hiring charges set by other venue operators in Hong Kong, including LCSD.

The WKCDA Board should have the final say in setting hire charges, as the Board has ultimate responsibility for the contractual relationship with the operator. It will be the Board’s prerogative, however, to delegate responsibility to the Performing Arts Committee if it chooses. It is not recommended that responsibility for setting hiring charges be delegated to the Performing Arts ED. Overall hire charge levels must be set in the context of the venue’s annual budget (which the WKCDA Board will approve), as well as individual hiring charge decisions or exceptions; leaving this at officer level could expose the officer to allegations of bias.

Within the overall, approved hiring policy day-to-day decisions on hires should be left to the individual operators as far as possible. There will be many occasions where the PA venue operator shares risk with an arts company or producer, in order to secure a specific programme element (typically through an agreed split of box office income). There will also be some occasions where the venue operator assumes all the risk, by paying a fixed fee to the artist or company. This negotiating flexibility is essential to the effective operation of a PA venue.

8.7 Resident Companies

As described previously in this report, residency arrangements can range from a resident company controlling and generating most of a venue’s programme, through partnership arrangements which include regular contributions to the programme (but no control over the venue), to temporary artist-in-residence schemes. It is beyond the terms of the current consultancy to advise on the selection of specific resident organisations. This section, therefore, is confined to suggesting a framework within which such choices can be made.
The presence of resident companies within the District will add to the vibrancy and character of WKCD, and have potential to enhance the brand of individual venues with which they are associated. It is recommended that medium and long-term residency relationships be considered as part of the organisational and programme planning for several of the PA venues. These would constitute partnership arrangements which include regular contributions to the venue’s programme. Such partnerships might be forged with local companies, mainland Chinese companies and/or international companies. It is further proposed that a range of short-term residency schemes should complement any longer-term venue partnerships agreed.

It is envisaged that medium and longer-term residency arrangements would only include full, dedicated accommodation (office, storage, and rehearsal space) within a small number of the PA venues, if any. However, ready access to rehearsal space within WKCD will facilitate the development and launch of new work – and this will contribute to WKCD’s reputation for creative innovation. It is therefore recommended that:

- rehearsal facilities be integrated into several of the medium and smaller scale venues – not only to serve short and long-term residencies, but also other local and international visiting companies. Such facilities would not be dedicated for a single company’s use. While priority access may be afforded to resident companies, this should be capped to protect the interests of other companies (for example, a visiting company which is in the final stage of rehearsal of a show for premiere/launch at WKCD)
- WKCDA plan the provision of additional office and rehearsal accommodation for resident organisations and visiting companies elsewhere within the Cultural District, potentially clustering facilities as occurs at the Lincoln Center. This is likely to be more economic than enhancing each of the PA venues to include such facilities; it also avoids the problem of tying up the brand of most of the venues too firmly with a small number of performing arts companies, and spreads the presence of artists elsewhere within WKCD, contributing to its distinctive character.

In the interests of transparency and equity, it is proposed that medium and long-term resident arts organisations should pay rent for any office and storage accommodation provided (whether integrated with a PA venue or not), and hiring charges for rehearsal and performance space. A range of financial agreements between PA venues and resident companies was observed among the overseas benchmarked venues, including below market rent and two or three-tier hiring charges. It is recommended that the provision of space for a company should be segregated from the provision of subsidy or preferential hiring rates. The level of subsidy would be a separate negotiation related to the contribution that the performing arts company makes to the venue’s programme (main-stage, education or other elements), and may be provided by the venue or directly by WKCDA. In the event that preferential rental and hiring arrangements are proposed for specific resident companies, this would form part of both the strategic plan and annual business plan for the PA venue, and would therefore be subject to the approval of WKCDA – including approval of the overall financial arrangements between WKCDA and the venue operator.

Residency arrangements and obligations should be confirmed in a formal agreement between the venue and the resident organisation. In addition to the financial arrangements, such an agreement might include:
- details of priority and other booking arrangements for rehearsal and performance space
- minimum and maximum number of performances to be given at the venue each year
- the performing arts company’s contribution to other elements of the venue programme
- protocols regarding the venue’s programming of ‘competing’ product in the venue; and protocols regarding performances by the resident company at other venues in WKCD and elsewhere in Hong Kong (to protect the brand and financial performance of both the venue and the resident company)
- protocols regarding sponsorship and fund-raising – to identify areas of cooperation, and avoidance of unhelpful competition
- marketing arrangements, including coordination of branding and promotion activity
- support by the venue for the resident company’s marketing or administration functions
- the resident company’s involvement in PA venue strategic and business planning (if any)
- day to day communications
- arrangements for periodic progress reviews
- penalties for non-compliance with the agreement.

To build the international character and reputation of WKCD it will be helpful for some medium and longer-term residency arrangements to be formed with mainland Chinese and international companies. It is not envisaged that these would include permanent accommodation on-site, but they might include preferential access to rehearsal (and temporary office) resources, in order to smooth the way for regular performance appearances at WKCD (even if this is only a week or two per year).

As mentioned above, the vitality of WKCD will also be assisted by short-term residency arrangements with performing arts companies and artists (visual as well as performing artists). PA venues should be encouraged to take initiatives in this regard, through the initial strategic plans which are developed (by WKCDA) for each venue, and through the process of approving annual business plans and future strategic plans. Potentially, WKCDA could set aside a modest level of dedicated funding to support such short-term residencies, which might be distributed on a competitive basis. Equally, this is an area where cooperative relationships between WKCDA and Government would optimise results, and where links between WKCDA, or individual PA venues, and Hong Kong’s leading festivals could also generate mutual benefits.

Short-term residencies will create opportunities for international linkages, and for encouraging a wider range of international artists.

Medium and long-term residency arrangements are not considered appropriate for the MPV, Great Theatres or Piazzas, where a maximum of programming flexibility (and commercial opportunism) needs to be retained.

It is not recommended that any of the PA venues be directly operated by a resident company during the initial phase of WKCD’s realisation. However, this could be reconsidered as an option during subsequent stages of development, especially in the case of one or more of the black box theatres, and possibly one of the medium-sized theatres. It is noted that any producing company considered for such an operator role is
likely to require an organisational development and skills enhancement programme to place it in a state of readiness to assume responsibility for venue management.

8.8 Clustered or Site-Wide Functions

The Lessons Learned and Issues for WKCD section of this report identified a number of functions amenable to clustered or District-wide delivery arrangements. These were, among other things, asset management, cleaning, security, ticketing, and possibly aspects of corporate functions servicing. In the interest of economy and efficiency it is recommended that clustered arrangements be pursued for these service areas, and that:

- any shared ticketing system have the capability of patron data capture, to facilitate linkage to targeted marketing and fundraising functions; and that hirers and resident companies have full access to patron data from their own performances and events
- event security be retained at the operator level
- maintenance of stage and specialist technical equipment be retained at the operator level
- catering be retained at the operator level where style should reflect the venue and some financial benefit should accrue to the venue’s operator. However, there may be a case for clustered kitchen arrangements to service major functions and events (for example, one or two large-scale kitchens may service events at multiple locations in WKCD).

It is further recommended that WKCD consider:

- the benefit of establishing a District-wide arts marketing consortium, providing common services, training, information sharing, and collaborative marketing efforts
- the possible benefits of establishing a sponsorship agency – not as a broker, but to professionalise and support best practice, and encourage business engagement with the arts – as with, for example, Arts and Business in the UK (see also Sponsorship coordination section below)
- the establishment of an intern and training scheme, in conjunction with HKAPA, LCSD or other agencies, to build the professional skills base for PA venues in Hong Kong.

The governance arrangements for clustered or site-wide services will need to be tailored to the individual service area. Oversighting arrangements for common training services, for example, may have different requirements from oversighting arrangements for shared asset management services. Appendix 11 provides an indication of possible governance arrangements for selected site-wide functions.

Chart 8.8 provides an overview of the reporting structure for the proposed clustered or site-wide functions:
Sponsorship and fundraising coordination

Sponsorship and fundraising are competitive activities. The challenge for WKCDA is that the only satisfactory means of avoiding clashes (for example, WKCDA and a venue operator simultaneously approaching the same sponsor for different activities), is to share information. It is noted, however, that some competing parties may be unwilling to do this; which is not an uncommon problem in other jurisdictions. It will be in WKCDA’s interest to encourage venue operators to maximise income from sponsorship and donations, as this increases the overall resources available within WKCD, and may reduce the pressure on WKCDA’s funding support to some of the venues.

The following protocols are suggested, for further discussion:

- venues to seek sponsorship and donations towards programme activities only – not towards venue enhancements, asset management, or equipment purchase (that is, capital improvements)
- venue development staff to meet regularly (perhaps monthly or bi-monthly) to discuss issues and trends, seek opportunities for joint sponsorship-seeking (for example, a sponsor might be interested to support education activities at several venues – packaged together this would be a more attractive sponsorship proposition)
- WKCDA development staff to be invited to join such meetings
- WKCDA might limit its sponsorship-seeking and donor-seeking to outdoor programmes (piazzas and other public domain areas), plus any fund-raising towards capital improvements – potentially via a foundation or similar fund-raising vehicle.

It is not recommended that WKCDA undertake sponsorship-seeking on behalf of venue operators. Sponsorship is a business transaction and the vendor (the venue operator) must be directly responsible for negotiating the benefits offered and ensuring their
delivery. However, there will be occasions when site-wide activities occur, for example, multi-artform or multi-venue festivals, and when a joint sponsorship plan will need to be agreed between WKCD and the venue operators (and/or festival managements). In this case it is possible that a WKCD development body could take a lead or exclusive role.

8.9 Venue Design and Physical Clustering

The nature of the venue operator, and the choice of governance arrangement, holds few implications for the design of individual venues or for their physical clustering. Regardless of the operator, the vision for, and functionality expected of, each venue will dictate the specifications for stage configuration, seating capacity and layout, front of house audience facilities, and backstage technical and administrative accommodation and services. The venue’s intended brand or programme focus should be the dominant factor in determining design specifications.

While the brand or programme focus of some of the buildings may be self-evident (Concert Hall, Chamber Music Hall, Xiqu Centre), the programming and core market for others is yet to be determined. Some venues may focus on a particular artform (dance or drama for example) or a field of work (such as contemporary) or a particular audience (for example, targeted at young people). Ideally, a number of these decisions will be made in the near future, in order to inform the latter stages of concept planning and design development. If this is considered impractical or undesirable by WKCD, it is recommended that the concept plan should allow room for manoeuvre so that, for instance, if it is determined at a later stage of design development that one of the medium-sized theatres is to have a specific artform focus, or one of the black box theatres is to have an exclusive youth focus, this decision is not constrained by being clustered with other venues which may give the venue a different and potentially conflicting ambience.

One of WKCD’s primary mandates is to encourage artistic freedom and diversity, which will partly be achieved by ensuring a variety of programming approaches. This commitment to diversity implies that several of the medium and smaller-scale venues should be managerially independent. As it is impractical to have several operators running venues under one roof (a recipe for inefficiency and friction), managerial independence also implies physical independence.

It is recommended, therefore, that only a modest level of venue clustering be assumed, unless compelling design proposals emerge which merit greater concentration of co-located venues.

Other venue ‘brand’ factors which might be taken into account in determining the design and clustering of venues include the possibility that:

- one or both of the Great Theatres may house long-running musicals or similar – the dynamic of these shows makes them fairly inimical to sharing with other types of event
- the operator of a medium-sized theatre is likely to welcome the opportunity to programme into two auditoria. Even if it were a dance or drama-focused venue, there will be scope for programming both at the small and medium scale; and occasionally
there can be cross-overs, with shows starting in the small-scale space and graduating to the larger space if demand - and the type of show - justifies this
- clustering two black box theatres could create a ‘mini-arts centre’, probably with a contemporary focus and an independent, fringe ambience
- separating out at least one of the four black box theatres as a stand-alone venue will maximise its freedom of identity, and could create the opportunity for it to be integrated into any part of the precinct (for example inserted into a retail or other commercial area)
- there may be a number of venues beyond the Core Arts and Cultural Facilities which will be spread through WKCD – including PA venues which are smaller than the black box theatres, creative business incubator facilities, comedy clubs or others. Some of these may be clustered with core PA venues
- it may be necessary to provide office and rehearsal accommodation at the Concert Hall and Chamber Music Hall if it is determined that one or more long-term resident organisation/s should be linked to these venues (see section 8.7 above). The Concert Hall and Chamber Music Hall could be under a single roof, forming a complex which focuses predominantly on Western classical music
- there will be a need for education facilities (workshop spaces, meeting rooms) at most of the medium and larger-scale PA venues to support education and other public engagement programmes
- VIP facilities will be necessary at most or all of the medium and larger-scale PA venues to service sponsorship demands and special functions
- office and rehearsal accommodation may be provided at other locations in the District (external to the PA venues) to facilitate the presence of a range of short and longer-term residencies – although this will not necessarily have a direct impact on the design of the PA venues themselves
- it will be desirable to include retail and catering outlets in and immediately adjacent to many of the PA venues. Successful, vibrant performing arts venues are, increasingly, characterised by integrating a range of dining and retail elements into their front of house, or into immediately adjacent areas. These retail and dining elements help to give the cultural venue a welcoming appearance (especially for those who are not regular arts attendees), add daytime life to a venue which may be predominantly used in the evening, and generate supplementary income streams.

In summary, although there are a number of ‘brand-related’ clustering or co-locating possibilities, the choice of mode of governance does not have a significant bearing on the physical clustering of venues. Most group theatre managements internationally are experienced at operating venues which are widely dispersed within a city or a country. The venues’ operating under one management does not require them to be constructed in proximity to each other.

It is worth noting one additional design issue which affects management and operational efficiency in the long-term; the need for future expansion space. This is commonly experienced by PA venues that may require, among other things, space for additional studio or rehearsal facilities, for accommodation for increased staffing, for future resident companies or enhanced customer facilities. In the long-term, both the functionality and the financial viability of venues can be compromised due to lack of such room for expansion.
8.10  WKCD Roles and Responsibilities

Role of the CEO

The key roles of the CEO in relation to governance of the PA venues will include:

- advising the Performing Arts Committee and Board on the business and cultural implications of mode of governance choices and specific operator choices
- participating closely in the appointment of operators, and in the set-up processes for any subsidiary or arms-length entities established by WKCD as venue operators
- taking lead responsibility for relationship building with key external stakeholders, in cooperation with the Board and Performing Arts Committee. It is anticipated that day-to-day linkage to stakeholders will be effected through the Performing Arts ED
- supervising and supporting the work of the Performing Arts ED
- supporting the Performing Arts ED in negotiations with PA venue operators where necessary
- taking lead responsibility for the development of WKCD’s cultural, social and educational policies, within parameters approved by the Board
- signing off on all Board papers related to PA operations and future planning prior to their circulation to the Board (or, if required, to the Chair of the Board)
- signing off on draft contracts, strategic plans, management agreements and budgets/financial forecasts related to the operation of the PA venues prior to their consideration by the Performing Arts Committee or the Board.

Role of the Executive Director: Performing Arts

In relation to the PA venues, the key functions proposed for the Performing Arts ED are as follows.

During the planning, design and construction phases:
- to represent WKCD interests and advise on the operational implications of design development options relating to the PA venues (although it is recommended that the intended operators be identified at as early a stage as possible, to ensure that the end-user/operator has an opportunity to influence detailed design decisions)
- to play a key role in articulation of the purpose, programming and education philosophy for each PA venue under the overall leadership of the CEO
- to develop and implement the procurement process for selection of operators.

During the operating phase:
- to provide the client-side function in relation to each of the PA venue operators, including contract negotiations, monitoring and contract compliance, maintaining effective and positive communications with each operator, in addition to
  - providing progress reports to the CEO, Performing Arts Committee and Board of WKCD
  - oversee the preparation of papers and minutes of Performing Arts Committee meetings, and liaise with Performing Arts Committee members
  - being WKCD’s key point of liaison for site-wide performing arts issues – for example, liaison with LCSD and HAB, Education Bureau, Tourism
Commission, Hong Kong Tourism Board, and other Government or quasi-Government agencies, including foreign embassies and/ or visiting VIPs

- playing a continuing leadership role in development of WKCD’s vision
- playing a leadership role in building and sustaining relationships with external stakeholders (local and overseas)
- informing and educating the Board and Executive staff of WKCD on relevant arts industry issues and trends
- establishing requirements for Piazza and other outdoor performance activity, and liaising closely with the Executive Director: Marketing, Communications and Events on satisfactory delivery of this programme
- playing a support and monitoring role in relation to clustered or site-wide services such as the proposed arts marketing consortium.

The Performing Arts ED will assist the Performing Arts Committee (see below) in its policy development, operator selection and monitoring, and other responsibilities by:

- attending all meetings of the Committee
- providing regular information reports to the Committee
- contributing to Committee discussion on performing arts policy and strategy
- responding positively to requests for information and to Board-endorsed policy directions
- undertaking research as agreed with the Committee and CEO (who retains responsibility as line manager for the Performing Arts ED)
- providing such support as the Committee may reasonably require.

The demands on the Performing Arts ED will vary with the phases of development of the PA venues within WKCD. For efficiency, the staffing support for Performing Arts ED will need to vary correspondingly. Appendix 14 outlines some of the key tasks at different stages of development, and suggests appropriate support staffing levels.

Role of the Performing Arts Committee

The purpose of the WKCD Board’s Performing Arts Committee will be to provide expert advice and recommendations to the Board on matters relating to the performing arts venues, and to arts and entertainment activities throughout WKCD.

The Performing Arts Committee will advise and make recommendations to the WKCD Board on the following areas. The Board may choose to delegate decision-making authority to the Performing Arts Committee with regard to one or more of the following areas of responsibility:

- performing arts policy and programming for WKCD
- the arts and entertainment programming policy and objectives for each PA venue in line with WKCD’s overall strategic direction
- arts education and industry development related to the PA venues and to other arts and entertainment activity within WKCD
- the mode of governance of each of the PA venues, and the appointment of independent operators for the PA venues, including the appropriateness of engaging professional venue management groups or existing non-profit organisations, or forming customised entities
- overseeing the set-up of new and customised entities (if any) for operating individual venues/venue clusters
- overseeing and reviewing the in-house resources and systems for direct operation of any PA venues by WKCD (whether through a business unit, subsidiary or direct line management)
- the scope and terms of management agreements with each independent operator and confirmation of the annual business plan for each PA venue. The agreements and plans will include, among other elements, artistic and educational programme directions and other output targets, stakeholder and public engagement obligations, parameters for hiring arrangements, classes of hiring charges, parameters for ticket pricing, venue use for resident companies (if any), cooperative programming and asset management responsibilities
- the scope and terms of service level agreements with staff or units within WKCD responsible for operation of any PA venues or for delivery of arts and entertainment activity
- financial and other resource projections for the operation of the PA venues in light of the Board’s stated vision and objectives, and in light of resource parameters and constraints communicated by the Board
- fundraising and sponsorship strategies and protocols related to PA venues and to other arts and entertainment activity within WKCD
- arts and entertainment programming policy and objectives in piazzas and other public domain areas
- the identification of potential resident companies and artists in the initial stages of WKCD's establishment; the financial and other arrangements for such residencies; and the framework to guide development of future residency relationships between PA venues and potential resident companies and artists (that is, WKCD may not be directly involved in such relationship-building in the longer-term, except where needed)
- based on the framework agreed by the WKCD Board, approval of the choice of resident companies (if any) proposed by venue operators.

On the Board’s behalf, the Performing Arts Committee will monitor the PA venues, including the performance of their operators, and the resident companies/artists by:

- establishing programme and other output targets for inclusion in the management agreements, service level agreements and/or annual business plans
- receiving regular progress reports from the Performing Arts ED and the CEO (the format of such reports will be determined by the Performing Arts Committee and endorsed by the Board)
- arranging meetings with, and presentations by, the operators and resident companies/artists
- periodically commissioning market research to ensure adequate and accurate customer feedback (for example, from audiences, hirers, sponsors, resident companies, and others)
- maintaining adequate knowledge of industry trends and developments.

On the Board’s behalf the Performing Arts Committee will also guide the Performing Arts ED in his/her role, especially with regard to:

- relationship-building with PA venue operators, resident companies, artists and internal (WKCD) service providers

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linkage (as agreed with WKCDA’s Board) to other strategic agencies, such as LCSD, Education Bureau, Hong Kong Tourism Board, and business sector agencies
- service development, programming policy, troubleshooting.

Additional Terms of Reference for the Performing Arts Committee are provided in Appendix 12.

It is recommended that appointments to the Committee be made by the WKCDA Board. The Board should establish appropriate processes for the appointment of Committee members taking into account public and stakeholder accountability requirements. Overall composition of the Performing Arts Committee will be reviewed by the Board periodically, but initially the Committee should comprise up to ten members including:

- the CEO of WKCDA
- two or three other Board members of WKCDA, one of whom shall act as Chair for the Performing Arts Committee
- up to seven co-opted members, with a view to securing the following expertise:
  - commercial and non-profit venue management; arts and entertainment production;
  - arts and cultural policy and planning; arts marketing and/or sponsorship; financial planning and control; committee/Board experience.

Appointment and re-appointment of members will be subject to review by WKCDA’s Board. However, current best practice is for Board and Committee membership to be time-limited to ensure an appropriate balance between continuity and the introduction of fresh thinking and experience. It is suggested that members be appointed for a fixed term (three years, for example), renewable for a second term. A possible arrangement would be for committee members to step down for at least a year after two terms before being eligible for reappointment.

Role of the WKCDA Board

Under the WKCDA Ordinance, the Board of WKCDA has responsibility for and authority over all aspects of WKCDA activities. In common with corporate Boards, it is the Board’s prerogative to decide what it wishes to delegate – to sub-committees, subsidiary entities, the CEO or otherwise – while retaining ultimate responsibility. Given the high public profile of the PA venues it is assumed that the Board will want to monitor carefully the operational set-up, on the continuing performance and on periodic reviews of the PA venues. However, in view of the wide-ranging and demanding scope of Board business for WKCDA it is also assumed that the Board will want to exercise its oversight responsibilities for the PA venues in as time-efficient a manner as possible. For this reason, it is proposed that the Board maintain a Performing Arts Committee with terms of reference focused around the set-up, monitoring and performance review of the PA venues, and that such a Committee will include a minimum of two Board members (including the Committee’s Chair), and an appropriate range of theatre, producing arts and other expertise. It is recommended that the full WKCDA Board be involved in:

- determining the mode of governance for PA venues
- monitoring and periodically reviewing PA governance issues
- approval of the Terms of Reference for the Performing Arts Committee
- approval of any internal WKCD staffing structure related to the PA venues (including manpower and remuneration, although individual appointments would be the responsibility of the CEO or Performing Arts ED)
- approval of a site-wide cultural policy or charter
- approval of the objectives and strategic directions for each PA venue (or venue cluster), and ensuring that these align with the WKCD’s overall strategic direction
- approval of the financial parameters (including budget) for the operation of PA venues (to inform procurement, selection and negotiation procedures), including the arrangements for any financial rewards or penalties linked to PA operator performance
- approval of the operator procurement process
- approval of individual operator and the respective operator contracts (or internal management or subsidiary arrangements) of each PA venue
- approval of the framework for the establishment of residencies
- approval of the strategic plan and annual business plan for each PA venue
- receipt of quarterly reports and annual reports from the operators, for reviewing organisational performance against published mission statement and performance targets
- annual or twice-yearly presentations from and discussion with the operators
- periodic site-wide reviews of PA venue operator arrangements (perhaps every five years)
- determining the functions to be provided as site-wide services, such as, for example, ticketing, marketing, sponsorship
- approval of the set-up of any dedicated entities related to PA functions, for example the proposed marketing consortium
- articulation of WKCD’s commitment to stakeholder relationship building and introduce measures for external reporting to stakeholders (including publication of annual report and website) and regular reporting to Government
- global coordination of interface issues between the PA venues and other components of the WKCD
- overseeing long-term capital budgeting to cater for major overhaul of PA venues.

8.11 Role of the Government

Government actions play an influential role in determining the market within which the PA venues – and WKCD more broadly – will operate. There are a number of areas, both in policy-setting and cultural delivery, where Government can encourage productive results from the operators of the PA venues. These include, for example:

- continuing to develop clear arts and cultural policies for Hong Kong as a whole – including access and arts education policies. Such policy frameworks signal Government priorities to which all operators and producers can respond
- continuing to support the production of work by major performing arts companies and other companies and producers. This is the subject of a forthcoming study being commissioned by HAB. The creative and financial health of Hong Kong’s arts and entertainment producers represents the single most important supply-side issue for PA operators
- cooperating with WKCD on residency arrangements for performing arts companies. Such arrangements have consequential effects for arts accommodation planning elsewhere in Hong Kong, and may have an impact on financial support and
programme planning for some of the performing arts companies that benefit from Government subvention (an issue which may be also be addressed in the forthcoming study into funding for major performing arts companies)
- generating clear plans for the future of PA venues which are owned and operated by Government. Uncertainty over which new (non-WKCD) venues will be constructed and which existing venues will be retained or refurbished will influence the confidence of operators and potential operators. For example, if a potential operator does not know if a competing venue may be built by Government within the next few years it will factor in a risk premium which affects negotiations with WKCDA, reducing the value for money which WKCDA can secure
- encouraging Government departments and agencies (for example, Education Bureau, Tourism Commission, Hong Kong Tourism Board) to cooperate with WKCDA and with individual PA venues within WKCD on programme and audience development initiatives.

Some of the site-wide or clustered services which have been described above may have the potential to extend beyond the WKCD site, or may benefit from cooperative planning and implementation with Government. For example:

- industry development initiatives (such as staff training and mentoring) could be undertaken on a Hong Kong-wide basis
- the services offered by an arts marketing consortium could be extended to venues beyond WKCD, including Government-operated venues
- the services offered by a sponsorship development agency could be Hong Kong-wide; ticketing services could also be Hong Kong-wide.

8.12 External Relationships

There is a wide range of agencies, cultural organisations, suppliers and other 'constituencies' which will be significant to the successful operation of the PA venues in WKCD. Some of the key entities and constituencies are identified below. These are considered from two different perspectives. First, with consideration to the range of external relationships which will need to be cultivated and managed at the level of the individual WKCD venue operator. Second, in relation to the range of relationships that will need to be managed at the WKCDA corporate level.

Responsibility for building and maintaining these relationships will vary according to the status of the external contact and the strategic significance of any specific issues which are under consideration. For example, at several of the overseas benchmarked venues it was observed that key or high-status external contacts are handled at CEO or Chair level within the PA venue’s management structure, while other working contacts (for example, in relation to tourism or audience development activities) are handled at other levels within the venue operator structure (see section 3.9).

<table>
<thead>
<tr>
<th>Venue Operator External Relationships</th>
<th>WKCDA External Relationships17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local artists, agencies and operators</td>
<td>WKCD venue operators and potential operators</td>
</tr>
</tbody>
</table>

17 If WKCDA directly operates the Piazzas and public domain areas, the ‘venue operator’ relationships list would apply in respect of this function.
## Venue Operator External Relationships

<table>
<thead>
<tr>
<th>WKCDA External Relationships</th>
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</thead>
<tbody>
<tr>
<td>promoters</td>
</tr>
<tr>
<td>Mainland/ overseas artists, agencies and promoters</td>
</tr>
<tr>
<td>Resident companies and artists</td>
</tr>
<tr>
<td>Festivals</td>
</tr>
<tr>
<td>Other PA venues, including LCSD venues</td>
</tr>
<tr>
<td>Sponsors and donors</td>
</tr>
<tr>
<td>WKCDA staff, Performing Arts Committee and Board</td>
</tr>
<tr>
<td>Tourism agencies and operators</td>
</tr>
<tr>
<td>Media</td>
</tr>
<tr>
<td>Education institutions</td>
</tr>
<tr>
<td>Training institutions</td>
</tr>
<tr>
<td>Food and beverage suppliers</td>
</tr>
<tr>
<td>Technical services suppliers</td>
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<tr>
<td>Licensing and regulatory authorities</td>
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<tr>
<td>Police and emergency services</td>
</tr>
</tbody>
</table>

The means by which venue operators address the maintenance of these relationships does not need to be prescribed by WKCDA, although the expectation that such relationships will be cultivated should be articulated in the management agreements with operators. With regards to WKCDA external relationship management (insofar as it affects the PA venues), it is recommended that a formal communications plan be adopted, specifying stakeholders and identifying where responsibility lies within WKCDA for communicating and managing relationships with these stakeholders, including describing the activities this will involve and the frequency with which these will occur.

### 8.13 Other Elements of Effective Governance

It is timely that the Government’s Efficiency Unit is preparing guidelines for the governance of sub-vented organisations. This is a reminder that the effective governance of the PA venues will be affected by a number of factors other than the mode of operator. These include:

- appropriate target setting and monitoring processes within the operator organisation
- periodic monitoring of operator performance by WKCDA
- the appointment of experienced and high quality staff by the individual operators
- clarity in the role of each of the venue’s Boards (where they have Boards), and:
  - effective Board recruitment and induction processes
  - commitment by individual Board members
  - well-serviced Board meetings

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8.14 In Conclusion

The development of WKCD represents a bold and dramatic shift in the cultural infrastructure of Hong Kong and the wider region. While the term 'governance' implies proper stewardship and caution, it also implies providing leadership and direction. It will benefit the realisation of the PA venues for considered but timely decisions to be made regarding the governance arrangements for the PA venues. This will enable the operators – whether independent or in-house – not only to contribute to the organisational shaping of the venues, but also to share in the process of creating effective frameworks and supportive conditions within which they and WKCD can operate with greatest benefit for the people of Hong Kong.