

# **Management Discussion and Analysis for the Cultural Facilities Corporation for the Financial Year Ended 30 June 2020**

## **General Overview**

### **Objectives**

The Cultural Facilities Corporation (CFC) was established under the *Cultural Facilities Corporation Act 1997*. It manages the following major cultural assets:

- the Canberra Theatre Centre;
- the Canberra Museum and Gallery (CMAG), including the Nolan Collection; and
- the ACT Historic Places (Lanyon, Calthorpes' House, and Mugga-Mugga).

The strategic objectives for the CFC and for its three program divisions are as follows.

### **Strategic Objective for the CFC**

To provide cultural leadership in the Canberra region and beyond.

### **Strategic Objective for the Canberra Theatre Centre**

To be a leading theatre centre in Australasia and Asia.

### **Strategic Objective for CMAG**

To be a leading regional cultural venue in Australia and beyond.

### **Strategic Objective for ACT Historic Places**

To be leading historic places in Australia and beyond.

## **Risk Management**

The key strategic risk that may influence the CFC's future financial position is the organisation's dependence on income from theatre activity. Theatre revenues represent the major part of the CFC's non-government revenue, and the main variable in its financial performance. These revenues are dependent on the Canberra Theatre Centre being open for business, which was not the case for the final quarter of 2019-20 and continuing into 2020-21, due to restrictions resulting from the COVID-19 global pandemic. Theatre activity is, in turn, dependent on: the availability of performing arts productions for touring; national developments with regards to major performing arts companies; patron confidence in attending theatre venues; and discretionary consumer expenditure, which is vulnerable to general economic downturns, such as the current downturn resulting from COVID-19.

The CFC has been provided with additional funding from the ACT Government to assist it in managing through the current situation, whereby it is not able to

present full stage productions to large audiences at the Canberra Theatre Centre due to restrictions relating to COVID-19.

More generally, the CFC will continue to seek to manage the risks associated with its dependence on theatre business, and other risks, to the best of its ability, including through its Strategic Risk Management Plan. This Plan informs the prioritisation of projects for internal audit programs and is supported by other plans, such as those covering Fraud Control, Business Continuity and Disaster Preparedness.

The CFC regularly reviews risk management and fraud control procedures and a risk management plan is prepared for all major events.

A further strategy that the CFC has adopted in recent years, in order to respond to the variability and unpredictability of the performing arts business, is to develop a Theatre Reserve from the proceeds of theatre commercial activity. This fund is identified as a separate reserve in the CFC's financial statements. It assists the CFC by providing the financial backing to program major ventures that would be beyond the scope of the Canberra Theatre Centre's annual theatre programming budget, as well as providing a financial contingency if a major theatre venture does not achieve its budgeted financial outcome.

It is anticipated that the Theatre Reserve may need to be used in 2020-21 to support the touring of large-scale theatre product to the ACT, following theatre closures nationally due to COVID-19.

## **Financial Performance**

The following financial information is based on audited Financial Statements for 2018-19 and 2019-20.

### **Operating Result**

#### *Comparison to Budget*

The operating deficit for 2019-20 was **\$3.748m**, which was **\$1.292m (52.6%)** higher than the 2019-20 budgeted deficit of **\$2.456m**. The higher than estimated deficit was due to COVID-19 restrictions impacting on the theatre activities of the CFC, resulting in the Canberra Theatre Centre being closed for business from mid-March 2020, with a consequent reduction in revenue.

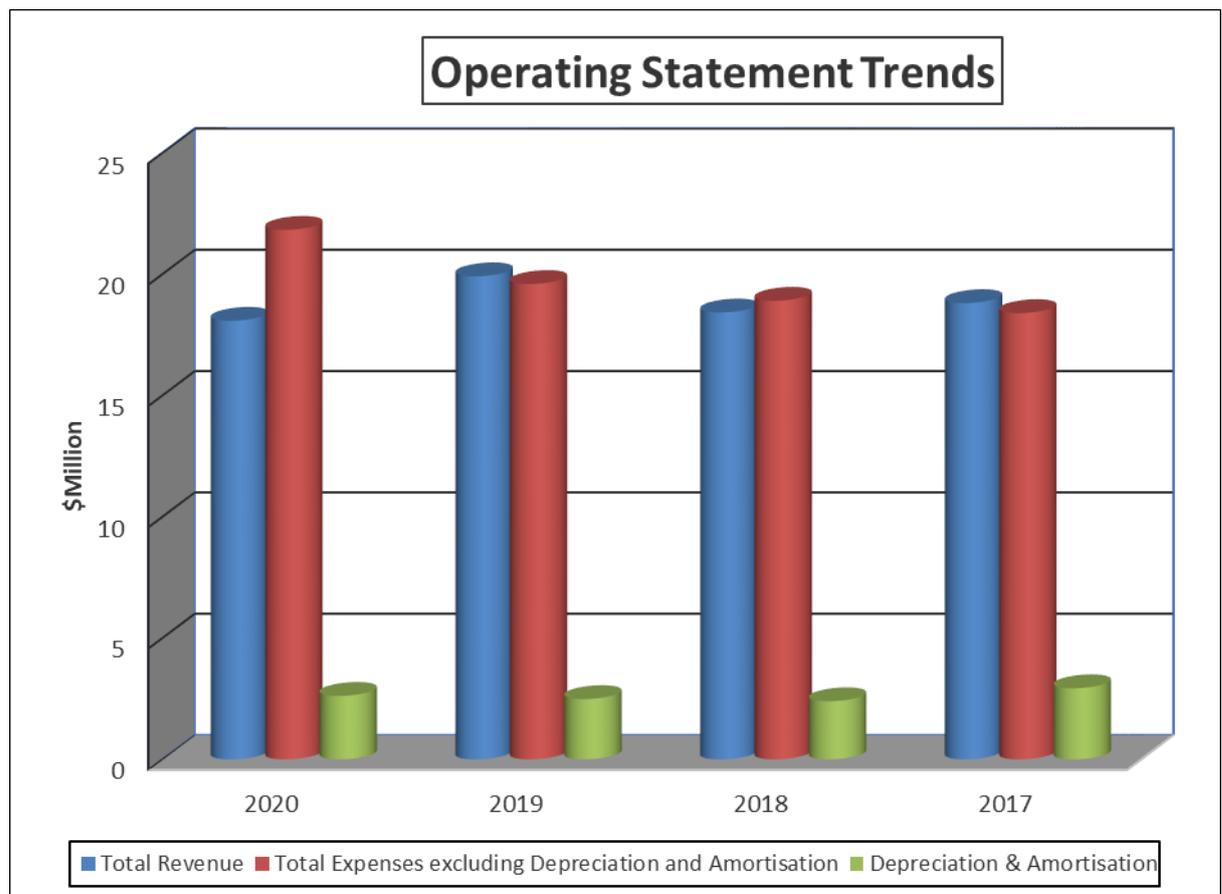
#### *Comparison to 2018-19 Operating Result*

The operating deficit for 2019-20 was **\$1.581m (72.9%)** higher than the 2018-19 operating deficit. The major reason for this was the effect of COVID-19 restrictions on the CFC's theatre business in the 2019-20 financial year.

## Operating Statement Trends

Due to its large asset holdings and consequent significant depreciation expense, the CFC always expects to incur an operating deficit. *Figure 1* indicates that depreciation represents a significant expense (**12.0%** of total expenses). Although depreciation is not funded by the ACT Government, the CFC does receive capital injections from the ACT Government, which fund new and replacement assets.

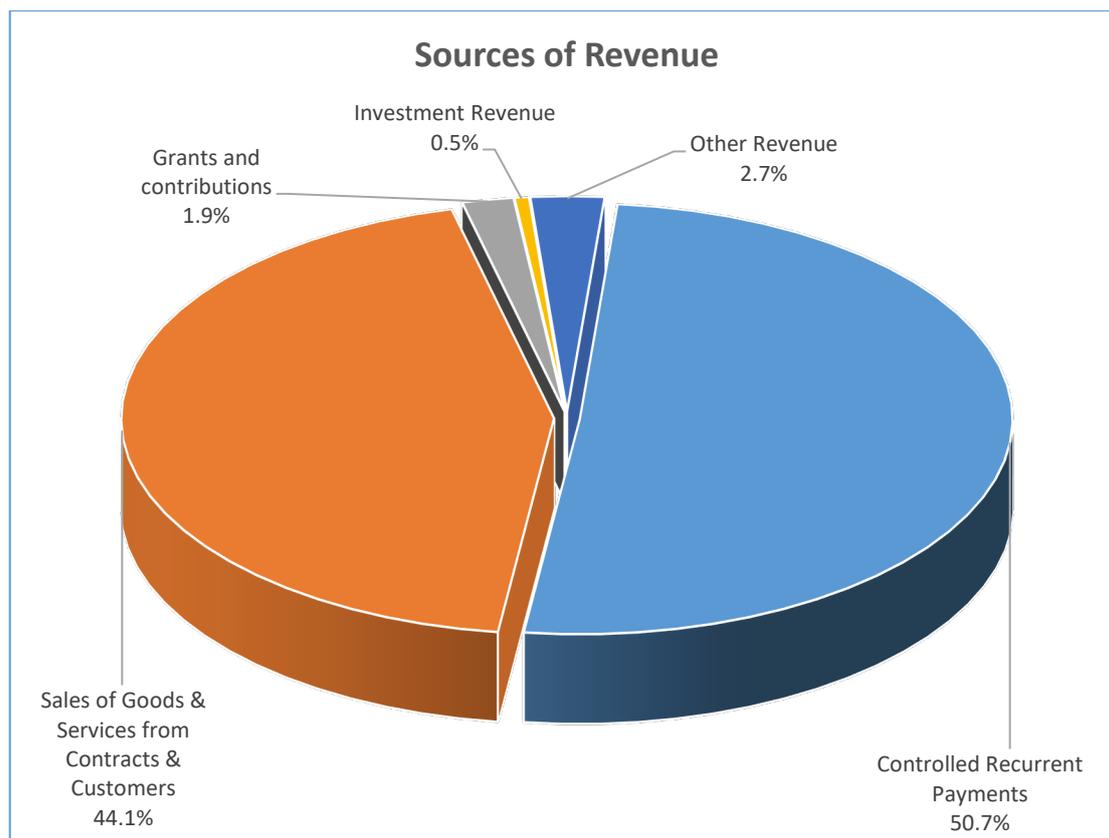
**Figure 1 – Operating Statement Trends**



## Total Revenue

Figure 2 indicates that for the financial year ended 30 June 2020, the CFC received **49.3%** of its total revenue from sources other than ACT Government Appropriations (Controlled Recurrent Payments). This was made up primarily of revenues from hiring out theatres and selling tickets to the public for the performing arts.

**Figure 2 - Sources of Revenue 2019-20**



### *Comparison to Budget*

Total revenue for the year ending 30 June 2020 was **\$18.078m**, which was **\$0.603m (3.2%)** lower than the 2019-20 budget of **\$18.681m**. This lower than expected result was mainly due to the effect of COVID-19 restrictions on the CFC's theatre business in the 2019-20 financial year.

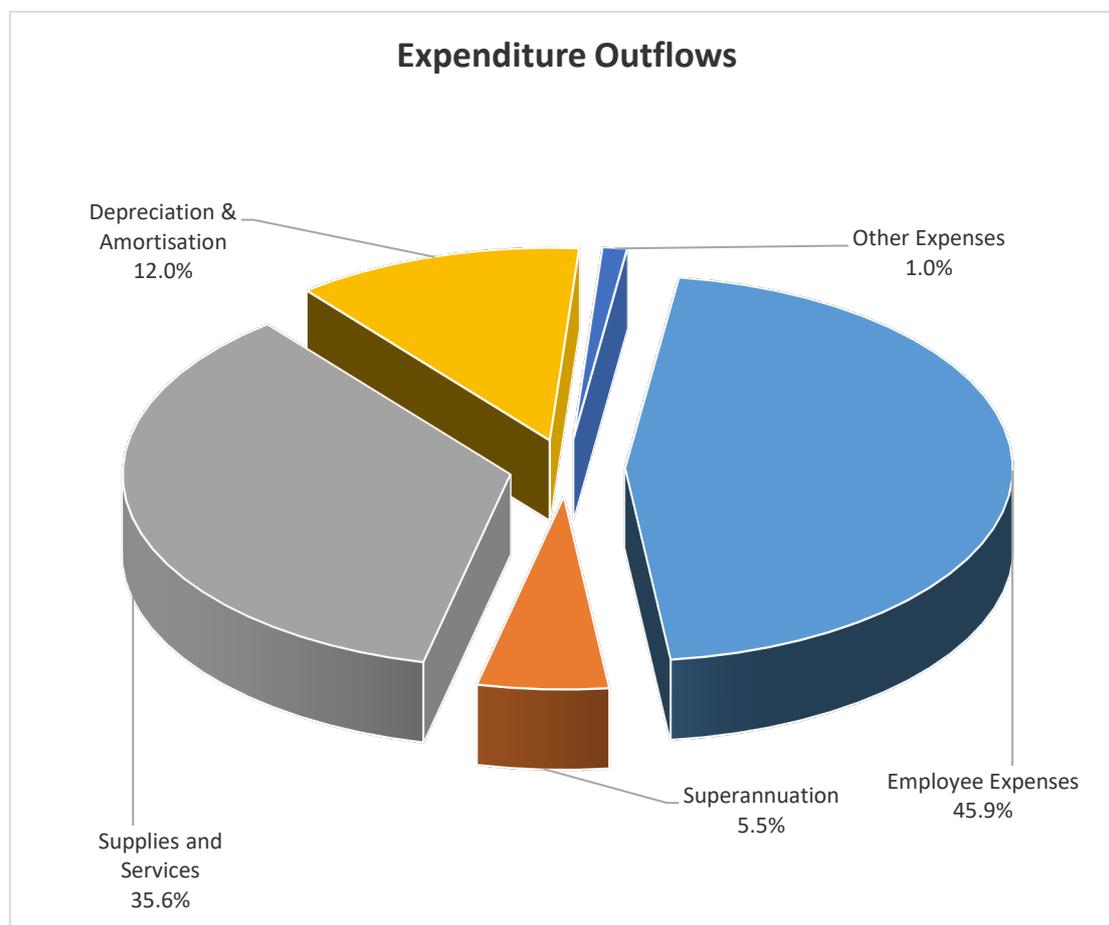
### *Comparison to 2018-19 Total Revenue*

Total revenue was **\$1.834m (9.2%)** lower than the 2018-19 actual result.

## Total Expenditure

Figure 3 indicates that for the financial year ended 30 June 2020, the CFC spent **51.4%** of its total expenditure on employee and superannuation expenses.

**Figure 3 - Components of Expenditure 2019-20**



### Comparison to Budget

Total expenditure for 2019-20 of **\$21.826m** was **\$0.689m (3.3%)** higher than the 2019-20 Budget of **\$21.137m**. The higher than expected expenditure was mainly due to higher Employee Expenses (**\$1.285m**) offset by a reduction in Supplies and Services (**\$0.844m**).

Employee Expenses were higher than anticipated, due largely to higher casual staff costs resulting from larger volumes of activity at the Canberra Theatre Centre before the closures due to COVID-19. Following the closures, casual staff continued to be engaged and paid in accordance with ACT Government policy. Supplies and Services were lower than budget, due largely to lower production costs and royalties resulting from the COVID-19 closures of the Canberra Theatre Centre.

### Comparison to 2018-19 Total Expenditure

Total expenditure was **\$0.253m (1.1%)** lower than the 2018-19 actual result.

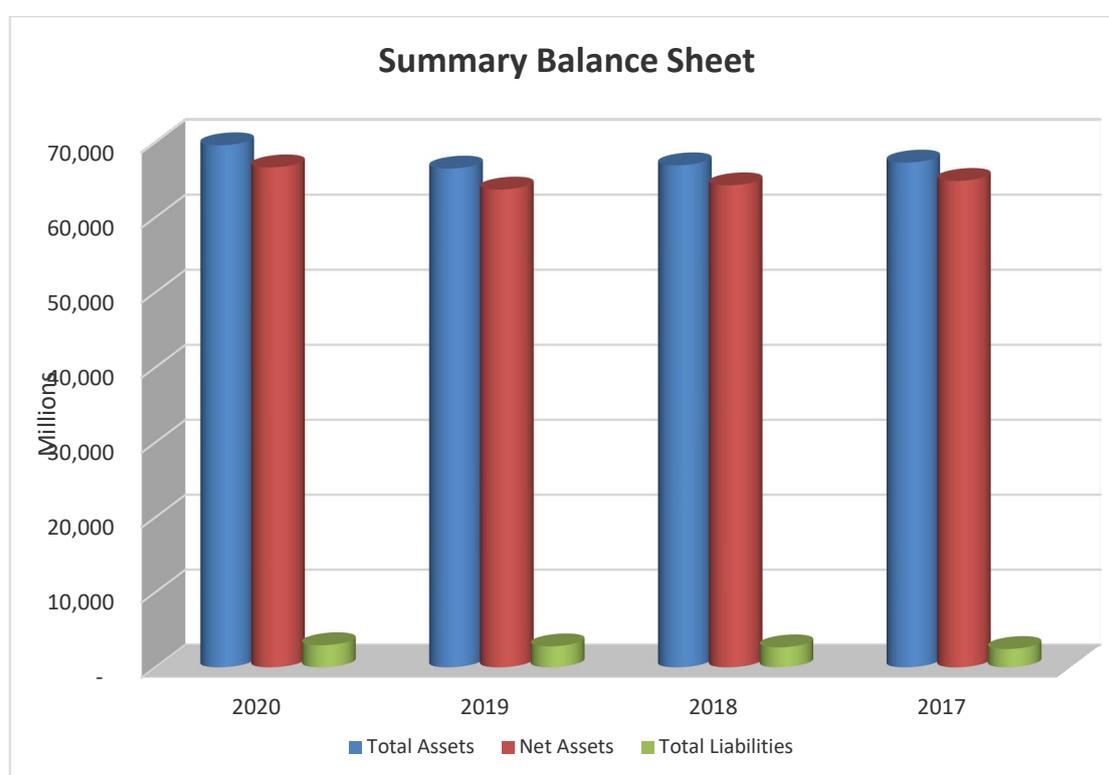
## Financial Position

Key indicators of the health of the CFC's financial position are its ability to sustain its asset base, its ability to pay debts falling due in the short-term, and its maintenance of prudent levels of longer-term liabilities.

### Sustained Asset Base

The ability of the CFC to sustain its asset base is indicated by changes in its net assets. *Figure 4* indicates that, at the end of 2019-20, the CFC maintained a strong net asset position through implementation of a program of upgrading assets and maintaining low liability levels.

**Figure 4 - Summary Balance Sheet**



### Comparison to Budget

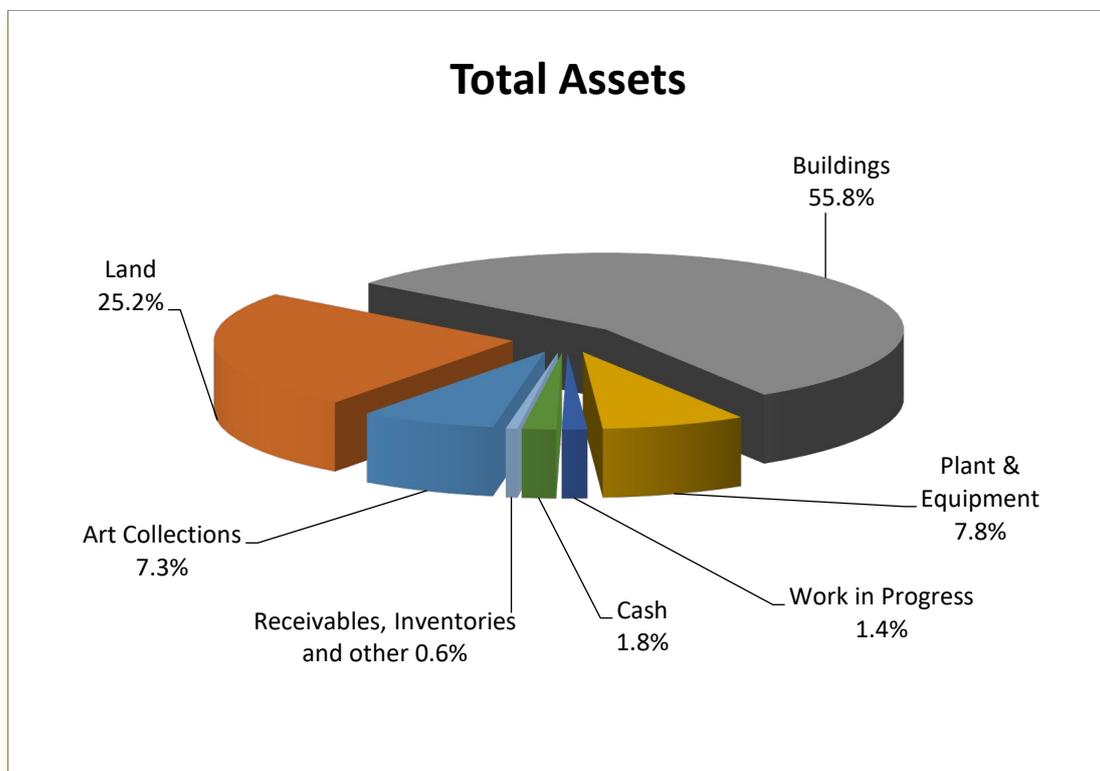
The net asset position as at 30 June 2020 of **\$66.679m** was **\$3.116m (4.9%)** higher than the 2019-20 budget of **\$63.563m**.

### Comparison to 2018-19 net assets

The 2019-20 actual net asset position was **\$2.960m (4.6%)** higher than the 2018-19 actual position, mainly due to upwards movements in asset values resulting from triennial asset revaluations conducted at 30 June 2020.

Figure 5 indicates that as at 30 June 2020, **97.5%** of CFC's assets were Property Plant and Equipment.

**Figure 5 – Total Assets**



*Comparison to Budget*

Total assets of **\$69.628m** as at 30 June 2020 were **\$3.236m (4.9%)** higher than the 2019-20 budget of **\$66.392m**, due to upwards movements in asset values resulting from triennial asset revaluations conducted in 2019-20.

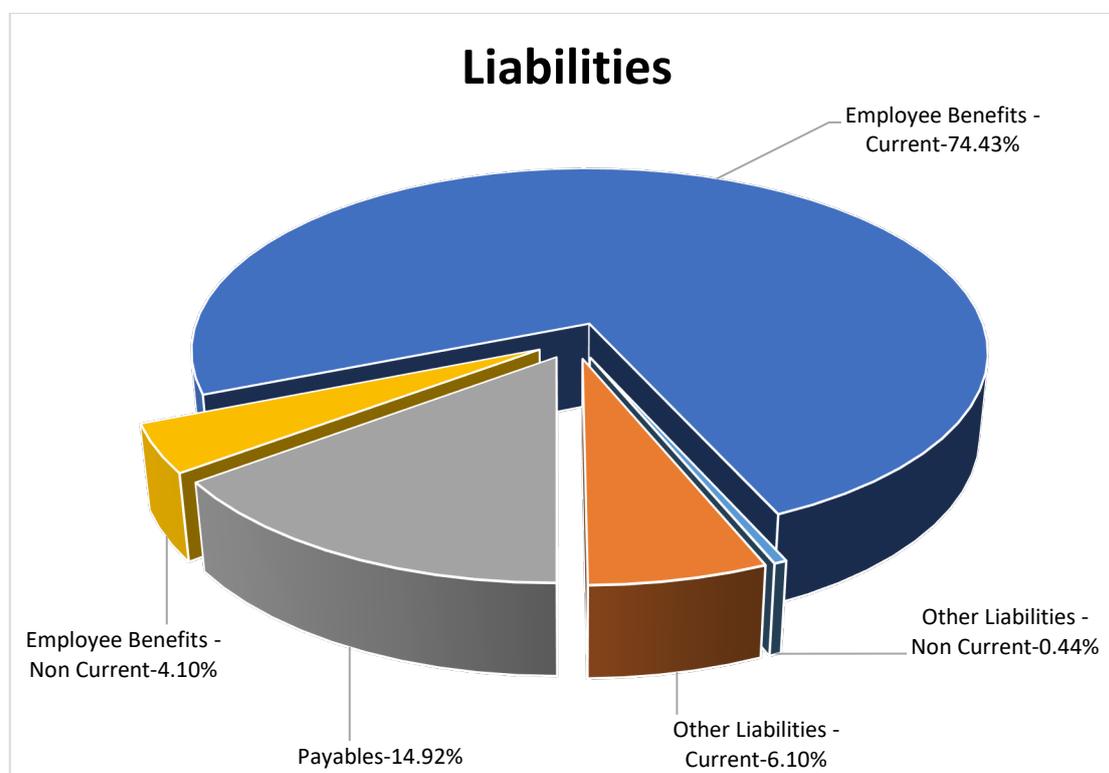
*Comparison to 2018-19 Total Assets*

The total assets as at 30 June 2020 were **\$3.110m (4.7%)** higher than the total assets as at 30 June 2019.

## Liabilities

Figure 6 indicates that the majority of the CFC's liabilities relate to Employee Benefits (which include Annual Leave and Long Service Leave Provisions) and Payables.

**Figure 6 - Liabilities**



### *Comparison to Budget*

The current liability position as at 30 June 2020 of **\$2.815m** was **\$0.148m (5.5%)** higher than the 2019-20 budget of **\$2.667m**. The difference was mainly due to higher Employee Benefits as at 30 June 2020, mainly as a result of higher leave balances as CFC employees taking lower amounts of Annual Leave due to the COVID-19 situation, including travel restrictions.

### *Comparison to 2018-19 Liabilities*

The 2019-20 current liability position was **\$0.142m (5.3%)** higher than the 2018-19 actual position. Mainly due to an increase in Employee Benefits as previously discussed.

## Liquidity

'Liquidity' is the ability of the CFC to meet its short-term debts as they fall due. As at 30 June 2020, the CFC's current assets (**\$1.720m**) were less than its current liabilities (**\$2.815m**) by **\$1.095m (38.9%)**, mainly due to the effect of the COVID-19 restrictions on the CFC. This is not, however, considered a liquidity risk as the CFC's cash needs are funded through appropriation by the ACT Government on a cash-needs basis. This is consistent with the whole-of-Government cash management regime, which requires excess cash

balances to be held centrally rather than within individual agency bank accounts.