

## **ANALYSIS OF GOVERNMENT'S SUB OPTIMAL 'SUMMARY' BUSINESS CASE OF THE 'FINAL BUSINESS CASE' FOR 'MOVING' THE POWERHOUSE MUSEUM. 16 May, 2018**

The 'Summary Business Case' (SBC) significantly fails to represent the costs and the offsets of the "move" of the Powerhouse Museum to Parramatta and the repurposing of the Ultimo site currently occupied by the Museum. There is no justification for withholding the Business Case from the public. The SBC fails at even the most elementary level and therefore cannot be considered as a valid basis for progressing the project. The costs are wildly understated and the gain from likely visits and revenue is significantly overstated. The basis for calculations is undocumented and likely significantly exaggerated. The proposal involves unacceptable risks to the care of, and access to, the MAAS collections. There are far better options available for use of Government owned land in Parramatta. Consultations have been inadequate and various options insufficiently considered; the views of Trustees ignored.

In summary the SBC provides no justification whatever for the 'move'. The options for provision of a museum development in Parramatta have not been made available in sufficient detail to allow considered judgement by residents of Parramatta and other stakeholders. Though business interests and some, often temporary local government officials have strongly supported the proposals in fact the Parramatta City Council has had little or no role in the decision-making. Various groups in Parramatta and other western suburbs have different views as to the most desirable options for such a development. The size and location of the proposed Parramatta site pose severe problems and the proposition that a planetarium be associated with the museum is very poorly justified. The proposal is not set within an overall policy framework for museums and relevant cultural development for New South Wales or within Treasury Guidelines.

***Some of the key issues are identified here briefly; much more detail can be made available.***

- Government has not followed its own Treasury Guidelines **[Note 1]**. This fundamentally abrogates/destroys the 'Summary' at the core of this 'plan'.
- Government profoundly underestimates the project development costs **[Note 2]** closer to \$1.24 bn
- Government has wildly overstated the visitation, net income and trading of the new facility **[Note 3]**
- Government has held a pretend consultation process and disregarded what they heard (PMA members were at two meetings) and have misrepresented almost all of that **[Note 4]**
- The new museum will be smaller, with far less volume than the present Ultimo facility **[Note 5]**
- It will get flooded and trying to remediate that is very expensive and possibly cannot be done **[Note 6]**
- The big objects – most – will not be on display **[Note 7]**
- The Planetarium and (?) IMAX are not commercially viable **[Note 8]**
- Government's claim it has no plan for the Ultimo site is patently false since it has noted its intent to insert a Lyric Theatre and 'Fashion' Museum into the space as well as having made calculations as to the value potentially to be realised through site sale to Developers. This implies they have a preliminary plan for the site **[Note 9]**. But is it functional, acceptable, usable and viable?
- The Benefit Cost Ratio [BCR] will, based on this analysis, be far below acceptable Government guidelines required of such projects **[1.0]** – like other ones they are undertaking **[Note 10]**
- They have wildly overestimated the cost of Ultimo renewal **[Note 11]** at \$500 million +.
- And grossly underestimated the value of existing fit-for-purpose museum assets at Ultimo **[Note 12]**.
- And evaded true benefits which will go to Developers on the two sites especially Ultimo **[Note 13]**.
- They have dismissed the MAAS Board's final position that the new museum must not co-share the Riverbank site **[Note 14]**
- Even forgetting those issues, they have stacked and wilfully mis-manipulated the numbers to try to creep over the BCR line **[Note 15]**
- Government in the Upper House and in the media is misleading the public **[Note 16]**
- It dares not release the complete so-called Business case – it is irredeemably faulty **[Note 17]**

- There are no Commercial-in-confidence reasons why not **[Note 18]**.
- Cabinet in confidence? This is not a nuclear reactor **[Note 19]**

No one has yet forced Government to acknowledge these discrepancies – or admit their totally inadequate financial analysis based on their own documentation. This ‘Summary Business Case’ is one of a lengthy list of under-costed, scandalously inept fiscal statements about the project, going back to the first one with its \$200 million costing. Government is robbing the regions, the people of Western Sydney and Inner West, and the city of Sydney, with a fiscal black hole and are misleading everyone, again.

**Show the ‘Final Full Business Case’ now.**

#### NOTES:

- **Note 1:** "The Business Case takes as its starting point the Government’s strategic decision in 2016 to relocate the Powerhouse from Ultimo to Parramatta. It then evaluates three options for the Museum" SUMMARY, PAGE 6

The following is extracted from the record of the Upper House hearing on 6 June 2017, page 4.

The Hon. WALT SECORD: ‘To follow up on the question unanswered by Mr Limkin, you talked about broad options. Is one of the options in consideration to scrap the move to Parramatta?’

Mr LIMKIN [Project Lead Planner]: ‘I think that is... worked out as part of the business case... We have not taken anything off the table yet. We are looking at all the options and then what are the criteria that you can use to... properly accept... [which] is part of...Treasury guideline O805... [which] says how you actually do a business case and that is the process we are following to... do that’.

Mr Limkin states that all the options are being looked at, yet the 2018 business case Summary lists only three options, all of which are specifically predicated on the move of the museum. No [many better] options outside this basic diktat are considered in the summary. There is clear evidence that such options have never been seriously considered. What Mr Limkin was trying to say was that the business case was being prepared in accordance with the New South Wales Treasury Policy and Guidelines Paper: tpp 08-5, issued by the Office of Financial Management in December 2008, entitled ‘Guidelines for Capital Business Cases’. Assuming that this interpretation is ‘actually’ correct, the issued document bears little resemblance to the requirements of tpp 08-5. Government started with the answer and selectively and dishonestly proceeded backwards to try to justify it.

- **Note 2:** Calculations in detail showing Government have wildly underestimated capital and related costs. “The assumptions underpinning each of these forecast benefit streams are documented in detail in the Summary Business Case." PAGE 7. (This is not the case).

**Construction costs:** estimated for each option by expert advisers Rider Levitt Bucknall, with appropriate contingencies and allowances for risks and client-side costs. Capital cost variances between the options are driven largely by differences in floor space requirements." PAGE 6, bottom of page.

The numbers (see their table below and outline calculations next):

Modern high quality museum buildings now come in around \$14,000 per M2.

So 21,200 M2 at \$14,000 = **\$297 million** and add a factor of approximately 60% to get THE

ENORMOUS VOLUMES AND FLOOR LOADINGS REQUIRED TO SHOW OFF BEAM ENGINES,

CATALINAS AND LOCOMOTIVES/TRAINS etc. = approx. **\$178 million** (we would have to see the

detailed plans and costings to ascertain what they have allowed for this);

PLUS SIGNIFICANT FLOODING MITIGATION COSTS (unknown but PC out at **\$40 million** to take

into account climate change progressing);

PLUS, say, 14,000 M<sup>2</sup> of dense, costly exhibitry ( to include a Planetarium and Imax type screen as shown in images in package) at, say, \$14,500 per M<sup>2</sup> = **\$203 million**

PLUS the rest of the front of house at, say, \$10,000 per M<sup>2</sup> = 4,200 M<sup>2</sup> X \$10,000 = **\$42 million**;

PLUS back of house (far too small; almost no storage on site just offices etc.), 3,000 M<sup>2</sup> at \$8,000 per M<sup>2</sup>= **\$24 million**,

PLUS parking for 300 cars in a flood prone area = say \$8,000 per M<sup>2</sup> X 3000 M<sup>2</sup> = **\$24 million**

and there are other associated special building costs with this landlocked site with minimal street access.

All up the above comes to **around \$800 million, plus**, which is what the consulting architect told the Inquiry last year for the building envelope alone. The whole project construction cost is likely to be far more on this basis but we are holding to conservative estimations.

Then add in a PC for the replacement of Ultimo storage at Castle Hill (probably not to the same standard) at approx. **\$100 million**. These dollars are **PRESENT DOLLARS** and we have no idea of what the detailed engineering requirements have allowed for. Only the detailed Business Case will show that.

Add in a building cost/exhibition cost inflation factor on this figure, compounding at least at 5%, one gets easily **over 1.1 billion \$ by 2023**.

Then add in a factor for overages usually set at 10% and we are up to around **at least \$1.24 billion for construction and fit out alone – see end Appendix for other costs which must be added to this total and the Summary's table of costs**. And we know iconic [sic] buildings always run late, cost more, have variations and their contractors screw the Government. This Government has a very poor track record in such cases.

- **Note 3: Market research:** There are no calculations based on any data or research purporting to represent market research presented, as required by standard Cost Benefit calculations, in respect of a public entertainment venue such as stadiums or museums. Detailed modelling is claimed in the Summary but is not evidenced in any form. Since the Benefits are calculated partly on this data and modelling the only source of such would be the 'Final Business Case' which Government will not publish. No commercial undertaking seeking finance would get to first base under this circumstance. The fact that public funds are being utilised makes this even more scandalous. This avoidance of modelling presentation is reminiscent of the so-called Market Analysis Reports commissioned by the then Administration of Parramatta Council in 2017, tabled by the Administrator, which is the subject of forensic analysis by Dr Sharp in a January 2018 Submission (148n) to the Upper House Inquiry. The so-called Market Analysis Report failed completely in regard to its projections.
- **Note 4:** To demonstrate their veracity Government should release the detailed market and audience research protocols, questions and data which they claim has 'reached' 500,000 people-whatever that means. Usually in such cases if primary research has taken place any desired answer can be achieved by structuring the questions asked, selecting target respondents carefully to get desired answers and then manipulating the data sets by selective modelling algorithms. The fact that Government, despite requests for access to this modelling, has always denied access is telling. Where access was provided by Parramatta's Administrator the base data supplied to the consultants [effectively by Government] was risible. And failed to look at any other options (See Submission to Upper House Inquiry 148 n). There is overwhelming evidence

that Parramatta citizens and organisations would prefer other alternatives, e.g. development of the Fleet Street site Australia's premier remaining unrestored Heritage Precinct, to the erection of a new museum building on the suggested flood-prone constricted site, with super dense unit development of Fleet Street instead. The official record of the July 2017 public Parramatta Consultative meeting bears scant resemblance to what was said by participants. PMA have their own notes. [https://maas.museum/app/uploads/sites/8/2017/08/The-MAAS-Project\\_Parramatta-Summary.pdf](https://maas.museum/app/uploads/sites/8/2017/08/The-MAAS-Project_Parramatta-Summary.pdf)

- **Note 5:** The Powerhouse Museum has 60,000 cubic m of display volume in its massive halls and spaces with exhibition and public areas of 23,000sqm, of a total floor space of 35,000sqm. The government's mooted 18,000sqm of exhibition and public space for the Parramatta museum – 5,000sq m less and the achievable display volume is estimated at around 16,000 cubic m – a third of the volume of the Powerhouse. The costs of comparable volumes at Riverbank would be exceptionally costly (see above Note 3). These estimations assume the heritage buildings on the riverbank site are demolished as would be expected of this heritage-averse government. For factual data on comparative figures see the archived Collections Australia Network website (a project run by PHM from 2008 to 2014) stating that the exhibition area is about 20,000 sq m. The 'public space' is greater than that, including education rooms, circulation spaces, theatres, cafes, shop, library, rest rooms and the outdoor seating and play area hence 23,000 m2 minimum. See <https://trove.nla.gov.au/people/573769?c=people>
- **Note 6:** Future flooding of Parramatta Riverbank site: See Submission 174 by Dr John Macintosh, one of Australia's leading Flood Assessment experts, from January 2018. Dr Macintosh notes future risks to human life and located collections as being unavoidable at this site providing a detailed assessment and concludes: ' I would urge the Committee to consider revising their Recommendation 4 as follows: That the NSW Government release the full business case and flood hazard appraisal for the Powerhouse Museum and all assessed proposals to the committee and the community for full public consultation before making its final decision'. This Government has comprehensively failed to do so.
- **Note 7:** Government's risible animated video 'walk through' of the project shows a few large objects stranded by themselves in unarticulated circulation and display spaces. Most of the large objects like the Catalina are not accounted for. Clearly no interpretive planning has occurred in the last year. This 'walk through' could be prepared as an undergraduate, first-year /101- level exercise. The costs Government admits to do not permit anything close to a comparable display of large objects at the project on the Parramatta Riverbank site and none of the expensive and risky issues related to removal from Ultimo and relocation in Parramatta's land-locked flood-prone site are addressed anywhere in the Summary Business Case.
- **Note 8:** Government's announcement visuals show a walk through and vapid images of a presentation in a Planetarium/IMAX type facility – possibly an Omnimax. In most cases around the world and especially where a Planetarium is operated by a Museum or Science Centre, the facility is operated at a loss and the original capital is sourced through philanthropic donations primarily. These facilities are loss leaders at best, are dated and there is negative evidence that potential visitors under 40 years of age would regard them as worth spending money to view. They are increasingly well provided for by HDTV and VR options. Wollongong's Science Centre has a good working example yet that is not highly profitable if at all. No Business Case modelling based on reliable costings capital/operational are provided in the summary. It will prove to be a black hole fiscally.

- **Note 9:** Government's proposal to 'convert' the magnificent Powerhouse Museum to a Lyric Theatre (1500 patrons per show if full compared with annual visitation to the museum of hundreds of thousands of people from a wide demographic) and, a fashion and design museum has no planning or modelling underpinnings. The Powerhouse Museum is already a leading museum which presents fashion as an integral part of a wide spectrum of decorative arts and design as well as social history, science, technology and engineering. These disciplines are not separate entities – they make up an interrelated, powerful holistic collection. What it does illustrate is that Government is misleading NSW since to make these announcements they must have some kind of working plan. The fact they say they do not have a finalised 'Masterplan' is misleading persiflage.
- **Note 10:** Government claims that the Benefit Cost Ratio for this project is greater than 1:0 as required by Treasury protocols. On the evidence shown above this is patently false. Add the evidence below and it appears to be scandalously misleading.
- **Note 11:** In articles in *The Daily Telegraph* illegally (according to its own rules) leaked by Government or its agencies, the cost of restoring and renewing the buildings and facilities at Ultimo are put at \$500 million +. This is based on a 'Report' to Government supplied by MAAS in mid-2014. Just taking the ambit claim in the MAAS inept 'Plan' from 2014 at face value where they said the facilities are 'no longer fit for purpose' leads to a host of questions. How can the Louvre (C14 in part) or the British Museum (C 18 in part) or the V&A (C19 in part) or the Science Museum (early C20 in part) all be fit for purpose but essentially 30-year-old Powerhouse Museum buildings not be? All this was unsubstantiated to begin with. A government Report from 2012 noted:

***"PWC NSW Infrastructure, Recreation and Arts baseline Report, 2012***

***4.5.3 Asset condition and maintenance***

***The Museum Applied Arts and Sciences have estimated backlog maintenance of \$1.8m.***

***The average condition of the facilities of The Museum of Applied Arts and Sciences built assets and infrastructure were ranked as good with moderate deterioration," p.35.***

***[Pages 33-37 includes detailed graphs on asset maintenance, funding and requirements.]***

Expert volunteers at MAAS note that they do not believe the 2014 report was even remotely accurate. The only way to establish real costs of renewal is to undertake a detailed engineering and building survey. Government have only carried out a back of a beer coaster estimate which is about as reliable as the beer stains on the coaster might be in indicating real costs.

- **Note 12:** The other side of the waste of assets debased coin canvassed by Government's misleading statements about Ultimo renewal costs is that existing, purpose-designed, fit for purpose, magnificent museum spaces are being sacrificed and squandered for no net benefit and at great cost to the NSW public. The real value of these magnificent buildings is in the hundreds of millions of 2018 \$. If Government challenges this let them show their calculations as expressed in the Final Business Case. Just doing some straightforward calculations at the per m2 costs noted above shows these facilities to be worth over \$500 million including the Harwood Building which has almost perfect storage and work conditions for the collections and skilled staff.
- **Note 13:** The value of the two sites to Developers is deliberately being underweighted by Government at approx. \$350 million. This would be surprising except that if the true value were expressed it would be seen to be – at sale prices for mixed development and units with

Government controlled levels of super density development – in the \$ Billions. A 50 or 60-storey unit block tower, already outlined by Government, on the Riverbank site can deliver massive profits to a developer on a 1.2 hectare site; in the hundreds of \$millions. The Ultimo site – approximately 6.2 hectares – is the last site next to Darling Harbour available for super-dense development. With up to 8 60-storey towers on top of mixed use development the final sale values could be in the \$billions. Government must hide this or underplay it because the politics and optics are terrible. This IS a developer-driven pact with greed. So the ‘final’ business case, based on a cynical financial approach with super dense development, would be much stronger than shown but Government dare not outline the true numbers attached which their Developer friends are salivating over. The Summary explicitly states that the development of both sites is essential to its Benefit Cost Ratio but fails to properly state true developer value indicating a gift to rent-seeking corporations: *‘Integral to the Business Case and the financial analysis it contains is the ability to partially offset the Project’s costs by divesting a portion of the Riverbank site to facilitate residential development. The Business Case includes a Development Options Assessment which examines a range of options for residential, commercial and mixed use development on the Riverbank site and estimates the revenues associated with each, along with revenues from property development on part of MAAS’s current premises at Ultimo. These revenues are then factored into the Business Case’s financial and economic analysis.’*

- **Note 14:** In mid-2016 the Board of MAAS wrote to the Premier saying that the irreducible requirement for MAAS was that MAAS had complete control of the entire Riverbank site. The Board has now clearly been forced to accept a deeply sub-optimal circumstance and has lost control of the site. It appears to have lost control of the entire project (unlike 1979-1988) and of the process to deliver the splintered shards of a Fashion and Architecture Museum on the post-2023 Ultimo site. Its letter was properly based at least in respect of MAAS operational requirements for the Parramatta Riverbank site. The Board should consider its position after this shameful retreat. This appears to be a classic case of Government suborning, overwhelming and corrupting good governance. Some senior players may have massive conflicts of interest.
- **Note 15:** The Benefit Cost Ratio based on the comments and figures above is far less than the 1:0 required as a minimum by Treasury protocols. Even if this were not accurate Walt Secord MLA has established that on Government’s own calculations, even with no costs increased or benefits over valued, the BCR fails because the multiplier used was faulty. With the factors noted above one can confidently point out that this project is a fiscal catastrophe waiting to happen. With those noted in the Appendix below this becomes a certainty.
- **Note 16:** Government has deliberately misled the Upper House, the media and the people of NSW based on the above data and comments. If they have confidence this is not the case let us in PMA debate them after being given time to analyse the so-called ‘Final Business Case’. The one which Government told the two public consultation meetings in 2017 would fully answer all questions and criticisms made at those events and in the media.
- **Note 17:** By failing to release the ‘final Business Case’ and relying on a ‘SUMMARY’ which is full of critical data gaps, fiscal calculation gaffes and a plethora of unsubstantiated, misleading statements Government is effectively admitting the FBC is completely sub-optimal and not to be relied on especially since it does not even meet basic Treasury protocols and requirements.
- **Note 18:** There are no sound commercial in confidence reasons why this so-called ‘Final Business Case’ [FBC] may not be released. The basis for all quantifications is supposedly within Treasury rules and agreed processes. There are open statements already made about putative developer

values- only calling for EOIs and then actual firm proposals would rightly be subjected to Commercial-in-confidence conditions. The rest of the documentation, the Summary says, is about base data underpinning the engineering, architectural and curatorial planning. Certainly the Parramatta Administrator's release of two market analysis reports revealed no sensitive secrets. What is so secret and commercially sensitive about this so-called FBC?

- **Note 19:** So why Cabinet-in-confidence? This is not a defence facility or a nuclear reactor. There are no State Secrets, as it were, enjoined here. This is a public cultural facility shrouded in unnecessary secrecy. There can only be one reason: it is largely faulty, wildly inaccurate and prejudicial on its own contents to Government's completely sub-optimal and mendacious public statements and evasive case. It should be released for scrutiny.
- **See APPENDIX:** for additional project costs improperly unaccounted for.

#### **CONCLUSION:**

**So at the Summary's core the costs are wildly understated. The comparative scale of the project is significantly over stated. The basis for calculation of benefits accruing is unbelievable, undocumented and unproven (as with all data and calculations in the 'Summary'). The method of calculation is faulty and deliberately fudged. The process does not meet Treasury guidelines. The risks and access to the MAAS collections are unacceptable. The justification for the 'move' is untenable. There are far better options available utilising Government owned land (such as the Cumberland Hospital/Fleet Street Heritage site). This appears unequivocally to be Developer-driven and as ineptly planned pork-barrelling. More to do with winning lower house seats than cultural equity. Hidden behind a false cloak of 'consultation'.**

**Dr Lindsay Sharp, on behalf of the Powerhouse Museum Alliance  
16 May, 2018**

For more background, see also:

<https://powerhousemuseumalliance.com/2018-business-case-and-comments/>

## APPENDIX: Additional project costs improperly unaccounted for:

The inaccuracies and improper accounting applied in the Summary mean that Government's Cost Benefit results are scandalously misleading.

Additional costs for:

- 'Lifecycle costs: the costs associated with replacing assets once they reach the end of their useful lives'.

Who knows? We cannot cost this – there are no details.

- 'Project operating costs: transitional costs associated with re-locating MAAS's collection to Parramatta, installing new business systems and re-tendering existing supply contracts'.

These are wildly understated unless they dump objects in boxes and move them using Grace Bros; plus marketing, training, recruitment, etc. etc. Completely inadequate but just how much we cannot tell until seeing underlying reports.

- 'Operating costs: ongoing costs, including wages and salaries, utility costs, advertising and maintenance'.

We cannot make any judgements here – no details or underpinning reports are provided and we are not sure why this was included. It is Consolidated Revenue mainly and one supposes it is to gain a basis for offset against/calculation of Benefits? Unusual to do so and many assumptions are not explained and are made. This should never be Net Present Value calculated as in this case. They are basic costs known now and will continue being affected by the so-called efficiency dividend and inflation- currently roughly equal.

Need detailed underpinning calculations and Reports to assess. In the case of a Planetarium and/or IMAX these are commercial black holes. The Planetarium alone adds significantly to capital costs and operational costs. They are a fiscal black hole. Also one should add an interactives heavy display installation which is expensive to run. No details!

And there is an assumption about donations to the project? From whom? How much? And no calculation of the loss of benefactors after this forced move. Nor of the decline in visitation likely after the first flush of post opening. No market analysis. No detail but significant Benefit assumptions completely glossed over.

- Land acquisition: the opportunity cost to Government of acquiring the Riverbank site for the New Museum. The Government has agreed an option price for the site of \$145 million in nominal terms. This is NPV'd back down to \$115 million incorrectly- it is \$145 million." PAGE 7

Table 1 - Cost benefit analysis: SUMMARY PAGE 8

Cost [Benefit] Analysis Outputs - Present Value – 6.88% Discount Rate - (\$FY18, \$m)

	Option 1	Option 2	Option 3
<b>Costs</b>			
Construction costs:	\$488.0	\$615.0	\$640.5
Life cycle costs:	\$30.3	\$38.9	\$42.5
Project opting costs:	\$25.4	\$25.4	\$25.4
New Mus optg costs:	\$285.5	\$310.8	\$355.9
Land acquisition:	\$115.0	\$115.0	\$115.0
<b>Total costs:</b>	<b>\$944.2</b>	<b>\$1,105.2</b>	<b>\$1,179.3</b>

These cost figures are challengeable on first principles. If they are far higher – which is certain – it greatly outweighs any potential benefits. This whole farrago of a project does not stack up in any of the key Cost Benefit areas at first sight. More data and details are needed to show this item by item. It indicates massive under-costing; a complete lack of following Treasury NSW's own Cost Benefit steps, rules and protocols; massive economy of the truth from Minister and Premier. And a project whose Cost Benefits are cost negatives on a major scale.

This is one of the worst examples of such so-called Business Cases for a major Government project yet seen. The Minister should resign or be fired.

Then there are the Development aspects which demonstrate yet more selling off of Public Assets to private rent-seeker corporations.