LATE REPORT NO 2
ORDINARY MEETING
28 FEBRUARY 2018

LATE REPORT - OFFICE RELOCATION INVESTIGATION, BIRIPI WAY, TAREE

Report Author	**Steve Embry, Acting General Manager**
File No. / ECM Index	**Commercial Industrial Premises: Cnr Manning River Drive and Biripi Way**
Date of Meeting	**28 February 2018**

REPORT SUMMARY

This report was presented to the Strategic Committee held on 14 February 2018 and Council resolved:

"That Council defers this decision until the next formal Council meeting on 28 February 2018 and that the matter be discussed at the Workshop to be held on 21 February 2018."

The Workshop was held on 21 February 2018 and Council can now reconsider the original report.

The purpose of this report is to:

- provide the final Business Case prepared by Savills Project Management Pty Ltd which details the initial cost benefit analysis of the proposed office relocation to the newly acquired 2 Biripi Way, Taree site (**Project**) and

- consider the due diligence proposal prepared by Montlaur Project Services Pty Ltd (**Due Diligence Proposal**).

In accordance with Council's resolution to proceed to the Initiation Stage of the project, Montlaur Project Services has been appointed as the project manager to undertake the next stage of investigations (Due Diligence Proposal) and potentially other project management services on a staged basis regarding the possible office relocation. The result of the proposed investigations will allow Council to make an evidenced-based decision on whether to proceed to the Ready to Design stage.

SUMMARY OF RECOMMENDATION

That Council:

1. Note the contents of this Report in relation to the final Business Case prepared by Savills Project Management Pty Ltd and the Due Diligence Proposal prepared by Montlaur Project Services Pty Ltd.

2. Accept the services, costs and program set out in the Due Diligence Proposal and proceed with those investigations as part of the Initiation Stage of the Project.

FINANCIAL/RESOURCE IMPLICATIONS

As part of the Initiation Stage, Montlaur has prepared a Due Diligence Proposal which sets out the proposed activities, costs and program for all initial investigations necessary (including concept design and quantity surveyor report preparation) to determine the Project feasibility. The cost of these investigations is $152,000. This can be funded from Council's Land Development Reserve.

LEGAL IMPLICATIONS

Montlaur will be responsible for identifying (based on an appropriate procurement process having regard to the scope of services) relevant consultants capable of undertaking the services outlined in the Due Diligence Proposal and appointments of those consultants will be made by Council based on Council's standard consultancy agreement.

ATTACHMENTS

A: Final Business Case prepared by Savills Project Management Pty Ltd
B: Due Diligence Proposal prepared by Montlaur Project Services Pty Ltd with commercial in confidence information removed
C: **Confidential**: Due Diligence Proposal prepared by Montlaur Project Services Pty Ltd

Attachment C has been classified as confidential and circulated to the Councillors and Senior Staff only. The Attachment has been classified as **CONFIDENTIAL** in accordance with Section 10A(2)(c) of the Local Government Act 1993 for the following reasons:

(c) information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business

It is considered that it would be contrary to the public interest to reveal confidential details contained in the proposal as Montlaur has provided a detailed breakdown of estimated pricing, which if disclosed to the general public would jeopardise any proposed procurement process necessary to appoint relevant consultants.

BACKGROUND

Prior to the Council meeting on 20 December 2017, a draft Business Case was prepared by Savills and distributed to Councillors for information and review. Also prior to the Council meeting on 20 December 2017, Mr Marcus Paget-Wilkes presented the Business Case to Councillors and answered all queries regarding the content of the draft Business Case (**Workshop Discussions**).

At the Council meeting held on 20 December 2017 Council adopted the following resolution:

"That Council:

1. *Acknowledge the contents of the draft Business Case prepared by Savills Project Management;*
2. *Note the preliminary finding by Savills that after weighing up the costs and benefits of the relocation of the administration operations to a single site at 2 Biripi Way, Taree **(Single Site Option)** against the refurbishment of the existing four administration sites and continued operation of a campus model **(Campus Option),** the Single Site Option is the preferred option;*
3. *Endorse the Gateway Process outlined in the Report;*

4. *Proceed to further investigate the Single Site Option in conjunction with the Project Manager (as part of the Initiation Phase) on the basis that the project is feasible and potentially affordable (subject to further investigation);*
5. *Note that the Project Manager will oversee the next stage in investigations being the preparation of a high level project program and budget for the project* ***(Program and Budget Report);*** *and*
6. *Require that the Program and Budget Report be submitted to Council for its approval before proceeding to the next stage in the project."*

The Gateway Process endorsed by Council for the project comprises the following stages and provides for a number of decision points. At each decision point Council will review the findings of investigations and determine whether to proceed with the Project.

1. **Initiation Stage** focussing on the project concept: This stage involves Council agreeing that the project is feasible and potentially affordable following consideration of the high level Business Case, subject to further investigation (this was resolved at the Ordinary Council Meeting on 20 December 2017). Council would also need to commit resources to develop a Due Diligence Proposal to investigate concepts to inform the design and confirm the high level feasibility result of the Business Case (this step is the subject of this report following the update report to Council at the Extra Ordinary meeting on 24 January 2018). In addition, the design scope would need to be agreed and the funding strategy investigated and confirmed (this step will occur once Council has considered the results of the Due Diligence Proposal). This stage is broken down into a number of decision points.

2. **Ready to Design Stage** focussing on design, costs and funding: Council would need to agree and specify updated and refined costs, benefits, risks, funding sources and project program. At this stage, resources would be committed to design and refine costs and schedule estimates.

3. **Ready to Build Stage** focussing on construction: This stage involves acceptance of the pre-construction activities and project outcomes as well as confirmation that stakeholders have been engaged and accept those outcomes. Procurement processes and tenders will need to be assessed and successful tenderers appointed. Construction undertaken in accordance with agreed project parameters and specifications to ensure that it meets required outcomes.

4. **Ready to Occupy Stage** focussing on occupation and operation: Agree that the solution provided meets the requirements and is ready to accept handover of the works and occupation.

5. **Finalisation Stage**: Agree on costs, benefits and lessons learned.

At the Council meeting on 20 December 2017 it was acknowledged that this process will be refined as the project parameters, scope and outcomes become more certain.

After a tender process, Montlaur Project Services Pty Ltd was appointed as the successful tenderer and awarded the contract for project management services in connection with the Project.

The spend to date on professional advice procured by Council to reach this stage in the project (excluding costs in relation to the purchase of the site) is $55,500 (plus GST). This expenditure includes preparation of the Business Case, a high level concept design to determine if the building would be suitable for accommodating 400 staff, initial quantity surveyor on high level design and valuations on existing administrative offices in Forster and Taree.

CURRENT STATUS

Savills has updated and issued to Council the final Business Case (Annexure A).

Montlaur has been briefed on the Gateway Process that has been approved by Council.

As part of the Initiation Stage, Montlaur was asked to prepare a high level summary of the following:

- An estimate for the likely cost of all necessary investigations (including concept design and quantity surveyor report preparation) in order to determine project feasibility; and
- A program outlining the anticipated timing of those investigations.

In response to that request, Montlaur has prepared a Due Diligence Proposal which outlines the proposed activities, costs and program required to determine project feasibility. A copy of the Due Diligence Proposal is attached at Annexure B. Annexure C is a more detailed proposal which is confidential as it contains details which would impact on obtaining best value from proposed procurement processes if disclosed.

At the conclusion of the activities outlined in Montlaur's proposal, a report will be presented to Council to enable it to consider whether the Project is feasible and determine whether or not to proceed to the next stage of the Project.

The following is a summary of the Due Diligence Proposal:

- The estimated total cost for services referenced in the Due Diligence Proposal is $152,000 (plus GST);
- The program for provision of the services is estimated to be 10 to 12 weeks

The proposed services, costs and program appear to be fair and reasonable having regard to the desired outcome for this phase of work. The findings of the investigations included in the Due Diligence Proposal will inform a report to Council to enable an evidenced-based decision on whether or not the Project is feasible and should proceed to the next Gateway Process stage.

On the basis of the information outlined above and in the Due Diligence Proposal, it is recommended that the Due Diligence Proposal be endorsed by Council.

RECOMMENDATION

That Council:

1. Note the contents of this Report in relation to the final Business Case prepared by Savills Project Management Pty Ltd and the Due Diligence Proposal prepared by Montlaur Project Services Pty Ltd.

2. Accept the services, costs and program set out in the Due Diligence Proposal and proceed with those investigations as part of the Initiation Stage of the Project.

ACTING GENERAL MANAGER

ATTACHMENT A

LATE REPORT 2 - OFFICE RELOCATION INVESTIGATION, BIRIPI WAY, TAREE

ORDINARY MEETING

28 FEBRUARY 2018

Examining the Costs and Benefits of the relocation of Mid-Coast Council's Administration Offices

A Business Case and Cost Benefit Analysis for Mid-Coast Council

(Final)

January 2018

savills project management

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Controlled Document Register

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- Version: Version 3 - Final Report
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- Prepared by: Belinda Lawler (Savills)
- Released to: MCC

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Executive Summary

Background

Mid-Coast Council (MCC) has recently undertaken two key organisational change events which have impacted the natural balance of workplace culture and organisational effectiveness:

- A three-way merger of the former Greater Taree City, Great Lakes and Gloucester Shire Councils
- Dissolution of MidCoast Water and integration into MCC just over a year after the three-way merger

Staff now inhabit legacy sites that are dispersed over a large area in separate locations. Teams and administration support functions remain separated. A culture survey[1] completed in August 2017 demonstrates a non-constructive workplace culture with the primary styles being Passive / Defensive followed by Aggressive / Defensive. These two styles are the least value adding for customers, stakeholders and staff of MCC. Importantly, MCC employees have expressed a clear desire to have a constructive culture.

Options

To reduce operational costs and to improve organisational efficiencies and culture, MCC is now considering different options of accommodating its staff. MCC is examining the costs and benefits of fitting out and relocating staff from its four primary administrative offices to a ‘Single Site’ in Biripi Way, Taree, or refurbishing the existing four administration buildings (sites in Taree and Forster) and remaining in what MCC calls a 'Campus’ option.

There is a third option that has been considered - the 'Do Nothing' Option. Under this option, MCC would continue to operate as is - that being to maintain staff at four separate offices without any physical relocation of team members and continuing to maintain those offices without any substantial refurbishment.

Whilst in theory, the ‘Do Nothing’ option is available to MCC to consider, in practice it is not a viable option for the following reasons:

- The majority of the equipment is beyond its useful life - this is particularly relevant for the organisation's ICT resources (which is outlined in more detail in Appendix 3)
- Several of the offices require substantial refurbishment and renovation to continue to operate (including a new roof for the MCC Administration Offices, Breese Parade, Forster (MCC Admin Forster))
- MCC Admin Forster is already at maximum capacity
- There would be a substantial increase in staff travelling in work time to undertake activities that are required to be performed (as teams would remain separate despite the continuing amalgamation of business process)

[1] More information on a comparison of the 2016 & 2017 survey can be found in Appendix 1 of this briefing.

- The improvements in culture would take longer to realise which would likely have detrimental effects on staff turnover, productivity and integration
- The opportunity for operational efficiencies would be minimal

On this basis, the Do Nothing option has not been explored further in this Business Case. As such, this report examines the cost and benefits of the following two options only:

- The 'Campus' option is to retain and refurbish the two existing MCC Administration offices in Taree and Forster, and the two former Water Services (MCW) offices in Taree and Forster. The Biripi Way property would be sold
- The 'Single Site' option assumes the sale of the existing four offices and transfer of MCC administrative functions to the Biripi Way site. A customer service counter will remain in one of MCC's buildings in Forster for face to face services

Objectives

To guide the analysis of the two options, the following project objectives have been established:

- Improved work efficiencies and culture
- A net financial benefit based on
  - annual operational costs
  - forecast asset maintenance
- A neutral economic benefit

Cost Benefit Analysis

A Cost Benefit Analysis (CBA) was prepared to assess all of the costs and benefits of the two nominated options. More specifically, the following costs and benefits were examined;

- Benefits (revenue) realised from selling surplus accommodation
- The cost of construction or refurbishment of new or reconfigured accommodation
- The cost of the accommodation fit-out and furniture, finishes and equipment (FF&E)
- The cost of maintaining the accommodation (including repairs and maintenance)
- The operating costs of the accommodation (such as utilities)
- The residual value of the accommodation at the end of the investment period
- Any benefits realised from 'operational efficiencies' such as:
  - increased work output of teams being collocated together,
  - aligning computer systems,
  - reducing the amount of travel time during work hours, and

- cultural benefits such as a more engaged workforce and reduced staff turnover

The table below presents the CBA results for each option. All values are 'present values' for January 2018, obtained by discounting future expenses (shown in the table below as a positive value) and revenues / savings (shown in the table below as a negative).

Table 1 CBA results: present value for January 2018

Option	Single Site Option (A)l	Campus Option (B)	Net Difference (A-B)
Property Sales (net of selling costs)	-$14,560,628	-$6,429,480	-$8,131,148
Initial Capital Outlay (excluding land/building acquisition)	$20,114,756	$12,599,050	$7,515,707
Asset Renewal Costs	$8,556,835	$13,572,587	-$5,015,752
Residual Asset Value	-$16,657,795	-$8,335,681	-$8,332,114
Operating Costs	$11,016,322	$14,009,810	-$2,993,489
Operational Efficiencies	-$110,865,656	-$41,148,901	-$69,716,755
Total Value	-$102,396,166	-$15,732,614	-$86,663,552

Conclusion

With the exception of Initial Capital Outlay, the table above demonstrates that the Single Site option returns greater benefits or less costs for all other impacts: higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies. The Single Site option has a greater net benefit than the Campus option.

The Single Site option, under this Cost Benefit Assessment is the Preferred Option.

1.0 Background

1.1 Purpose of this report

This Business Case has been prepared on behalf of the Mid-Coast Council (MCC) to assist in identifying the costs and benefits of consolidating operations to a Single Site Option for its administration and civic functions.

MCC acquired 2 Biripi Way, Taree (Biripi Way) with a view (subject to Business Case and further analysis) to redevelop it as MCC's new administrative centre, thereby consolidating MCC's current operations across four separate sites (in Taree and Forster) into one site.

MCC is now examining the costs and benefits of fitting out and relocating staff to this "Single Site", rather than refurbishing the existing four buildings (sites) and remaining in what MCC calls a "Campus", or multi-site option. This Business Case specifically identifies the;

- Current service need and the existing assets and resources available to meet the need
- Two high level options to be explored in the Cost Benefit Analysis (CBA)
- The best value for money option for MCC
- Financial and economic costs and benefits of each option
- A possible funding strategy for the preferred option

This report follows the Guidelines for Capital Business Cases, TPP 08-5. NSW Treasury (2008) and associated investment evaluation guidance material.

1.2 About Mid-Coast Council

MCC was formed by NSW Government proclamation on Thursday 12 May 2016. Subsequently, MidCoast Water was dissolved on 1 July 2017 and its assets and functions integrated with MCC. The new MCC area and its regions:

- Covers more than 10,000 square kilometres
- Has 190 kms of coastline
- Has 3,590 kms of road and 487 bridges
- Has a population of over 90,000 people

MCC administrative functions currently operate from four separate sites which are located at;

- MCC Administration Taree (used for Council administration) - Pulteney Street, Taree
- MCC Administration Forster (used for Council administration) - Breese Parade, Forster
- Water Services Taree (used for Water Services administration) – Muldoon Street, Taree

- Water Services Forster (used for Water Services administration) - Breese Parade, Forster

MCC also has a regional administration presence which will be maintained (and is excluded from this Business Case) at

- King Street, Gloucester
- Myall Street, Tea Gardens
- Church Lane, Stroud

It should also be noted that should a Single Site solution be chosen;

- All MCC Depots and other MCC facilities will remain operational
- A customer service function will remain at Forster at a site to be determined

2.0 The Service Need

2.1 The Need

MCC and its staff are committed to serving their community. MCC has recently undertaken two key organisational change events which have impacted the natural balance of workplace culture and organisational effectiveness:

- A three-way merger of the former Greater Taree City, Great Lakes and Gloucester Shire Councils
- Dissolution of MidCoast Water and integration into MCC just over a year after the three-way merger

Staff now inhabit legacy sites that are dispersed over a large area in separate locations. Teams and administrative support functions remain separated.

The four legacy sites and associated staff numbers (i.e. building capacity) are:

- Manning area
  - MCC Administration Taree - Pulteney Street, Taree – capacity of 100 staff
  - Water Services Taree – Muldoon Street, Taree – capacity of 59 staff
- Great Lakes area
  - MCC Administration Forster – Breese Parade, Forster – capacity of 137 staff
  - Water Services Forster - Breese Parade, Forster – capacity of 58 staff

The challenge of operating multiple offices in Forster and Taree is having a negative impact on productivity, morale and cohesiveness. There is a significant level of frustration which is impacting on the culture at MCC.

MCC now seeks to address these impacts and non-constructive workplace culture by improving the physical workplace environment and streamlining business operations.

Figure 1 Admin Building, Pulteney Street, Taree

Figure 2 Former MCW Building, Muldoon Street, Taree

2.2 Objectives

The objective of this Business Case is to investigate the costs and benefits of relocating MCC to a Single Site versus the current campus option, and therein determine a preferred method of operations.

Specifically, the following project objectives have been established:

- Improved work efficiencies and culture
- A net financial benefit based on
  - annual operational costs
  - forecast asset maintenance
- A neutral economic benefit

Figure 3 Admin Building, Breeze Parade, Forster

Figure 4 Former MCW, Breeze Parade, Forster

2.3 Options

Three viable options were initially identified;

- Option 1 – A Campus Option where existing assets are refurbished and adapted to the needs of the organisation
- Option 2 – A Single Site Option that sees the amalgamation of the majority of staff into a single building
- Option 3 – Continue to operate as is; also considered a "Do Nothing" Option

The third 'Do Nothing' Option was considered not viable and therefore not pursued in this Business Case. Each remaining option involves a moderate amount of construction and re-arrangement of internal fit out, and movement of staff to alternative offices to amalgamate teams and operational functions. The two remaining options explored in this Business Case are detailed in the table below.

Table 2 Options

Option	Description
Option 1 (Campus Option)	The Campus Option explores re-using the existing assets, refurbishing the fitouts, undertaking necessary renovation works and relocating teams to Forster or Taree buildings, depending on the business' best fit. This option contemplates; - MCC operating the four existing and separate sites in Taree and Forster - Refurbishing and completing some lifecycle maintenance (most notably a new roof for MCC Admin Forster) on the four buildings to accommodate different business streams - Staff will need to move between the four buildings to align teams and support functions - Staff will also need to move within the four buildings as MCC seeks to upgrade and refurbish the offices - The Biripi Way site will need to be leased or sold (for comparison purposes, this Business Case assumes that the site will be sold)
Option 2 (Single Site Option)	Relocation to the MCC Single Site. This option contemplates; - Providing accommodation for MCC staff largely within the existing footprint of the Biripi Way Site in Taree - Relocating staff from four offices in Taree and Forster - It also considers the highest and best repurpose / sale of the legacy sites (for comparison purposes, this Business Case assumes that the four sites will be sold) - A small number of staff will remain in Forster to maintain a level of customer service in the area

It should be noted that each option excludes consideration of:

- Adjoining Water Services Depot at Muldoon Street, Taree
- Adjoining Library at Taree, Library at Forster and Community facilities at Forster
- MCC Building at Gloucester
- All other MCC district offices, depots, libraries and community facilities

These facilities will operate as business as usual.

2.4 Stakeholder Consultation to Date

A number of stakeholder discussions have been undertaken with staff, Local Government New South Wales Industrial and Councillors to inform and instruct the options above.

Organisational Culture

A culture survey[1] completed in August 2017 demonstrates a non-constructive workplace culture with the primary style being Passive / Defensive followed by Aggressive / Defensive. These two styles are the least value adding for customers, stakeholders and staff of MCC.

The Culture Survey and an explanation of the types of culture measured can be found in Appendix 1 of this report. Importantly, MCC employees have expressed a clear desire to have a constructive culture. The Senior Executive team recognises the importance of and supports a focus on organisational culture.

Efforts to improve culture will continue to be hampered by the existing dispersed operations. A move to a centralised location is seen as one of the most significant actions that can be undertaken to facilitate and support the desired culture shift.

Human Resources (HR) and Employee Compensation

A high level investigation has been undertaken by HR in regards to identifying employees who are most affected by the potential office relocation. HR are of the view that the relocation of staff is possible and accords with Clause 15 (x) of the Local Government (State) Award.

Where an employee is entitled under the Award, MCC may permit that employee to travel in normal work hours and / or will be provided with a transport/ vehicle allowance.

Local Government New South Wales Industrial agree with HR's views on the relocation of staff and add that each employee's unique circumstances will need to be considered and care must be taken to prevent discrimination, especially against those with carer responsibilities.

Consultation with Councillors

The first MCC elections were held in Sept 2017. During October and November 2017, MCC's General Manager held high level discussions with the Mayor and Councillors in respect of the merits of Option 2, over Option 1.

On 2 November 2017, MCC resolved unanimously to pursue the purchase of the Biripi Way site - with the view that further investigation would be undertaken in respect to using it as MCC Administration Offices.

[1] More information on a comparison of the 2016 & 2017 survey can be found in Appendix 1 of this briefing.

2.5 Strategic Plan and Alignment

Operational Plan

MCC’s current 2017/18 Operational Plan incorporates a plan for the delivery of Civic Leadership for its community through:

- *Objective 12* - Develop and maintain sound organisational health through leadership, staff, and culture that contributes to MCC's success and a positive customer-centric culture.
    - *Strategy 12.1* - Develop an organisational culture that focuses on the delivery of quality outcomes while providing job satisfaction
    - *Strategy 12.2* - Implement an integrated program that focuses on the continuing development of leadership capability throughout the organisation
    - *Strategy 12.3* - Support a strong diverse leadership and a culture that values performance and adaptability
    - *Strategy 12.4* - Develop and maintain a skilled, motivated and accountable workforce
    - *Strategy 12.5* - Provide good governance

Long Term Financial Plan

The objectives of this plan are to ensure a balanced budget for MCC over the Long Term. Reducing Operational Costs will contribute to this.

3.0 Cost Benefit Analysis of the Options

A Cost Benefit Analysis (CBA) was completed by Peter Dempster of Syneca Consulting.

A CBA examines all identifiable costs and benefits of each option over a period of time. It converts all total 'costs' and 'benefits' to today's dollars, and then discounts them by a Weighted Average Cost of Capital, or as in this case, the cost of borrowings. This value is the key investment criteria being the 'Net Present Value' of the option. A positive value implies there is more benefit than cost associated with the option.

A cost benefit ratio is an alternative investment criteria that examines the proportion of benefits divided by the costs of the project. A cost benefit ratio greater than 1 implies there is greater benefits than costs for that option.

3.1 The options

There are two options considered in the CBA, as the third option (as noted earlier in the report) has already been discounted as not a viable option. Options considered are:

- The Campus Option is to retain and refurbish the two existing MCC Administration offices in Taree and Forster and the two Water Services offices in Taree and Forster. The Biripi Way property would be sold
- The Single Site Option is to sell the existing four offices and transfer MCC's administrative functions to the Biripi Way site. Face-to-face services for the Forster/Tuncurry area will remain in one of MCC's buildings in Forster

3.2 Cost benefit Analysis

Examined for each option were the following costs and benefits;

- The benefits realised by selling surplus accommodation
- The costs of construction or refurbishment of the accommodation
- The costs of the fit out of furniture and equipment in the offices
- The operating costs of the accommodation (such as utilities)
- The cost of maintaining the accommodation (including repairs and maintenance)
- Any benefits created by 'operational efficiencies' arising by amalgamating the business (such as increased work output of teams located together, aligning computer systems, reducing the amount of travel time during work hours, cultural benefits such as a more engaged workforce and reduced staff turnover)

The table overleaf provides a financial breakdown of these costs and benefits; where a negative value is a benefit or a savings, and the positive value is a cost or an expense. The total figures in this table illustrate that Single Site Option (-$102.40m) has a substantially greater net benefit than the Campus option (-$15.73m). This is due to;

- The expected operational efficiencies clearly dominate, particularly the contribution of a Single Site to the improvement of MCC's workplace culture

- Property sales and residual value, the latter because Single Site leaves MCC with a younger asset with more years of useful life. The base building at Biripi Way was constructed in 2014 and the fitout would be new
- The difference in capital replacement expenses makes a modest contribution, reflecting a known cost of re-roofing MCC Admin, Forster, also the higher cost of IT and audio-visual gear in the Campus Option
- The saving on building operational, maintenance and other operating costs is the least significant factor

Table 3 Breakdown of financial costs: present value for January 2018 (Note: negative costs are financial revenues or savings)

	Present values, January 2018		
	Single Site	Campus	Incremental cost of Single Site relative to Campus option
Property sales, net of associated costs			
Biripi Way	$0	-$6,429,480	$6,429,480
MCC, Forster	-$5,616,272	$0	-$5,616,272
MCC, Taree	-$5,235,709	$0	-$5,235,709
MCW, Taree	-$1,299,401	$0	-$1,299,401
MCW, Forster	-$2,361,013	$0	-$2,361,013
Sale of fitout	-$48,233	$0	-$48,233
Subtotal	-$14,560,628	-$6,429,480	-$8,131,148
Initial capital outlay – construction cost			
Base building	$1,777,081	$20,012	$1,757,069
Internal walls and finishes	$3,223,201	$2,015,556	$1,207,645
Services	$6,803,664	$3,107,353	$3,696,311
FF&E, ex IT and audio-visual	$968,667	$1,075,792	-$107,125
Margins and adjustments	$5,491,163	$2,708,696	$2,782,467
IT and audio-visual	$1,850,981	$3,671,640	-$1,820,660
Subtotal	$20,114,756	$12,599,050	$7,515,707
Capital replacement expense			
Base building	$0	$1,860,411	-$1,860,411
Internal walls and finishes	$1,420,355	$1,008,631	$411,724
Services	$1,866,753	$1,321,103	$545,651
FF&E, ex IT and audio-visual	$1,032,186	$1,018,794	$13,391
IT and audio-visual	$4,237,542	$8,363,649	-$4,126,107
Subtotal	$8,556,835	$13,572,587	-$5,015,752
Residual value			
Base building	-$4,599,059	-$3,664,958	-$934,101
Internal walls and finishes	-$1,308,885	$0	-$1,308,885
Services	-$2,890,094	-$1,156,038	-$1,734,057
FF&E, ex IT and audio-visual	-$671,864	-$793,053	$121,189
IT and audio-visual	-$7,377,897	-$2,719,815	-$4,658,081

	Present values, January 2018		
	Single Site	Campus	Incremental cost of Single Site relative to Campus option
Subtotal	-$16,847,799	-$8,333,865	-$8,513,934
Operating costs			
Building O&M	$11,998,382	$14,443,641	-$2,445,259
Vehicle expenses	-$2,741,147	-$2,192,918	-$548,229
Travel allowances	$1,759,087	$1,759,087	$0
Subtotal	$11,016,322	$14,009,810	-$2,993,489
Operational efficiencies			
Short term: travel efficiencies	-$3,793,165	-$3,034,532	-$758,633
Medium term: operational efficiencies	-$30,843,753	$0	-$30,843,753
Long term: cultural transformation	-$76,228,738	-$38,114,369	-$38,114,369
Subtotal	-$110,865,656	-$41,148,901	-$69,716,755
TOTAL	-$102,396,166	-$15,732,614	-$86,663,552

The Table below presents findings in the form of cost benefit analysis of the Single Site relative to the Campus option (that is the difference between the values of the Single Site and the Campus option, or how much better the Single Site Option is when compared to the Campus Option). This is called the Baseline CBA.

All values are 'present values' for January 2018, obtained by discounting future expenses and savings to 'the present'. For the Baseline CBA and using MCC's cost of borrowing as the discount rate (5% nominal, 2.94% real), we find that:

- There is a single initial 'cost' of $7.52m that the Single Site incurs compared to the Campus Option, as the initial construction costs are higher.
- The Single Site returns greater benefits for all other financial impacts when compared to the Campus Option. These benefits take the form of higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies – all relative to the Campus Option. Again, these are the present values of future values and savings that have been discounted to January 2018. The 'benefits' tally to $94.18m.
- The investment criteria – net present value (NPV) and benefit/cost ratio (CBR) – are strong. The NPV is large and positive, at $86.41m; the CBR greatly exceeds 1.0.

The assessment remains positive when large benefits are excluded, specifically, cost efficiencies and residual value. It is also positive for all variations at the higher discount rate of 7% real, the rate mandated by NSW Treasury for state government agencies.

Therefore whilst both options return a net benefit, the Single Site Option is significantly better than the Campus Option.

Table 4 Cost benefit analysis of Single Site relative to the Campus option: present values for January 2018

	Baseline CBA	Excluding cost efficiencies	Excluding cost efficiencies and residual values
Panel A - MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)			
Investment cost – initial construction cost	$7,515,707	$7,515,707	$7,515,707
Benefits			
Property sales, net of associated costs	$8,131,148	$8,131,148	$8,131,148
Capital replacement costs	$5,015,752	$5,015,752	$5,015,752
Operating costs (building O&M, vehicle costs, travel allowances)	$2,993,489	$2,993,489	$2,993,489
Residual value of buildings after 20 years	$8,322,114	$8,322,114	
Cost efficiencies (travel time, operational efficiencies and contribution to workplace culture)	$69,716,755		
Total benefits	$94,179,259	$24,462,503	$16,140,389
Net present value	$86,663,552	$16,946,797	$8,624,683
Benefit cost ratio	12.5	3.3	2.1

Panel B - Impacts on other MCC stakeholders

- Access to MCC services by ratepayers and others in the Great Lakes area: no significant difference between Single Site and Campus option
- Staff travel costs due to longer commutes: for those entitled to compensation under the Award - no significant uncompensated losses and for other staff, no significant difference between Single Site and Campus option
- Economic losses due to the diversion of household and MCC spending: the Single Site Option diverts household and MCC spending from Tuncurry-Forster to Taree, starting small but growing over time. This impact has not been quantified and it may be difficult to provide a credible assessment

Panel B of the table above summarises findings in respect of other MCC stakeholders, impacts on whom are included in a full economic appraisal. There are no significant losses for the customers and staff of MCC, given the intention to maintain counter services in Forster and the obligation to meet award requirements in respect of affected staff entitled to compensation.

Economic losses due to the diversion of household and MCC spending have not been quantified and, even with more time and resources, it may be difficult to provide a credible estimate. Displaced labour and capital find alternative employment in time, and quite quickly when economic conditions are reasonably good, as seems to be the case in the key towns of MCC, Forster-Tuncurry and Taree. Unemployment is falling, and labour forces are growing.

3.3 Conclusion

The cost benefit analysis strongly favours the Single Site Option; the baseline assessment returns an NPV of $86.66m and a benefit/cost ratio of 12.5, relative to the Campus Option.

This strong result reflects MCC's assessment that the Single Site is critical to the achievement of generic cost efficiencies but the 'building economics' are also sound.

An Economic Impact Assessment (EIA) would provide more information about the economic effects of diverting household and MCC spending from Forster-Tuncurry to Taree (not quantified in this assessment). However, it is important to note that an EIA is quite different to a CBA. An EIA may identify a reduction in spending that, in principle, can be given zero weight in a CBA. This happens if the displaced resources quickly find alternative employment, which depends on other sources of strength in the local economy and how rapidly spending is diverted.

Nevertheless, the very large savings from operational efficiencies and improved workplace culture that the Single Site provides confirms its position as its preferred option.

4.0 The Preferred Option

4.1 Detail of the Preferred Option

The Preferred Option is the relocation of the MCC administration team to the Single Site.

This option contemplates;

- Providing accommodation for MCC Administration Staff largely within the existing footprint of the Biripi Way Site, Taree
- Relocating administration staff from four offices in Taree and Forster
- A small number of staff will remain in Forster to maintain a level of customer service in the area
- Sell the four legacy sites
- Continue to improve culture and operational efficiencies
- The project to be completed in just over 12 months

4.2 Program Milestones

Key milestones nominated by MCC's project team for the Single Site option are tabulated below (indicative only).

Table 5: Key Milestones of the Single Site Option

	Item	Status
1	Contract Settlement on Site	Completed 4/12/17
2	Initiation Stage Gateway- Agree that the project is feasible and potentially affordable, and further design work is required.	Commenced 20/12/17
3	Ready to Design "Gateway" - Agree and specify updated/refined costs, benefits risks and schedule	
4	Design and DA documentation - Commit resources to design and refine cost and schedule estimate	
5	DA Lodged & Approved	
6	Ready to build "Gateway" - Accept option and stakeholder acceptance, pre-tender estimate and procurement method, to proceed with tender(s).	
7	Construction and fitout	
8	Ready to occupy "Gateway" - Agree that the option provided meets the	

	requirements and is ready to accept and occupy	
9	Occupy & operate - Handover and acceptance of the project including operation and maintenance requirements	
10	Finalise “Gateway” - Agree on costs, benefits, and lessons learned	

4.3 Budget

4.3.1 Development Budget

The following table is a summary of the costs of the work to date, and a forecast of future works for the project.

Table 6: Total Estimated Costs of the Preferred Option

Item	Cost
Professional Services and Preliminary Work to Date	
Valuations	$12,500
Acquisition Costs Including Legal Fees	$18,000
Site Acquisition	$7,000,000
Architect	$6,710
Subtotal Costs to Date	*$7,037,210*
Construction Cost and Future Work	
Construction work – base building	$1,777,081
Construction work – internal walls/finishes	$3,223,201
Construction work - services	$6,803,664
FF&E, excluding IT and audio-visual	$968,667
Margins and adjustments*	$5,491,163
Add IT and audio-visual	$1,850,981
Add external works and contributions	$0
Subtotal Future Works	*$20,114,756*
TOTAL	**$27,151,966**

*. Margins and adjustments also include preliminaries, builder's margin, a contingency of 12% of construction cost, authority fees and charges, project management fees and change management fees.

4.3.2 Operational Budget

The estimated annual operational budget is approximately $90 per sq m, or $827,100 per annum.

4.4 Value Management

Throughout detailed design and delivery of the project, value management activities are to be undertaken including:

- ensuring the design meets the budget with risks identified and mitigations strategies prepared; and
- holding value management workshops and value engineering sessions to address not only budget issues but to ensure all components of the facilities go through a rigorous design/options/costing process to ensure enhanced 'best value' quality outcomes are achieved.

4.5 Funding the Project

The acquisition of the site ($7 million) has been paid for out of internal cash reserves. It is proposed that these internal cash reserves will be repaid by an external borrowing (repayable over 20) years through normal MCC avenues (i.e. TCorp).

Preliminary assessment by MCC management indicates that the loan repayments on this loan can be accommodated through MCC revenues. The likelihood of TCorp approving the loan borrowings would be subject to the normal approval process of TCorp.

A financing strategy will need to be compiled to determine the optimum solution in respect of the project's financing. It is expected that a further loan would be required to finance the facility refurbishment/fit-out costs of approximately $20.1m (which excludes the initial purchase price; total borrowings are currently forecast at $27.2m).

It is anticipated that the loan borrowing rate for both loans would be at around four to five per cent.

The financing strategy would ensure that MCC has the capacity to repay any loans. The financing solution will be factored into MCCs Long Term Financial Plan.

In addition to existing sources of revenue to service the debt, there may be opportunity to reduce the debt by selling or leasing MCC Administration Buildings and MidCoast Water Buildings in Taree and Forster that will become vacant once MCC consolidate into a single building.

4.6 Implementing the Preferred Option

MCC is currently procuring a Project Manager who will prepare and implement an Implementation Plan for the project. It is foreshadowed the Implementation Plan will feature:

- Project Management Plan
- Detailed Program
- Governance Strategy
- Procurement Plan
- Resourcing Strategy
- Risk Management Plan incorporating a Risk Register

- Stakeholder and Communication Plan
- Change Management Strategy
- Benefits Realisation Plan

4.7 Sustainability

Crucial to delivering an energy efficient building is applying passive design principals where possible, such as natural ventilation systems, good solar access and orientation, and controlled natural daylighting through high performance facades.

The site has good access and orientation. Potential for the use of renewable energy, strive to use of water efficient fixtures, recycled water for the irrigation of the public domain and recycled materials will be explored through the design phase.

4.8 Risk Management

The appointed Project Manager will be responsible for developing a comprehensive Risk Management Plan in accordance with the Australian Standard AS/NZS 4360:2004 which sets out general risk management and business continuity planning process, management accountabilities and approach to systematically manage risk.

The following table identifies a number of high level risks and proposed mitigations strategies.

Table 7 Potential Risks and Mitigation Strategies

Risk	Mitigation
Counsellors do not resolve to ratify the move	Provide this Business Case so MCC can make an informed decision in the best interest of MCC staff and customers.
MCC do not secure funding	MCC Finance Staff to analyse what the total borrowing requirements will be and its impact on the borrowing Ratios to determine if TCorp are likely to lend. A sensitivity analysis based on the cost of funds will be undertaken to determine the impact of going to private market.
Inadequate engagement of employees and the community impacts project progress	Implement a change management plan including regular consultation and communication with employees and other stakeholders throughout the process.
Customer and staff accessibility to the site, and amenity for staff on the Single Site option will be important for the viability and success of the redevelopment.	MCC is currently exploring options to increase the accessibility of the site to Taree CBD and MCC's regions. Current options include encouraging food vans to visit the site, a community bus for staff and customers to travel from Forster, encouraging flexible work practices for employees. These options will need to be further explored during Stakeholder Consultation and Change Management initiatives.

5.0 Conclusion

With the exception of Initial Capital Outlay, the Single Site Option returns benefits for all other impacts: higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies – all relative to the Campus Option. These are present values of future values and savings that have been discounted to January 2018. The benefits tally to $94.17m.

The investment criteria – net present value (NPV) and benefit cost ratio (CBR) – are strong. The NPV is large and positive, at $86.66m; the CBR of 12.5 greatly exceeds 1.0.

The assessment remains positive when large benefits are excluded, specifically, cost efficiencies and residual value. It is also positive for all variations if the higher discount rate of 7% real is used.

The Single Site Option, under this Cost Benefit Assessment is the Preferred Option.

Appendix 1 Culture Briefing Paper

Briefing note

Workplace culture

- What's the impact
- What's being done to address culture

Purpose of this Briefing Paper

Research indicates that a defensive culture (both passive and aggressive) has a significant impact on an organisation's performance.

This briefing paper quantifies the defensive culture currently at MidCoast Council, its potential financial impact on the organisation (the 'cost' of culture) and steps being undertaken to create a more constructive environment and culture.

Understanding Culture at MidCoast Council

What is culture?

In the context of this briefing note, culture is like the personality of the organisation. It is:

- "The way we do things around here"
- A guide to how we do our work and interact with each other
- The shared mission, values, norms of the organisation
- How staff are expected and encouraged to behave

It's an 'all of us' thing as it touches and impacts all employees, at all levels in the organisation.

Local government culture is historically both passive aggressive and defensive aggressive which has been shown to be the least effective workplace culture.

The impact of culture in mergers

When companies and organisations merge, much of the discussion is around benefits and efficiencies that will be achieved. However there is rarely discussion on how well the cultures of the combined entities mesh. This is likely due to the reality that combining cultures is challenging and therefore generally not addressed by organisations as part of merger integration. The lack of attention to culture has been proven to result in extremely negative consequences for many businesses. A number of major mergers are used as examples in research that looks at mergers that have failed due to culture clash: New York Central and Pennsylvania Railroad; Daimler/Chrysler; Novell/WordPerfect; AOL/Time Warner; Sprint/Nextel; and HP/Compact. This highlights the importance of focusing on culture as part of integration and the link between culture and ultimate value of the merger to stakeholders.

What has impacted on MidCoast Council's culture as a new entity?

Four key organisational change events have occurred to the employees of MidCoast Council, all which have impacted the natural balance of workplace culture:

- A three-way merger of the former Greater Taree City, Great Lakes and Gloucester Shire Councils.

- Dissolution of MidCoast Water and integration into MidCoast Council just over a year after the three-way merger.

- Multiple office locations with team members dispersed over a large area in separate locations. The challenge of distance and multiple offices in Forster and Taree is having a negative impact on productivity, morale and cohesiveness.

- Frustration with and lack of effectiveness of legacy work place environment and misaligned systems as a result of the continuing situation of multiple offices, systems, processes and procedures.

The events above have contributed to a defensive culture at MidCoast Council.

What evidence is there of the current and preferred culture at MidCoast Council?

Since the time of the merger in 2016 MidCoast Council has undertaken two staff culture surveys to measure and report on workplace culture using surveys and tools from Human Synergistics International. A survey[1] completed in August 2017 demonstrates a defensive workplace culture with the primary styles being Passive / Defensive culture styles (highlighted by the green area in the "Current" chart[2] below), followed by a high level of Aggressive / Defensive culture (highlighted by the red area in the "Current" chart below).

These two styles are the least value adding for customers, stakeholders and staff of MidCoast Council. They are also the most prevalent styles across the Local Government sector. A comparison of Local Government culture and MidCoast Council current culture is shown below. Generally, organisations aim to have a culture with the red and green defensive styles within the 50% circle (the dark concentric circle on the circumplex), and blue constructive styles extended outside the 50% circle.

Importantly, MidCoast Council employees have expressed a strong desire to have a constructive culture (illustrated by the large area of blue in the "Preferred" chart following). One of the most significant factors in achieving a shift in culture from the current to the preferred is the awareness of the Board (i.e. Council) and the Executive team on their impact on the organisation's culture through support and role modelling of constructive behaviours.

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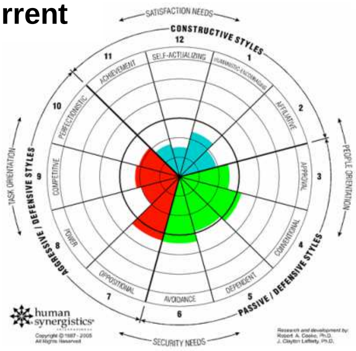
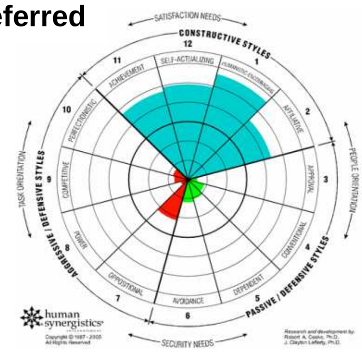
[1] More information on a comparison of the 2016 & 2017 survey can be found in Appendix 2 of this briefing.

[2] The culture results are charted on a 'circumplex', and the definition of how they work can be found here: http://www.human-synergistics.com.au/about-us/the-circumplex.

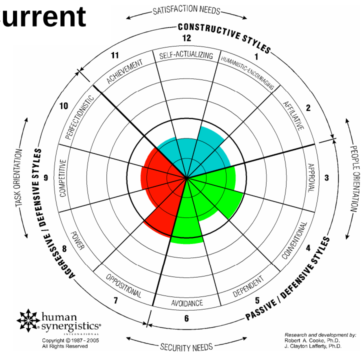
MCC Current



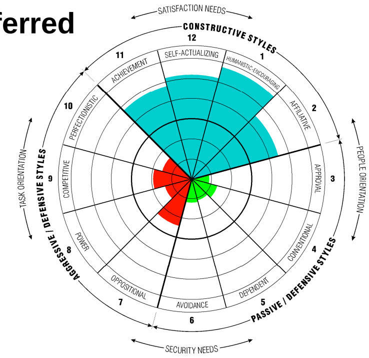
MCC Preferred



Local Gov Current



Local Gov Preferred



Financial and Non-Financial Impacts of Culture

The cost of a defensive workplace culture

A defensive workplace culture can have a significant impact on the productivity and effectiveness of a workforce.

Data compiled by Matrix Leadership Networks in association with SAI Global and Human Synergistics Australia measures the costs of a defensive or negative culture in these four areas as a percentage of overall payroll. The following results were observed.

- *Staff turnover**- Negative culture leads to increased staff turnover, costing between 13.8% to 27.7% of total payroll.
- *Rework* - In a negative cultural environment, 53% of workers can waste up to 10% of time on mistakes; having a negative impact on payroll of between 1.35% and 5.3% of total payroll
- *Effort* - In a negative culture the average worker wastes 2.09 hours per 8 hour day (not including breaks). At the dramatic end this can cost between 13% and 26% of payroll.
- *Stress* - In a negative culture the average worker losses 3.2 working days as a result of stress. At the dramatic end this can cost between 1.2% and 1.4% of payroll.

When the above figures are applied to a combined payroll of MidCoast Council and MidCoast Water in 2016/17 of $53.8 million, conservatively, $15.7m could be lost in productivity annually at MidCoast Council if a defensive or negative culture prevails.

Issue	Dramatic Impact	Conservative Impact
Staff Turnover	27.7% ($14.9m)	13.8% ($7.4m)
Rework	5.3% ($2.9m)	1.35% ($0.7m)
Wasted Time	26% ($14.0m)	13% ($7.0m)
Stress	1.4% ($0.8m)	1.2% ($0.6m)
TOTAL	**60.4% ($32.6m)**	**29.3% ($15.7m)**

The benefits of a positive workplace culture

A positive or constructive cultural environment can have a positive impact on an organisation's bottom-line.

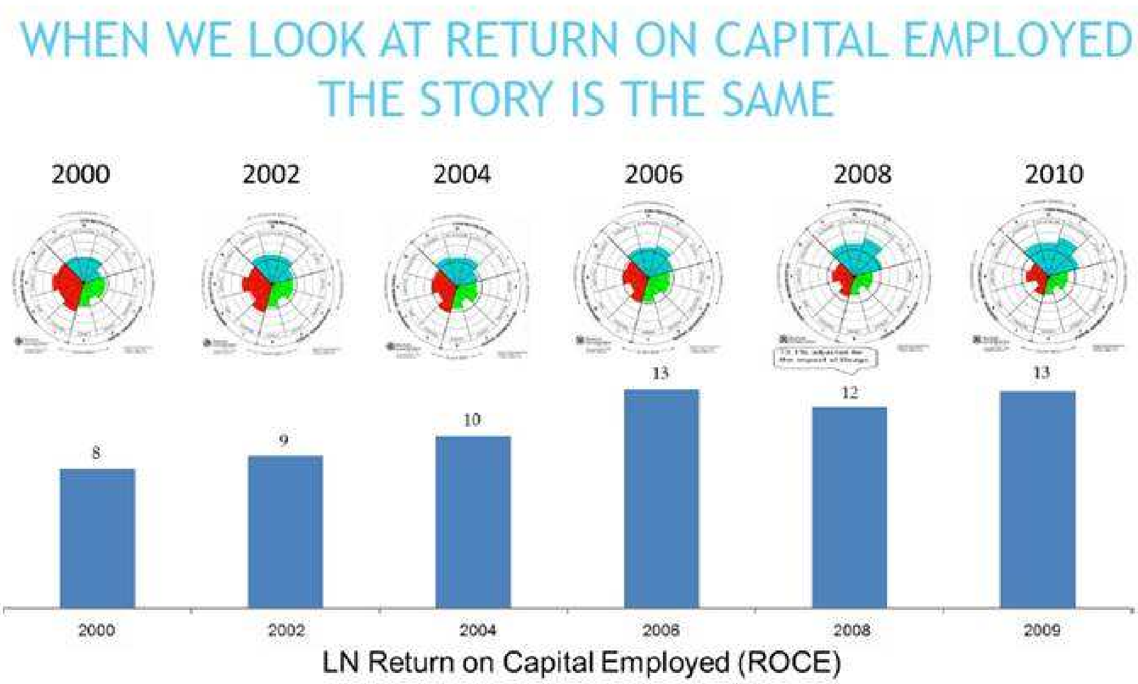
There have been several case studies demonstrating improvement in culture increases profit, productivity, attraction of quality staff, and an increase in returns on capital.

An example of this is the improvement of the Lion Nathan company performance. Since the late 1990's Lion Nathan began an organisational focus on enhancing their culture. The growth of a positive culture was measured over time against the share price of the company.

Defensive culture was measured using the widely recognised Human Synergistics Organisational Culture Inventory instrument. As the constructive culture styles increased significantly an average of 33.5%, Lion Nathan's share price increased every year from 1999-2004, more than doubling from $3.58 to $7.58 - a 12.8% annual increase.

A similar story followed with regard to Lion Nathan's return on capital employed. In a nine year study of Lion Nathan's improved workplace culture, Return on Capital Employed increased by 62%.

Note: blue colour represents constructive cultural styles (which increase over time), whilst red represents aggressive-defensive styles and green passive-defensive styles (which both decrease over time).



Research also indicates a positive relationship between constructive cultures and other non-financial measures of performance. In organisations with constructive cultural norms you will find:

- Staff commitment and motivation
- Teamwork and cooperation
- Organisational adaptability
- Customer satisfaction

These positive outcomes are likely to translate into better financial performance.

(*Human Synergistics White Paper 'Translating Soft Changes into Hard Dollars'*)

As MidCoast Council focuses on shifting the organisational culture towards the espoused preferred constructive culture, the above factors will continue to impede this shift. Stable organisations find shifting culture to be challenging and a journey that takes time. Combine that with the existing complexity at MidCoast Council and the journey will be longer, more difficult and take more time to provide benefit to customers and other stakeholders.

Steps MidCoast Council are Taking to Improve Culture

Identifying, measuring and reporting on Culture

As discussed in detail earlier in this briefing paper, MidCoast Council utilise Human Synergistics culture reporting and measuring tools. Human Synergistics is globally recognised for impacting on performance and culture at an individual, group and organisational level. They are respected thought leaders academically (for research, publication and teaching).

The survey is used as a starting point for discussions with staff on what can be done to address change and shift the culture towards the preferred constructive (blue) styles.

What is being done to shift the culture?

Workshops and discussions have been held with the senior executive team and broader management team about key focus areas for the organisation, teams and culture action planning based on the data from the survey.

Efforts in this area are significantly impacted by the current dispersed nature of teams across the organisation. In addition, each of the four sites has an existing culture - and shifting that culture towards the staff's preferred culture as one organisation is extremely challenging.

MidCoast Council is advantaged by having the support and recognition of the senior executive team of the importance of culture as MidCoast Council develops as one entity. This is crucial in the journey of cultural integration and change. In contrast, a survey of 130 business executives undertaken by Pritchett (a US based consultant on merger integration and change management) found that 60% of companies subject to merger or acquisition have no formal program for culture integration or change.

What else is Council doing

Council takes an integrated approach to culture and development of staff. A Corporate Development Program is being deployed which focusses on four integrated areas of Mindset, Behaviours and Skills, Relationships, Partnerships and Culture and lastly Processes, Systems and Results. The development program places emphasis on the senior executive and management team initially. A *Developing Future Leaders* program has also been successfully launched for staff at other levels in the organisation.

Taking Civic Leadership - Council's Operational Plan

Council's current 2017/18 Operational Plan incorporates a plan for the delivery of Civic Leadership for its community through:

- *Objective 12* - Develop and maintain sound organisational health through leadership, staff, and culture that contributes to Council's success and a positive customer-centric culture.
  - *Strategy 12.1* - Develop an organisational culture that focuses on the delivery of quality outcomes while providing job satisfaction.
  - *Strategy 12.2* - Implement an integrated program that focuses on the continuing development of leadership capability throughout the organisation.
  - *Strategy 12.3* - Support a strong diverse leadership and a culture that values performance and adaptability.
  - *Strategy 12.4* - Develop and maintain a skilled, motivated and accountable workforce.
  - *Strategy 12.5* - Provide good governance.

Centralised head office & communication

Council are now investigating co-locating the majority of back office staff from the four offices in Taree and Forster, into a single location in Taree. (Some customer facing staff and services such as MidCoast Assist would remain on site in Forster to address community accessibility.)

A centralised head office offers the following internal and customer value creation benefits:

- Allows both formal and informal interaction within and importantly between teams
- Team members always at hand for coordination, problem-solving and learning
- Questions answered quickly
- Problems fixed on the spot
- Less friction between interactions
- Trust is gained and awarded much more quickly
- More streamlined and faster decision making with key stakeholders involvement

A study undertaken by Massachusetts Institute of Technology (MIT)'s Human Dynamics Laboratory on the impacts of co-location (and other factors) on team building, observed the following:

> *"We equipped all members of those teams* [successful teams in an organisation v unsuccessful teams] *with electronic badges that collected data on their individual communication behaviour - tone of voice, body language, whom they talked to and how much, and more.* ***With remarkable consistency, the data confirmed that communication indeed plays a critical role in building successful teams. In fact, we've found patterns of communication to be the most important predictor of a team's success. Not only that, but they are as significant as all the other factors - individual intelligence, personality, skill, and the substance of the discussion - combined".***

The same study also observed the following:

> ***"The most valuable form of communication is face-to-face.*** *The next most valuable is by phone or videoconference, but with a caveat: Those technologies become less effective as more people participate in the call or conference. The least valuable forms of communication are e-mail and texting".*

The factors cited above are crucial to the creation of a new, integrated, constructive workforce culture at MidCoast Council. The move to a centralised head office will complement pro-active cultural work that has been undertaken by the Council since the merger. It will also significantly ameliorate the risks of falling into a negative culture, and the associated impact on desired outcomes and workforce costs.

Conclusion

As a result of a complex mix of external factors impacting MidCoast Council, there is irrefutable evidence that the current staff culture is defensive which provides the least value to customers, stakeholders and to staff. If actions are not taken to shift this culture as desired by staff there is a potential annual loss in productivity of at least $15.7m or 29% of payroll.

MidCoast Council is being proactive in its actions to shift culture and develop its people, which in turn will have positive impacts for customers, stakeholders and staff.

However the efforts to make this shift towards a constructive culture will continue to be hampered by the existing dispersity of teams. A move to a centralised head office is one of the most significant actions that can be taken at this stage to support the culture shift and Council's integrated approach to developing its people.

MIDCOAST council

Briefing note
Appendix

Culture survey results - 2016 & 2017

Background

MidCoast Council has undertaken two organisation wide culture surveys since May 2016 (August 2016 and August 2017). The 2016 survey took place three months post-merger to provide baseline data on the current and preferred culture for the new organisation.

Council utilises culture tools and instruments from Human Synergistics Australia to measure and report on the culture.

The results are charted on a circumplex, with 12 cultural norms/behaviours indicated. The 'clusters' of these behaviours can be classified as follows:

- Constructive styles (blue): self-actualising, humanistic-encouraging, affiliative
- Passive defensive styles (green): approval, conventional, dependent, avoidance
- Aggressive defensive styles (red): oppositional, power, competitive, perfectionistic

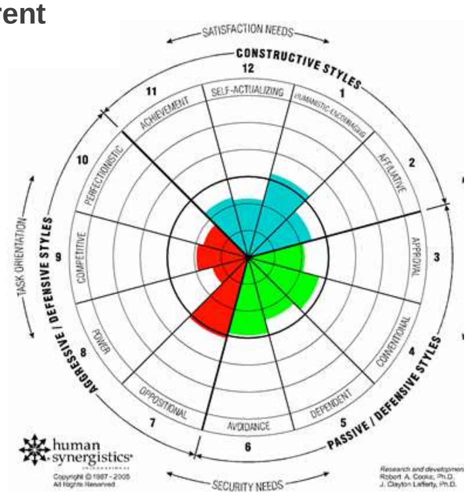
The more colour in a particular style, indicates the prevalence of that behaviour as part of the organisation's cultural norms.

Results are shown for the current culture of the organisation as well as the preferred culture, from the staff's perspective. The majority of organisations find that staff prefer to maximise the blue, minimise the green and manage the red styles.

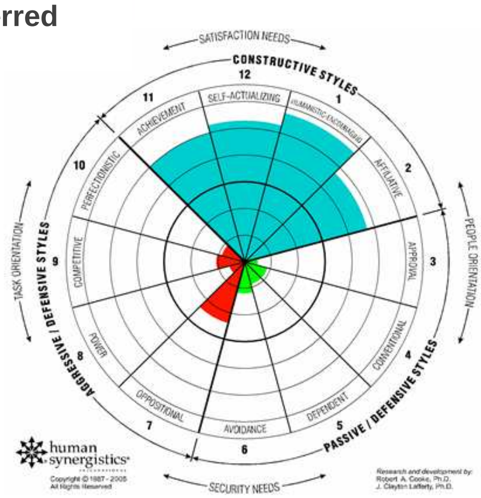
A comparison of the 2016 and 2017 results show that the current culture has become less constructive and more defensive over the year. The preferred culture remains consistent.

2016 & 2017 results

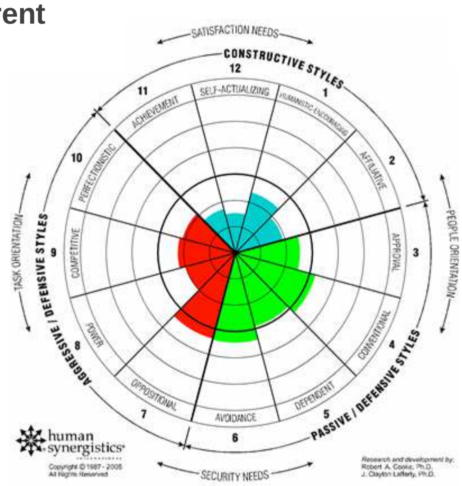
2016 Current



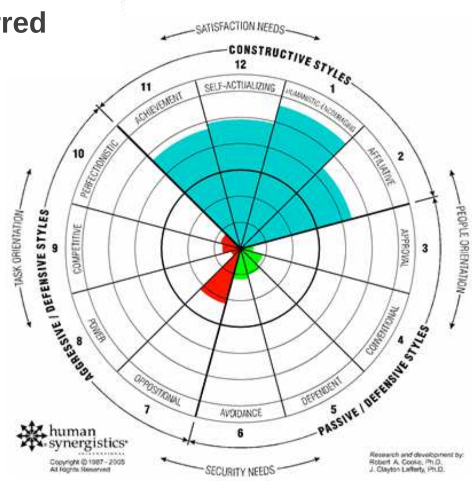
2016 Preferred



2017 Current



2017 Preferred



Key points

- The 2016 results indicate a primary constructive style of 'Humanistic-Encouraging' (or coaching), where staff are expected to be supportive, constructive and open to others' input.
- The results show secondary styles that are aggressive defensive ('Oppositional') and passive defensive ('Avoidance'). With the 'Oppositional' style staff feel that they are expected to gain status and influence by being critical and constantly challenging each other. While with 'Avoidance' staff feel that they are expected to shift responsibilities to others and avoid being blamed for mistakes.
- The passive defensive and aggressive defensive styles add the least value to customers and stakeholders. They tend to provide a sense of security for staff, which is relevant in the context of a newly merged organisation. These security needs are directly opposite to satisfaction and achievement where staff gain satisfaction from getting the job done effectively and efficiently.

- In contrast, the 2017 results indicate primary defensive styles of 'Oppositional', 'Avoidance' and 'Conventional'. 'Oppositional' and 'Avoidance' are described above. 'Conventional' is where staff feel that they are expected to conform, follow the rules and make a good impression.

- The secondary style is also passive defensive, 'Approval'. This style indicates that staff are expected to agree with, gain the approval of, and be liked by others.

- Significantly, the culture survey re-measure of 2017 indicates a current culture with significant decrease in the constructive (blue) styles in comparison to growth in the defensive (green and red) styles.

The table below provides an indication of this shift in behaviours by a percentage. The Human Synergistics circumplex provides survey results that are normed against hundreds of thousands of others that they use as a 'norming base'. The concentric circles on the circumplex provide the percentiles for the norming. On average, MidCoast Council's results indicate an average decrease in constructive styles of 13% from 2016 to 2017.

Constructive styles	2016 survey	2017 survey	Change
Achievement	30%	20%	**-10%**
Self-actualising	27%	17%	**-10%**
Humanistic-encouraging	55%	35%	**-20%**
Affiliative	35%	23%	**-12%**

Conclusion

The comparative culture survey results from 2016 to 2017 support the proposal to move to a centralised head office. The move to a central site is a critical factor in minimising the risk of an ongoing defensive workplace culture and the subsequent impact on productivity and effectiveness of the workforce.

The research discussed in the Briefing Paper supports the fact that there are significant gains to be realised for customers, stakeholders and staff from developing a constructive culture at MidCoast Council.

Appendix 2 Cost Benefit Analysis

Cost Benefit Analysis of proposed MCC office relocation

1 January 2018

Submitted to

Savills Project Management

Submitted by

Syneca Consulting Pty Ltd

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EXECUTIVE SUMMARY

This report provides a cost benefit analysis (CBA) of a proposal to use a council-owned site on Biripi Way, Taree (Biripi Way), to consolidate the administrative functions of Mid-Coast Council (MCC). MCC acquired Biripi Way in November 2017, previously a Masters store of 9,910 sqm with off-street parking for 281 vehicles, on a site of 3.3 hectares.

The options

There are two options:

- The Campus option is to retain and refurbish the two existing MCC Admin offices in Taree and Forster, also the two MCW offices in Taree and Forster. The Biripi Way property would be sold.
- The Single Site option is to sell the existing four offices and transfer their administrative functions to the Biripi Way site. Face-to-face services will remain in one of MCC's buildings in Forster.

Financial and economic appraisals

Table E.1 presents findings in the form of cost benefit analysis. All values are 'present values' for January 2018, obtained by discounting future expenses and savings to 'the present'.

Given only two options and that the initial construction cost is higher for Single Site, the question is whether the incremental benefits of the Single Site exceed its incremental cost, relative to the Campus option. For the Baseline CBA and using MCC's cost of borrowing as the discount rate (5% nominal, 2,94% real), we find that:

- Single Site requires an incremental 'investment' of $7.52m.
- Single Site returns benefits for all other financial impacts. These benefits take the form of higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies – all relative to the Campus option. Again, these are the present values of future values and savings that have been discounted to January 2018. The benefits tally to $94.18m.
- The investment criteria – net present value (NPV) and benefit/cost ratio (CBR) – are strong. The NPV is large and positive, at $86.66m; the CBR greatly exceeds 1.0.

The assessment remains positive when large benefits are excluded, specifically, cost efficiencies and residual value. It is also positive for all variations at the higher discount rate of 7% real, the rate mandated by NSW Treasury for state government agencies.

Panel B of Table E.1 summarises findings in respect of non-MCC stakeholders, impacts on whom are included in a full economic appraisal. There are no significant losses for the customers and staff of MCC, given the intention to maintain counter services in Forster and the obligation to pay travel allowances. Economic losses due to the diversion of household and council spending have not been quantified and, even with more time and resources, it may be difficult to provide a credible estimate. Displaced labour and capital find alternative employment in time, and quite quickly when economic conditions are reasonably good, as seems to be the case in the key towns of MCC, Forster-Tuncurry and Taree. Unemployment is falling, and labour forces are growing.

Table E.1 Cost benefit analysis of Single Site relative to the Campus option: present values for January 2018

	Baseline CBA	*Excluding cost efficiencies*	*Excluding cost efficiencies and residual values*
A. MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)			
Investment cost – initial construction cost	$7,515,707	$7,515,707	$7,515,707
Benefits			
Property sales, net of associated costs	*$8,131,148*	*$8,131,148*	*$8,131,148*
Capital replacement costs	*$5,015,752*	*$5,015,752*	*$5,015,752*
Operating costs (building O&M, vehicle costs, travel allowances)	*$2,993,489*	*$2,993,489*	*$2,993,489*
Residual value of buildings after 20 years	*$8,322,114*	*$8,322,114*	
Cost efficiencies (travel time, operational efficiencies and contribution to workplace culture)	*$69,716,755*		
Total benefits	$94,179,259	$24,462,503	$16,140,389
Net present value	$86,663,552	$16,946,797	$8,624,683
Benefit cost ratio	12.5	3.3	2.1
B. Impacts on non-MCC stakeholders			
Access to MCC services by ratepayers and others in the Great Lakes area: no significant difference between Single Site and Campus option.			
Staff travel costs due to longer commutes: No significant uncompensated losses and no significant difference between Single Site and Campus option.			
Economic losses due to the diversion of household and council spending: The Single Site option diverts household and Council spending from Tuncurry-Forster to Taree, starting small but growing over time. This impact has not been quantified and it may be difficult to provide a credible assessment.			

Table E.2 provides a financial breakdown that suggests the following ranking of the impacts that differentiate Single Site from the Campus option.

- The expected cost efficiencies clearly dominate, particularly the contribution of Single Site to the improvement of MCC's workplace culture.
- Next are property sales and residual value, the latter because Single Site leaves MCC with a younger asset with more years of useful life. The Base building at Biripi Way was constructed in 2014 and the fitout would be new.
- The difference in capital replacement expenses makes a modest contribution, reflecting a known cost of re-roofing MCC Admin, Forster, also the higher cost of IT and audio-visual gear in the Campus option.
- The saving on building O&M and other operating costs is the least significant factor.

Table E.2 Breakdown of financial costs: present value for January 2018
(Note: negative costs are financial revenues or savings)

	Present values, January 2018		
	Single Site	*Campus*	*Incremental cost of Single Site relative to Campus option*
Property sales, net of selling costs			
Biripi Way	$0	-$6,429,480	$6,429,480
MCC, Forster	-$5,616,272	$0	-$5,616,272
MCC, Taree	-$5,235,709	$0	-$5,235,709
MCW, Taree	-$1,299,401	$0	-$1,299,401
MCW, Forster	-$2,361,013	$0	-$2,361,013
Sale of fitout	-$48,233	$0	-$48,233
Subtotal	*-$14,560,628*	*-$6,429,480*	*-$8,131,148*
Initial capital outlay			
Base building	$1,777,081	$20,012	$1,757,069
Internal walls and finishes	$3,223,201	$2,015,556	$1,207,645
Services	$6,803,664	$3,107,353	$3,696,311
FF&E, ex IT and audio-visual	$968,667	$1,075,792	-$107,125
Margins and adjustments	$5,491,163	$2,708,696	$2,782,467
IT and audio-visual	$1,850,981	$3,671,640	-$1,820,660
Subtotal	*$20,114,756*	*$12,599,050*	*$7,515,707*
Capital replacement expense			
Base building	$0	$1,860,411	-$1,860,411
Internal walls and finishes	$1,420,355	$1,008,631	$411,724
Services	$1,866,753	$1,321,103	$545,651
FF&E, ex IT and audio-visual	$1,032,186	$1,018,794	$13,391
IT and audio-visual	$4,237,542	$8,363,649	-$4,126,107
Subtotal	*$8,556,835*	*$13,572,587*	*-$5,015,752*
Residual value			
Base building	-$4,599,059	-$3,664,958	-$934,101
Internal walls and finishes	-$1,232,651	$0	-$1,232,651
Services	-$2,891,033	-$1,156,413	-$1,734,620
FF&E, ex IT and audio-visual	-$672,082	-$793,271	$121,189
IT and audio-visual	-$7,262,970	-$2,721,038	-$4,541,932
Subtotal	*-$16,657,795*	*-$8,335,681*	*-$8,322,114*
Operating costs			
Building O&M	$11,998,382	$14,443,641	-$2,445,259
Vehicle expenses	-$2,741,147	-$2,192,918	-$548,229
Travel allowances	$1,759,087	$1,759,087	$0
Subtotal	*$11,016,322*	*$14,009,810*	*-$2,993,489*
Staff efficiencies			
Short term: travel efficiencies	-$3,793,165	-$3,034,532	-$758,633
Medium term: operational efficiencies	-$30,843,753	$0	-$30,843,753
Long term: cultural transformation	-$76,228,738	-$38,114,369	-$38,114,369
Subtotal	*-$110,865,656*	*-$41,148,901*	*-$69,716,755*
TOTAL	**-$102,396,166**	**-$15,732,614**	**-$86,663,552**

Conclusion

The cost benefit analysis strongly favours the Single Site option; the baseline assessment returns an NPV of $86.66m and a benefit/cost ratio of 12.5, relative to the Campus option.

This strong result reflects MCC's assessment that the Single Site is critical to the achievement of generic cost efficiencies but the 'building economics' are also sound.

An Economic Impact Assessment (EIA) would provide more information about the economic effects of diverting household and Council spending from Forster-Tuncurry to Taree, not quantified here. But it needs to be understood that an EIA is quite different to a CBA. An EIA may identify a reduction in spending that, in principal, can be given zero weight in CBA. This happens if the displaced resources quickly find alternative employment, which depends on other sources of strength in the local economy and how rapidly spending is diverted.

Nevertheless, we consider that an adverse EIA cannot negate the very large savings from operational efficiencies and improved workplace culture, such that Single Site is the preferred option.

1 INTRODUCTION

This report provides a cost benefit analysis (CBA) of a proposal to use a council-owned site on Biripi Way, Taree (Biripi Way), to consolidate the administrative functions of Mid-Coast Council (MCC). MCC acquired Biripi Way in November 2017, previously a Masters store of 9,910 sq m with off-street parking for 281 vehicles, on a site of 3.3 hectares.

The associated financial and economic appraisals within this report will contribute to the Business Case that Savills would prepare for Mid-Coast Council. They comply with relevant guidelines and manuals that are maintained by NSW Treasury including;

- NSW Government Guide to Cost-Benefit Analysis
- Guidelines for Capital Business Cases
- Commercial Policy Framework: Guidelines for Financial Appraisal

The report is organised as follows:

- Chapter 2 explains the objectives and options for the proposed relocation
- Chapter 3 explains how the various financial and economic impacts have been modelled
- Chapter 4 explains how the impacts have been aggregated to generate the required financial and economic appraisals, and reports those findings.
- Chapter 5 summarises the findings and identifies the preferred option

The financial appraisal and CBA differ in scope. The financial appraisal is concerned only with the cash flows and financial welfare of MCC. The economic appraisal includes the financial appraisal, but also takes account of impacts on the broader community. Impacts include:

- Changes in the cost of doing business with MCC. For example, ratepayers and other visitors to MCC officers may incur higher travel costs.
- The uncompensated costs of longer commutes for MCC staff who are relocated, that is, vehicle-related costs and time costs that exceed the compensation provided by any Travel Allowances for which dislocated staff will be eligible.
- Implications for the amount, distribution and growth of economic activity including changes in retail shopping habits in the MCC area.

It is not always feasible to quantify these non-financial impacts, but they should not be ignored if quantification proves to be impractical or unconvincing.

2 OBJECTIVES AND OPTIONS

2.1 Objectives

MCC acquired Biripi Way, Taree as a commercial opportunity with a possible use (subject to positive CBA studies) as Council's new civic and administrative centre, consolidating Council's administrative operations across four other sites into one site with 300 staff. The Biripi Way is intended to advance Council objectives in relation to:

- Efficiencies in the operation, maintenance and refurbishment of MCC offices
- Enhanced performance from the co-location of staff, in terms of culture and teamwork, communication within Council and the adoption of new technology
- Improving customer service by providing a one-stop-shop with off-street parking for ratepayers and others doing business with Council

2.2 Options

Option 1: Campus

The Base Case is to retain and refurbish four offices, referred to hereafter as the Campus option:

- Manning area
  - MCC offices in Pulteney Street, Taree – 100 staff capacity
  - MCW offices in Muldoon Street, Taree – 59 staff capacity
- Great Lakes area
  - MCC offices at 4 Breese Parade, Forster – 137 staff capacity
  - MCW offices at 16 Breese Parade, Forster – 58 staff capacity

Strictly speaking, it is no longer possible to 'do-nothing', since the MCC has already acquired the building at Biripi Way in Taree. For the purposes of the Base Case we assume this property will be re-sold in that scenario.

Option 2: Single Site

The Single Site option is to sell the existing four administration offices in Forster and Taree and transfer their administrative functions to the Biripi Way site. All other district offices, depots, libraries and community facilities will initially be retained, specifically including:

- water services depot at Muldoon Street, Taree
- library and community facilities at Forster
- Council building at Gloucester

Face-to-face services will remain in one of MCC's buildings in Forster.

3 IMPACT MODELLING

The impact modelling reported here is entirely in 2017 prices and without discounting. Chapter 4 explains the escalation and discount factors used to aggregate impacts and generate the required financial and economic appraisals.

3.1 Real estate transactions

MCC owns the five properties involved, four of which, for the purposes of this model, will be sold under the Single Site option, the other retained. And vice versa under the Campus option.

MCC has obtained valuations for all properties, and their value is reported in Table 3.1. Property sales yield $15.4m under the Single Site option, and $6.7m under the Campus option.

Assumptions regarding the sale include:

- allowance of a vacancy period of12 months for all properties
- that the sale process starts immediately a decision is made, such that contracts can be exchanged in early 2019.
- Two properties would have to have their Torrens Title subdivided prior sale, at a cost of $15,000 each
- Sales and marketing fees have also been deducted from the sale proceeds.

The Single Site option delivers $15.4 in property sales, compared with $6.7m for the Campus option, a difference of $8.7m in favour of the Single Site.

Table 3.1 Property values and net proceeds of property sales

			Single Site			*Campus*
Office	*MCC Admin Forster*	*MCC Admin Taree*	*Water Services Taree*	*Water Services Forster*	***Total***	
Address	Breese P	Pulteney S	Muldoon S	Breese P	-	*Biripi Way*
Site area, sqm	7,600	3,059	5,500	1,030	17,189	33,000
Constructed	1981	1965	1999	2003	-	2014
GFA (sqm)	3,020	3,250	980	1,030	8,280	9,910
Car spaces	0	37	30	38	105	281
Valuations						
Minimum	$6,000,000	$5,000,000	$1,300,000	$2,400,000	$14,700,000	$6,500,000
Maximum	$6,500,000	$6,000,000	$1,500,000	$2,600,000	$16,600,000	$7,000,000
Average	$6,250,000	$5,500,000	$1,400,000	$2,500,000	$15,650,000	$6,750,000
Selling costs						
Surveys and titles	$0	$0	$15,000	$15,000	$30,000	$0
Marketing fees	$17,500	$17,500	$10,000	$12,500	$57,500	$17,500
Sales fees	$62,500	$55,000	$28,000	$25,000	$170,500	$67,500
Total selling costs	$80,000	$72,500	$53,000	$52,500	$258,000	$85,000
Net proceeds of sale	**$6,170,000**	**$5,427,500**	**$1,347,000**	**$2,447,500**	**$15,392,000**	**$6,665,000**

3.2 Capital expenses: initial construction outlay

Table 3.2 is a summary of the initial capital expense. MCC engaged Rider Livett Bucknall (RLB, quantity surveyors) to provide estimates for

- the construction work,
- FF&E (furniture, fixtures and equipment) other than IT and audio-visual equipment, plus
- Industry standard builder's margins, professional costs, contingencies and other adjustments that add approximately 35% to those costs.

MCC separately advised

- the budget for IT and audio-visual equipment
- that there is excess capacity at the Single Site infrastructure for water, sewerage and power, such that enhancements are unnecessary.

The initial construction expense is higher for the Single Site option; the difference of $7.7m favours the Campus option. The difference is driven mainly by the construction work and associated margins, somewhat offset by the higher IT and audio-visual expenses in the Campus option.

Table 3.2 Capital expense: initial construction outlay

	Single Site	*Campus*
Quantity survey		
Construction work – base building	*$1,824,850*	*$20,550*
Construction work – internal walls/finishes	*$3,309,842*	*$2,069,735*
Construction work - services	*$6,986,550*	*$3,190,880*
Subtotal, construction elements	*$12,121,242*	*$5,281,165*
FF&E, excluding IT and audio-visual	*$994,705*	*$1,104,710*
Margins and adjustments	*$5,638,768*	*$2,781,508*
Quantity surveyor's total	$18,754,715	$9,167,383
ADD IT and audio-visual	$1,900,736	$3,770,336
ADD external works and contributions	$0	$0
TOTAL	**$20,655,451**	**$12,937,719**

* Long Service Levy is 0.35% of the DA value, assumed to exclude FF&E and contingencies.

The QS report is 'high level' and references basic floor plans and concept plans for the proposed fit-outs. Thus, significant costs are calculated at a high level of aggregation, such as 'mechanical services' or 'hydraulic services', and using generic estimates of costs per square metre. The figuring may be preliminary, but it should be noted the work is relatively basic – routine fit-outs. Also, the FF&E, IT and audio-visual costs have been modelled in detail, based on counts of the required chairs, desks, cabinets, computers, printers and the like.

Table 3.3 provides a further breakdown of the quantity survey. The only work on external walls and doors is for the Single Site, mainly the $718,000 for glazing to the external façade. Similarly, the only internal walls are for the Single Site, including a 'green wall' that will enclose about half of what was the external garden retail area on the Single Site. The only 'alterations and additions' are for demolitions and the removal of the existing FF&E, and to update wet areas, kitchens and amenities.

Table 3.3 Breakdown of the initial capital expense

Office number	Single Office	Campus				
		MCC Admin Forster	MCC Admin Taree	Water Services Taree	Water Services Forster	**Total**
Structures						
Roof	$926,000					
External walls	$718,200	$20,550				$20,550
External doors	$17,700					
Internal walls	$1,412,230					
Internal doors	$117,450	$4,320	$7,120	$3,120	$2,880	$17,440
Alter & renovate	$217,650	$213,726	$290,745	$72,972	$80,247	$657,690
Subtotal	*$3,409,230*	*$238,596*	*$297,865*	*$76,092*	*$83,127*	*$695,680*
Finishes						
Walls	$31,185	$99,335	$160,145	$49,570	$56,000	$365,050
Floors	$365,982	$141,787	$216,397	$56,106	$54,706	$468,995
Ceilings	$1,328,295	$164,749	$264,518	$65,728	$65,566	$560,560
Subtotal	*$1,725,462*	*$405,871*	*$641,059*	*$171,404*	*$176,272*	*$1,394,605*
Services						
Hydraulic	$396,400	$76,038	$122,085	$30,336	$30,261	$258,720
Mechanical	$2,279,300	$253,460	$406,950	$101,120	$100,870	$862,400
Fire protection	$594,600	$76,038	$122,085	$30,336	$30,261	$258,720
Light and power	$2,675,700	$405,536	$651,120	$161,792	$161,392	$1,379,840
Communications	$842,350	$101,384	$162,780	$40,448	$40,348	$344,960
Security	$198,200	$25,346	$40,695	$10,112	$10,087	$86,240
Subtotal	*$6,986,550*	*$937,802*	*$1,505,715*	*$374,144*	*$373,219*	*$3,190,880*
FITMENTS						
FF&E, ex, IT and AV	$994,705	$367,600	$424,230	$94,435	$218,445	$1,104,710
Margins and adjustments						
Scaffolding		$20,000				$20,000
Preliminaries -7%	$922,106	$138,626	$201,556	$50,860	$60,309	$451,351
Builder margin -3%	$422,852	$63,570	$92,428	$23,323	$27,656	$206,977
Escalation – 4.3%	$617,011	$92,759	$134,867	$34,032	$40,355	$302,014
Design cont. - 5%	$756,746	$113,766	$165,411	$41,740	$49,494	$370,411
Construction cont. - 5%	$794,583	$119,454	$173,682	$43,827	$51,969	$388,931
Design fees - 10%	$1,334,900	$200,683	$291,785	$73,629	$87,308	$653,405
Authority fees-1.2%	$209,654	$27,742	$40,336	$10,178	$12,069	$90,326
Relocation PM-1.5%	$273,462	$41,055	$59,692	$15,062	$17,861	$133,669
Relocation CM-1%	$185,043	$27,780	$40,391	$10,192	$12,086	$90,450
Long Service Levy	$65,413	$9,820	$14,278	$3,603	$4,272	$31,974
Relocation costs	$57,000	$10,500	$10,500	$10,500	$10,500	$42,000
Subtotal	$5,638,768	$865,756	$1,224,926	$316,946	$373,880	$2,781,508
Total	**$18,754,715**	**$2,815,625**	**$4,093,795**	**$1,033,021**	**$1,224,942**	**$9,167,383**

The finishing allowances cover the tiling of wet areas, painting and floor coverings. The cost for the Single Site would be modest except that it includes $1.4 million for a suspended ceiling. The 'no-ceiling' option was investigated but, counter-intuitively, was found to add another $1.4 million; it turns out that exposed ducting and other services are expensive.

The allowances for services favour the Campus option, requiring only upgrades, whereas the Single Site requires completely new installations for the most part.

The quantity surveyor made standard allowances for margins and adjustments. The contingency allowances may seem modest, except that these are routine fit-outs. Note that each allowance is calculated cumulatively, that is, applying the specified rate to the cumulative total of the construction costs and the preceding margins and adjustments. Thus, amounts are not proportional to rates.

Table 3.4 provides the breakdown of MCC's IT and audio-visual budget, favouring the Single Site by $1.8m. Several items (shaded) are identical. The Campus option is more expensive largely because of additional printers, copiers, AV units and servers.

Table 3.4 Breakdown of the IT and audio-visual budget

	Unit cost		*Quantity*		*Total cost*	
Item	*Single Site*	*Campus*	*Single Site*	*Campus*	*Single Site*	*Campus*
Computers	$2,000		306	306	$612,000	$612,000
Phones	$318		297	297	$94,446	$94,446
Monitors	$249		610	610	$151,890	$151,890
Printers	$1,800		8	40	$14,400	$72,000
Copiers*	$10,000		4	25	-	$250,000
Video Conference Units	$17,000		8	20	$136,000	$340,000
Chambers IT, audio and video	$150,000		1	1	$150,000	$150,000
IT network						
Switches	*$20,000*		*15*	*15*	*$300,000*	*$300,000*
Core switches	*$70,000*		*2*	*10*	*$140,000*	*$700,000*
Wireless Access Points	*$2,000*		*20*	*40*	*$40,000*	*$80,000*
Data cabinets	*$4,000*		*3*	*5*	*$60,000*	*$20,000*
Server & storage	*$250,000*	*$200,000*	*1*	*5*	*$250,000*	*$1,000,000*
Subtotal					*$790,000*	*$2,100,000*
Total					**$1,900,736**	**$3,770,336**

* At the present point in the leasing cycle, new spending is required for the Campus option but not for the Single Site

3.3 Capital expenses: asset lives, capital replacement expenses and residual value

MCC provided broad guidance on assets lives and hence the profile of replacement costs.

- Plant & Equipment
    - Office equipment, 1 to 10 years
    - Office furniture, 10 to 20 years
    - Computer equipment, 1 to 10 years
    - Vehicles, 5 to 8 years
    - Other plant and equipment, 1 to 15 years
- Buildings
    - Masonry buildings, 50 to 100 years
    - Other buildings, 20 to 40 years

FF&E

For the FF&E assets, including IT and audio-visual equipment, we used the more detailed default values provided by ATO for the purposes of income tax assessment, for example:

- computers and network equipment – 5-10 years, 20 years for data cabinets
- chairs – 10 years
- desks and tables – 20 years
- whitegoods – 12 years

The FF&E replacement expenses favour the Single Site, reflecting the difference in the initial setup – see Table 3.4 and the FF&E in Table 3.3. The advantage may be somewhat overstated, since individual printers and some other assets will be used less intensively under the Campus option and may therefore last somewhat longer. But assets don't just wear out; they also become technologically obsolete. Often, there are organisational economies in keeping all offices on the same replacement cycle, rather than sweat individual asset.

Hard fitout – service components

The service components of the hard fitout – hydraulic, mechanical, fire protection, light and power, communications and security – will be in comparable 'as-new' condition, newly installed for the Single Site, replaced and upgraded in the Campus option. We assume there will no further upgrade or replacement expenses during the project period. For the purposes of calculating residual values at the end of the project period, we assume an asset life of 25-40 years.

Hard fitout – non-service components

For the non-service components of the hard fitout – partitions, doors, ceilings, tiling and floor coverings – we assumed 25 years for wet areas and 40 years for dry elements, and doubled the ATO defaults for residential carpet and vinyl floor coverings, to 16 and 20 years respectively.

The Campus option is initially less expensive, since the existing partitions will be retained and only require painting. However, the Campus assets are closer to the end of their useful lives and thus expected to be replaced sooner than comparable assets that would be newly installed for the Single Site. We have not allowed for that cost.

Base buildings

Capital replacement expenses favour younger buildings, thus the Single Site, built in 2014. In contrast, the four offices in the Campus option are aged 14-52 years, with GFA-weighted average of 37 years. This is what we know:

- *Office 1, 4 Breese Parade*: Built in 1981 and now in its fourth decade, this is the second oldest of the four original offices. The most recent valuation report notes that the building is 'well maintained considering its age'. A recent condition report identified replacement costs of $606,600 for the 15 years to 2031, but most of which in for the replacement of services, fixtures and finishes that would now be included in the proposed refit. Only $5,000, to replace guttering, relates to the base building. The replacement forecast itemises another $1.34m relating to the base building that will be required 'within the optimal life of the building', the main items being $1.0m for brick cladding and $0.26m for roofing. MCC engineers have since prioritised renewal of the roof and Council is budgeting for roofing expense of $2m in the next several years. We assume that expense would be incurred in 2020 under the Campus option.
- *Office 2, Pulteney Street*: This is the oldest building, dating from the 1960s, but modified in the late 1980s and early 1990s. Possibly, therefore, the building was refurbished within the last 30 years. There is no recent condition report, but the valuer noted that the building was 'well maintained considering its age'.
- *Offices 3 and 4, in Muldoon Street and at 16 Breese Parade:* These are relatively new buildings, constructed in 1999 and 2003 respectively, both of fibreboard and modern

brick construction. There are no recent condition reports but, for both, the valuer noted that the 'improvements are modern, well maintained with modern fit out with excellent amenity areas '.

Overall, there is a greater likelihood that the older buildings in the Campus option will incur replacement expenses for elements of the base building, but, other than the $2m now scheduled to replace the roof on MCC Admin Forster, no solid evidence on which to base a forecast. The absence of condition reports for the other three of the buildings suggests there are no pressing issues or cause for concern.

This is not unusual in our experience. Given proper maintenance, base buildings can provide long service without incurring significant replacement expense. The life-cycle costs are basically covered by regular maintenance and budgets for periodic refits and service upgrades. The possibility of a large expense – to replace a roof or windows – is higher and needs to be noted, but difficult to provide a credible cost estimate. We therefore proceed based on Table 3.5.

Table 3.5 Scheduled replacement expenses: base buildings

		Campus				
Office number	*Single Site*	*MCC Admin Forster*	*MCC Admin Taree*	*Water Services Taree*	*Water Services Forster*	***Total***
External walls	$0	$2,000,000	$0	$0	$0	$2,000,000

3.4 Operating costs: operational & maintenance expenses

Taking the average for actual expenses in 2016/17 and budgeted expenses for 2017/18, total Operational and Planned Maintenance (O&M) costs for the initial four buildings is slightly over $1.0m/year – see the Campus option in Panel A of Table 3.6. There are gaps in the available information due to the different financial systems inherited from the mergers, partly remedied by imputing council rates and charges for MCC Admin Taree, and excluding the obviously incomplete costs for phones and internet from the comparative analysis, as described below.

Using a simple regression analysis of O&M expenses against floor area (Figure 3.1) we estimate the corresponding cost for the Single Site at $845,300, a saving of 17% – see the Single Site option in Panel A. Significant savings are to be expected, mainly from the rationalisation of overhead costs of four buildings under the Campus option. Panel C reports the steps in estimating the total cost for the Single Site. We first excluded

- reported costs of phones and internet, which are zero or close to zero for the administrative buildings but very large for the Water Services building, and cannot reflect reality
- the maintenance costs of the elevator in MCC Admin Taree, since we concerned only with the cost of the single Site, which is single storey

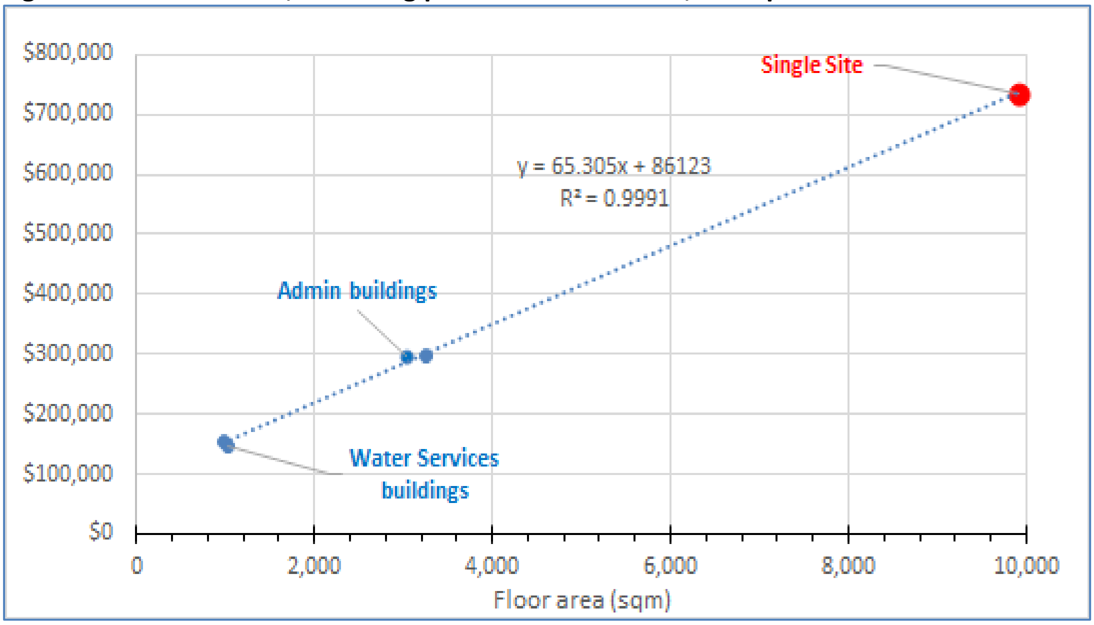
Figure 3.1 shows how these costs relate to floor area, extrapolated to include the Single Site. That implied cost for the Single Site, excluding phones, internet and elevators, is $733,296, as shown in Panel C of Table 3.5. Adding $112,000 for phones and internet takes the total to $845,296.

Panel C reports the same information in terms of average operational costs per square metre of building (unit costs), obviously much higher for the smaller buildings occupied by the Water Service. Extrapolation puts the unit costs of the Single Site at $85/sqm, well within the range of plausible costs.

Table 3.6 Breakdown of O&M expenses

Option / *Office*	*Single Site (estimated by extrapolation)*	*Campus, average of 2016/17 and budgeted 2017/18*				
		MCC Admin Forster	*MCC Admin Taree*	*Water Services Taree*	*Water Services Forster*	*Total*
A. Breakdown of Campus O&M plus estimate for Single Site						
Council rates and charges, including water & sewer		$18,891	$20,171	$7,844	$7,297	$54,203
Electricity		$52,925	$65,086	$59,462	$52,049	$229,522
Security		$5,473	$6,785	$19,250	$20,626	$52,133
Phone and internet		$0	$182	$56,000	$56,000	$112,182
Insurance		$30,502	$52,270	$4,417	$5,185	$92,374
Cleaning and sanitary services		$84,523	$75,700	$35,283	$29,397	$224,902
Maintenance						
Indoor, ex elevator		*$47,772*	*$67,146*			$114,918
Elevator			*$5,573*			$5,573
Outdoor		*$58,936*	*$4,276*			$63,211
Combined indoor & outdoor				*$27,461*	*$33,532*	$60,993
Subtotal		*$106,708*	*$76,994*	*$27,461*	*$33,532*	$244,694
Other			$7,556			$7,556
TOTAL	**$845,296**	**$299,021**	**$304,743**	**$209,717**	**$204,085**	**$1,017,566**
B. Calculation of the Single Site estimate						
Total O&M, ex. phone, internet & elevator	**$733,296**	$299,021	$298,989	$153,717	$148,085	
Add $112,000 for phone and internet	**$845,296**					
C. Unit costs ($/sqm)						
Building area (sqm)	9,910	3,020	3,250	980	1,030	8,280
O&M/sqm	$85.30	$99.01	$93.77	$214.00	$198.14	$122.89

Figure 3.1 O&M costs, excluding phones and elevators, 2017 prices



3.5 Operating costs: vehicle expenses

Incremental cost of site visits
MCC considers that there will be no discernible change in the cost of site visits under either the Single Site or Campus options. For example, building inspectors who reside in Forster would integrate site visits with either their morning commute to Taree or their afternoon commute back to Forster. And vice versa. The rationalisation of travel will also be facilitated by appropriate use of mobile office equipment, work-at-home arrangements and hot-desking at district offices.

Savings on inter-office travel
MCC has provided a baseline estimate of avoidable inter-office trips – 77 trips per week between Taree and Forster. The vehicle-related cost is $193,116/year, calculated as shown in Panel A of Table 3.7. We use the 2017 ATO allowance for vehicle operating costs, 66 cents/km.

These trips can be entirely avoided with a Single Site. Most but not all would be avoided in the Campus option, once teams have been co-located. We assume that 80% of these costs are avoided under the campus model – Panel B of Table 3.7.

The impact on vehicle expenses favours the Single Site by $40,000/year, approximately.

Table 3.7 Annual savings on inter-office travel: Taree-Forster

A. Avoidable inter-office travel	
Trips per week	77
km/week at 38km each way	5,852
km/year at 50 weeks/year	292,600
Annual cost at 66 cents/km	$193,116
B. Avoided costs	
Single Site, 100% of costs are avoided	$193,116
Campus, 80% of costs are avoided	$154,493

3.6 Operating costs: travel allowances for staff

Number of staff eligible
MCC estimates that 70 staff will be eligible for travel allowances under both the Single Site and Campus options. The figuring cannot be exact at this point, but the logic applied after detail analysis of the single site option is:

- Both options require longer commutes from existing Council staff, given their residential locations.
- 150 staff will be affected, regardless of the option.
    - The Single Site requires 150 staff to commute to Taree.
    - The Campus option requires, approximately, 75 to commute to Taree and 75 to commute from Taree, (150 commutes in total) to accommodate the co-location of staff from MCC's four divisions, two in Taree and two in Forster.
- Not all staff are entitled to travel allowances; MCC estimates that of, of the 150 affected, 70 staff have travel entitlements
- Staff lose these entitlements if promoted to positions at their new place of work, and;
- Staff don't have these entitlements if newly hired for their new place of work

Typical allowance and total cost to MCC
Panel A of Table 3.8 reports a typical travel allowance, referencing a Foster resident whose 'place of work' is Forster but required to commute to Taree, or *vice versa*. The award provides for the payment of time allowances and vehicle allowances that vary with the excess distance. In

this case the combined annual allowance would be $16,676 for a full-time employee, working a 9-day fortnight for 44 weeks.

- Incorporating part-time workers reduces average work-days to 8.4 per fortnight, and the allowance to $15,563.
- Average allowances are somewhat lower for Tuncurry residents ($12,455/year) and considerably higher for Gloucester residents ($27,420/year). The net effect is to reduce the average rate per return trip; compare the rates in Panels A and B.

Panel B of Table 3.7 reports total cost in the first full year, $1.0m under both options.

Table 3.8 Estimated cost of travel allowances: same for both options

	Entitled employees	*Rate ($/return trip)*	*Annual cost* *FTE employee (4.5 days/wk)*	*Annual cost* *Av. employee (4.2 days/wk)*
	A. Forster/Taree commute or vice versa			
Travel time allowance	Single employee example	$34.58	$6,847	$6,390
Vehicle allowance		$49.64	$9,829	$9,173
Total		$84.22	$16,676	$15,563
	B. Annual cost of all commutes: first full year			
Travel time allowance	70	$30.61	$424,190	$395,911
Vehicle allowance	70	$46.77	$648,236	$605,000
Total			$1,072,426	$1,000,911

Proposed cost savings

It is proposed to negate the time allowance by permitting entitled employees to travel during work hours This reduces the cost in the first full year to $605,000/year under both options.

In future years the annual cost of the vehicle allowance will decrease due to;

- staff turnover
- promotions and other job changes that redefine the employee's 'place of work' as Taree
- reassignments from Taree to district offices to fill vacancies as they arise,

Figure 3.2 shows plausible trajectories for the annual expense, assuming annual rates of attrition of 10% and 15%, the former being MCC's estimate of the rate of staff turnover.

The total cost over 10 years is:

- $3.94m for 10% attrition per year
- $3.24m for 15% attrition per year

This cost can be reduced by buying out the travel entitlements, depending on the generosity of the buyout in terms of the number of entitlement-years in the offer. We estimate that the break-even point is 5-6 years, such that any buyout with fewer entitlement-years would be a net financial benefit to MCC. We also find that it is always more expensive to delay the buyout, accumulating annual expenses before offering to buy the remaining entitlements.

Scenario Adopted in the model

Assuming the time allowance is negated, and a buyout of the vehicle allowance is agreed at the outset, total cost is the product of the first year's vehicle entitlement and the number of entitlement-years in the buyout, as shown in Table 3.9. For the purposes of the baseline assessment, we assume the buyout is for three years, thus a total cost of $1.93m for both options.

Figure 3.2 Annual cost of travel allowances

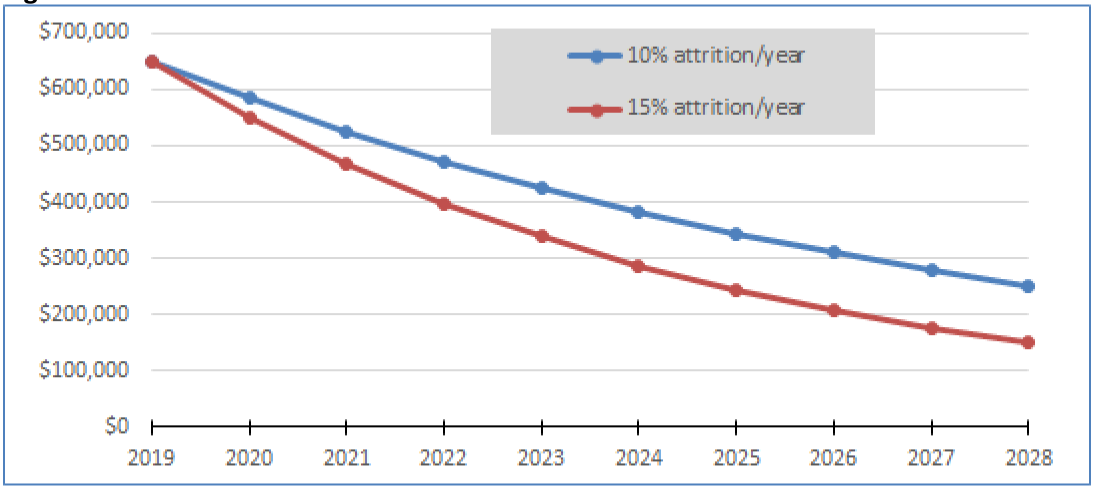


Table 3.9 Cost of a travel allowance buyout

Entitlement-years that are bought out	*Total cost*
1 year	$605,000
2 years	$1,210,000
3 years	**$1,815,000**
4 years	$2,420,000
5 years	$3,025,000

3.7 Operational and systems efficiencies

Efficiencies in travel time

The Single Site will reduce inter-office travel, for which Table 3.7 reported the estimated savings in vehicle related costs. The difference between the options is modest because, while the Single Site eliminates 100% of the additional Taree/Forster trips, the Campus model would also deliver significant savings by rationalising teams between the Taree and Forster offices, assumed to be 80%.

Table 3.10 reports the associated savings in staff time lost to travel between Forster and Taree, assuming 1.4 occupants per vehicle and an average speed of 75 km/hour, and reported here in staff-years. The difference between the options is again modest.

Operational efficiencies

MCC estimates that the co-location of 300 staff at the Biripi Way will deliver efficiency gains that effectively increase staff capacity by 30. The associated annual efficiency gain is $2.3m if valued at the average labour cost of $77,500 – Table 3.10.

Cultural efficiencies

The long-term gains relate to MCC's efforts to improve its workplace culture, partly but not solely in response to negative staff reactions to the disruption and uncertainty created by recent mergers. Staff surveys reveal a strong element of passive and defensive attitudes amongst staff, consistent with a negative culture that will have degraded staff efficiency and threatens to further degrade staff efficiency over time. MCC estimated the efficiencies at stake to be worth $15.8m-$29.3m per year.

Table 3.10 Cost efficiency gains in the short and medium term

	Staff-years		*Total savings ($/year)*	
	Single Site	*Campus*	*Single Site*	*Campus*
Short-term savings in travel time costs				
Modelled as saving in staff time, valued at $77,500 per staff-year	3.45	2.76	$267,231	$213,785
Medium-term operational efficiencies				
Modelled as an effective increase in staff capacity, valued at $77,500 per staff-year	30.0	0.0	$2,325,000	$0

Table 3.11 Cost efficiency gains from long term improvement in workforce culture

	Potential for efficiency gains, valued as % of $53.18m annual payroll		*Single Site*	*Campus*
	%	*Value ($/year)*	*50% of potential gain ($m)*	*25% of potential gain ($m)*
Conservative estimate				
Staff turnover	13.8%	7.34	3.67	1.83
Wasted time	13.0%	0.72	0.36	0.18
Rework	1.35%	6.91	3.46	1.73
Stress	1.20%	0.64	0.32	0.16
Total		**15.61**	**7.80**	**3.90**
Ambitious estimate				
Staff turnover	27.7%	14.73	7.37	3.68
Wasted time	26.0%	2.82	1.41	0.70
Rework	5.30%	13.83	6.91	3.46
Stress	1.40%	0.74	0.37	0.19
Total		**32.12**	**16.06**	**8.03**

These calculations are duplicated in Table 3.11 but on the assumption that the Single Site delivers only 50% of these gains, and the Campus option delivers on half of that, 25%. Note the modelling in terms of specific impacts on staff efficiency, relating to the continual loss of skills and experience through staff turnover, the very large impacts of wasted time, and somewhat smaller impacts relating to the reworking of tasks and stress. We assume the more conservative starting point of $7.8m/year.

These are not immediate gains. It takes time to change the culture of an organisation; case studies suggesting that 8 to 10-year turnarounds are normal. We assume that these gains accumulate in a straight line over 10 years and are maintained thereafter.

The dominant contribution of co-location on a Single Site is to facilitate face-to-face communication, both formal and informal communication, also within teams and between teams, the latter judged to be crucial. Trust is gained and awarded more quickly, and, in purely practical terms, team members are immediately available to each other for coordination, problem-solving and learning. Problems are fixed, and questions answered, quickly and with less friction.

3.8 Allowances for impacts on non-council stakeholders

The financial analysis deals only with impacts that alter line items in MCC's financial statements, disregarding costs and benefits that accrue to non-MCC stakeholders. We deal with these solely in terms of the costs and benefits of the Single Site relative to the Campus option.

Access for the community
First, closure of the Forster offices threatens to reduce access for ratepayers and others in the Great Lakes area who do business with Council. MCC considers that there will be no significant losses of that kind, given the intention to augment services at other MCC buildings within Forster.

Uncompensated losses for staff
Second, there may be uncompensated losses for staff who are obliged to commute to or from Taree. This seems unlikely, however, given MCC's intention to negotiate a buyout of the travel entitlements. We assume the settlement will be fair and reasonable. Also, any such uncompensated losses would be roughly the same for Single Site and Campus options.

Diversion of household and Council spending
Third, the more significant issue is that some amount of household and Council spending will be diverted from the Forster-Tuncurry to the Taree area.

The initial effects may be modest, little more than the diversion of staff lunch budgets and Council catering from Forster to Taree. But the diversions will grow over time. Forster-based staff will gradually do more of their grocery and other shopping in Taree, also their banking, hairdressing and other personal and professional services. Plausibly, retail and professional services will be attracted to the Single Site neighbourhood, to take advantage of the large customer base – 300 staff.

Longer term, normal commuting patterns will be re-established through the normal processes of staff turnover, labour mobility and geographic mobility; fewer Council staff will reside in the Great Lakes area and more in the Manning area.

The extent of economic and social disruption depends on the broader economic context; adverse shocks do less damage if other things are going well. Currently, unemployment is declining, and the labour force is growing in both Forster-Tuncurry and Taree – see Figure 3.3. In the year to June 2017:

- Unemployment fell by 256 persons in Forster-Tuncurry and by 289 in Taree.
- The labour force grew by 313 persons in Forster-Tuncurry and by 299 in Taree.

The combination of falling unemployment and growing labour force suggest that employment growth is strong, although, unfortunately, there are no reliable measures of employment at this geographical level.

The partial diversion of the spending associated with 150 jobs, and accumulating over 5-10 years, is significant but far from overwhelming in this wider economic context.

An Economic Impact Assessment (EIA) would provide more information, aiming to quantify the spending effects and consequences for the distribution of jobs and opportunities within the Council area. The diversion may grow to several million dollars in the longer term. However, economists generally draw attention to the somewhat blunt and unsophisticated nature of such studies, also, the potential for misinterpretation and misuse.

No spending is actually 'lost'
A key point is, of course, that there is no overall reduction in household spending; it is simply redistributed. Some workers will follow the spending from Forster to Taree. And some jobs and businesses may come to Forster because property and labour resources will be more readily available in Forster if the Forster offices are closed. Given sufficient lead time, there may be an

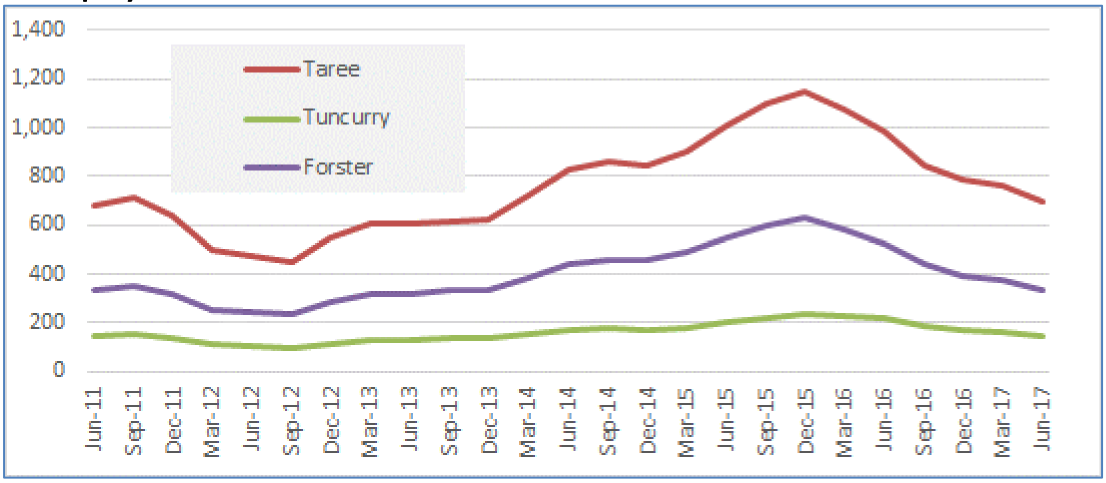
almost seamless transition to other occupants. These feedbacks and self-corrections tend to be lost or simply ignored in EIA.

A related point is that the economic relationship between Taree and Forster is not solely competitive. The smaller towns in a region need the larger towns to be prosperous. A stronger Taree economy has flow-on benefits for the economy of Forster-Tuncurry.

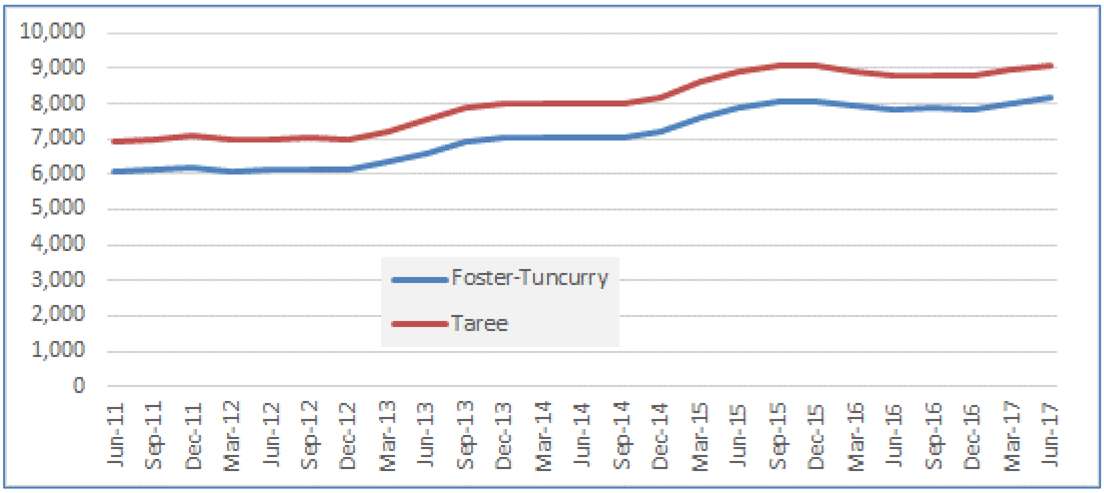
The numbers generated by an EIA can deceive. Specifically, a diversion from Forster-Tuncurry to Taree that grows to, say, $2.5m/year over 20 years, should not be interpreted as an 'economic loss' of $2.5m/year for the Forster economy. The displaced resources of land, labour and capital will find alternative employment in time, possibly quite quickly if the economy is growing (as it is reported to be), such that any genuine losses are a fraction of the spending that is diverted. It is not feasible to provide a credible estimate here and it may not be feasible even it considerably more time and resources were made available.

Figure 3.3 Labour market indicators for main MCC towns

Unemployment



Labour force



4 FINANCIAL AND ECONOMIC APPRAISALS

4.1 Assessment frame

Table 4.1 reports the assessment frame.

Table 4.1 Assessment frame

The present	The present is taken to be 1 January 2018
Assessment period	20 years to 1 January 2039
Inflation	Background or CPI inflation is assumed to be 2.00%/year, at the low end of RBA's target range of 2-3%. The quantity surveyor has separately escalated the construction costs.
Residual asset value	The residual value of physical assets is determined by straight line depreciation.
Discount rate	The base case uses a nominal discount rate of 5%, which is MCC's cost of borrowing. This converts to a real discount rate 2.94%, assuming 2% inflation. A real discount rate of 7% is used for sensitivity testing, being the rate mandated by NSW Treasury for use in CBA by state government agencies.

4.2 Findings

Table 4.2 presents findings in the form of CBA. Given that there are only two options, Single Site and Campus, and that the initial construction cost is higher for Single Site, the question is whether the incremental benefits of the Single Site exceed its incremental cost, relative to the Campus option. For the Baseline CBA and using MCC's costs of borrowing as the discount rate (first column of Panel A):

- Single Site requires an incremental 'investment' of $7.52m. Importantly, this is the present value of a capital expense that will be somewhat larger when incurred in late 2018, but discounted to January 2018. Do no look to find this exact number elsewhere in this report.
- Single Site returns benefits for all other impacts: higher returns from property sales, lower operating costs and costs of capital replacement, higher residual values and greater cost efficiencies – all relative to the Campus option. Again, these are present values of future values and savings that have been discounted to January 2018. The benefits tally to $94.18m.
- The investment criteria – net present value (NPV) and benefit cost ratio (CBR) – are strong. The NPV is large and positive, at $86.66m; the CBR of 12.5 greatly exceeds 1.0.

The assessment remains positive when large benefits are excluded, specifically, cost efficiencies and residual value, as reported in Panel A. It is also positive for all variations at the higher discount rate of 7% real, reported in Panel B of Table 4.2.

Panel C summarises findings in respect of non-MCC stakeholders, impacts on whom are included in a full economic appraisal. There are no significant losses for the customers and staff of MCC, given the intention to maintain counter services in Forster and the obligation to pay travel allowances. Economic losses due to the diversion of household and council spending have not been quantified and it may be difficult to provide a credible estimate. Displaced resources find alternative employment in time, and possibly quite quickly when economic conditions are relatively good, as seems to be the case in the key towns of MCC.

Table 4.2 Cost benefit analysis of Single Site relative to the Campus option: present values for January 2018

	Baseline CBA	*Excluding cost efficiencies*	*Excluding cost efficiencies and residual values*
C. MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)			
Investment cost	$7,515,707	$7,515,707	$7,515,707
Benefits			
Property sales	*$8,131,148*	*$8,131,148*	*$8,131,148*
Capital replacement costs	*$5,015,752*	*$5,015,752*	*$5,015,752*
Operating costs	*$2,993,489*	*$2,993,489*	*$2,993,489*
Residual value	*$8,322,114*	*$8,322,114*	
Cost efficiencies	*$69,716,755*		
Total benefits	$94,179,259	$24,462,503	$16,140,389
Net present value	$86,663,552	$16,946,797	$8,624,683
Benefit cost ratio	12.5	3.3	2.1
D. MCC financial analysis at discount rate of 7% real (NSW Treasury guidelines)			
Investment cost	$7,254,401	$7,254,401	$7,254,401
Benefits			
Property sales	*$7,351,176*	*$7,351,176*	*$7,351,176*
Capital replacement costs	*$4,154,982*	*$4,154,982*	*$4,154,982*
Operating costs	*$2,108,183*	*$2,108,183*	*$2,108,183*
Residual value	*$3,692,461*	*$3,692,461*	
Cost efficiencies	*$47,184,672*		
Total	$64,491,475	$17,306,803	$13,614,341
Net present value	$57,237,074	$10,052,402	$6,359,940
Benefit cost ratio	8.9	2.4	1.9
E. Impacts on non-MCC stakeholders			
Access to MCC services by ratepayers and others in the Great Lakes area: no significant difference between Single Site and Campus option.			
Staff travel costs due to longer commutes: No significant uncompensated losses and no significant difference between Single Site and Campus option.			
Economic losses due to the diversion of household and council spending: The Single Site option diverts household and Council spending from Tuncurry-Forster to Taree, starting small but growing over time. This impact has not been quantified and it may be difficult to provide a credible estimate.			

Table 4.3 provides a financial breakdown that suggests the following ranking of the impacts that differentiate Single Site from the Campus option.

- The expected cost efficiencies clearly dominate, particularly the contribution of Single Site to the improvement of MCC's workplace culture.
- Next are property sales and residual value, the latter because Single Site leaves MCC with a younger asset with more years of useful life. The Base building was constructed in 2014 and the fitout would be entirely new.

Table 4.3 Breakdown of financial costs: present values

(Note: negative costs are financial revenues or savings)

	Present values, January 2018		
	Single Site	*Campus*	*Incremental cost of Single Site relative to Campus option*
Property sales, net of selling costs			
Biripi Way	$0	-$6,429,480	$6,429,480
MCC, Forster	-$5,616,272	$0	-$5,616,272
MCC, Taree	-$5,235,709	$0	-$5,235,709
MCW, Taree	-$1,299,401	$0	-$1,299,401
MCW, Forster	-$2,361,013	$0	-$2,361,013
Sale of fitout	-$48,233	$0	-$48,233
Subtotal	*-$14,560,628*	*-$6,429,480*	*-$8,131,148*
Initial capital outlay			
Base building	$1,777,081	$20,012	$1,757,069
Internal walls and finishes	$3,223,201	$2,015,556	$1,207,645
Services	$6,803,664	$3,107,353	$3,696,311
FF&E, ex IT and audio-visual	$968,667	$1,075,792	-$107,125
Margins and adjustments	$5,491,163	$2,708,696	$2,782,467
IT and audio-visual	$1,850,981	$3,671,640	-$1,820,660
Subtotal	*$20,114,756*	*$12,599,050*	*$7,515,707*
Capital replacement expense			
Base building	$0	$1,860,411	-$1,860,411
Internal walls and finishes	$1,420,355	$1,008,631	$411,724
Services	$1,866,753	$1,321,103	$545,651
FF&E, ex IT and audio-visual	$1,032,186	$1,018,794	$13,391
IT and audio-visual	$4,237,542	$8,363,649	-$4,126,107
Subtotal	*$8,556,835*	*$13,572,587*	*-$5,015,752*
Residual value			
Base building	-$4,599,059	-$3,664,958	-$934,101
Internal walls and finishes	-$1,232,651	$0	-$1,232,651
Services	-$2,891,033	-$1,156,413	-$1,734,620
FF&E, ex IT and audio-visual	-$672,082	-$793,271	$121,189
IT and audio-visual	-$7,262,970	-$2,721,038	-$4,541,932
Subtotal	*-$16,657,795*	*-$8,335,681*	*-$8,322,114*
Operating costs			
Building O&M	$11,998,382	$14,443,641	-$2,445,259
Vehicle expenses	-$2,741,147	-$2,192,918	-$548,229
Travel allowances	$1,759,087	$1,759,087	$0
Subtotal	*$11,016,322*	*$14,009,810*	*-$2,993,489*
Staff efficiencies			
Short term: travel efficiencies	-$3,793,165	-$3,034,532	-$758,633
Medium term: operational efficiencies	-$30,843,753	$0	-$30,843,753
Long term: cultural transformation	-$76,228,738	-$38,114,369	-$38,114,369
Subtotal	*-$110,865,656*	*-$41,148,901*	*-$69,716,755*
TOTAL	**-$102,396,166**	**-$15,732,614**	**-$86,663,552**

- The difference in capital replacement expenses makes a modest contribution, reflecting the known cost of re-roofing MCC Admin, Forster, also the ongoing cost of IT and audio-visual gear in the Campus option.

- The saving on building O&M and other operating costs is the least significant factor.

5 CONCLUSION

The CBA strongly favours the Single Site option, the baseline assessment returning an NPV of $86.66m and a benefit/cost ratio of 12.5, relative to the Campus option.

This strong result reflects MCC's assessment that the Single Site is critical to the achievement of generic cost efficiencies, but the building economics are also sound.

An EIA would provide more information about the economic effects of diverting household and Council spending from Forster-Tuncurry to Taree, not quantified here. But it needs to be understood that a EIA is quite different to a CBA. An EIA may identify a reduction in spending that, in principal, may be given zero weight in cost benefit analysis. This happens if the displaced resources quickly find alternative employment, which depends on other sources of strength in the local economy and how rapidly spending is diverted.

Nevertheless, it is reasonable to assume that an adverse EIA cannot negate the very large savings from operational efficiencies and improved workplace culture, such that Single Site is the preferred option.

Appendix 3 ICT Infrastructure Status

MCC has adopted a cloud first approach to the integration of the merged entities. This strategy has been designed to enable the delivery of an agile ICT infrastructure capable of meeting business needs. It is essential that any investment in ICT infrastructure be made with this goal in mind.

The figures presented in this report have taken in to consideration the current state of ICT as well as the desired future state. The key points to note regarding existing ICT infrastructure are:

- Server and Storage infrastructure in the former Great Lakes and Gloucester Shire Council is at the end of its serviceable life (greater than 5 years). This equipment should have been replaced in 2016 / 2017 financial year.
- Server infrastructure at Water Services (Taree and Forster) is at the end of its serviceable life (greater than 5 years). This equipment needs to be replaced in 2017 / 2018 financial year.
- The desktop replacement program, designed to ensure obsolesce in endpoint devices is minimised, was suspended in 2016 pending the amalgamation of Great Lakes, Greater Taree and Gloucester Shire Councils. As a result 75% of the current desktops are due for replacement.
- Printers in Water Services (Taree and Forster), the former Great Lakes and Gloucester Shire Council are out of contract and incurring significant repair and maintenance costs. A new, single MCC, agreement needs to be negotiated to replace the existing aged equipment and reduce overall expenditure
- Four separate phone systems and three separate call centres exist across MCC. To enable the delivery of cost effective communication a single, unified phone system, needs to be implemented along with a new fixed line phone contract.
- To unify the 55 points of presences that MCC has across the LGA upgrades need to be completed to the Wide Area Network. This includes a review of the exiting Water Services Microwave network to help minimise costs whilst maintaining a highly available network for Water and Sewer services.
- Prior to the amalgamation of the four entities each organisation had implemented a number of internet services to meet business needs. With the formation of MCC these services need to be unified to provide greater connectivity between sites as well as utilising the additional scale and capacity of the larger organisation to reduce overall costs.

Each of these items must be addressed within the next 12 months. Further delays will contribute to a poor user experience as well as preventing cost savings from being realised.

The choice of operating model (Single Building or Campus options) will have significant impact on the type and amount of ICT expenditure required. The Campus option will require the replication of ICT Services and Staff across multiple sites. The impact of this replication will double the necessary expenditure within the next 12 months as well as increasing operating expenses for the foreseeable future.

ACTING GENERAL MANAGER

ATTACHMENT B

LATE REPORT 2 - OFFICE RELOCATION INVESTIGATION, BIRIPI WAY, TAREE

ORDINARY MEETING

28 FEBRUARY 2018

Montlaur
Memorandum

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SUBJECT:

Mid Coast Council Office Relocation Investigation - Due Diligence Proposal

REFERENCE NO.
MCC 001

Further to our recent discussion Montlaur have considered the desired ‘business case’ or ‘due diligence’ outcomes that the Mid Coast Council (MCC) are seeking to achieve. Accordingly we provide the following for your consideration.

The scope we are outlining is consistent with what we would propose as part of normal due process, however given your need to have cost certainty as quick as possible, we have slightly adjusted the order of activities to be undertaken.

We usually begin a project by creating a workplace strategy and due diligence. The strategy is led by the architect and in simple terms, is a process of study and engagement to determine what type of workplace we need to create in order to align with your objectives. The strategy provides a framework for the design, and allows us to proceed with due diligence on a space. Due diligence would normally include test floor plans, a cost estimate and engineering reviews.

The above process is what we are proposing for MCC, however rather than undertaking a full workplace strategy first, our approach is to pre-empt the possible workplace scenarios that would usually come out of the strategy. This allows us to carry out the due diligence without needing to go through an extensive engagement with your organisation. There are likely to be two scenarios when we consider your workplace strategy:

1. Co-locate, while reducing offices and walls (open plan)
2. Co-locate, while introducing agile or activity based working

We note that a third possible scenario (being co-locate your current amenities with minimal change to workspace) will not be considered for the reason that there is no one typical office arrangement to base this scenario on.

While the above is a simplification of the outcomes, it is representative of the decision an organisation needs to make. Our intention is to have an architect gather the necessary information (review your existing sites), engage with the Project Team, and develop some generic test plans based on the above scenarios. This will allow us to:

1. Ensure that each of the scenarios is able to fit in the building
2. Enable an engineering to understand potential upgrades and changes required to the building to support the building supporting your office
3. Enable the consultant team to develop cost estimates and detailed programs
4. Develop a change strategy based on the above scenarios (optional for this stage)

We will then formulate into a report which will be the basis for your business case. Once approved, we can conduct the rest of the workplace strategy, including a thorough engagement with stakeholders.

An outline of the process is provided below.

1. This process will run for 10 – 12 weeks.
2. The Architect will produce 2 test fits for consideration:
    a. Scenario Two – Co-location + Reduction of office and built environment
    b. Scenario Three – Co-location + Agile working
3. These will be produced with engagement purely with the project team (executive level) and some site visits
4. We will then produce costing for each option which will incorporate:
    a. Test fits for each option within the Masters
    b. Services input (MEFH)
    c. PCA Advice on building upgrade requirements
    d. QS costing for each
    e. Change strategy (optional)
    f. Montlaur will then collate all this in a report
5. This assumes we will have some base building plans (in CAD) to work from for the test fits – if a Survey is required we will need to get a quote for this
6. This assumes we will have existing floor plans (in CAD) to assist with understanding your current spaces
7. Costs – as per table below

Description	Cost (ex GST)
Montlaur PM – based on 12 week process	inc
Architect – investigation and test fits	inc
Services – MEFH reviews and cost advice	inc
PCA – BCA report and Reviews	inc
QS – 2 x cost plans	inc
Change Strategy (initial gap analysis)	inc
Contingency	inc
Total	**$152,000**

Notes in relation to pricing:

1. We assume that the parties will be contracted to MCC directly (fully administered by Montlaur)
2. Montlaur's fees are fixed as noted above for PM and Change however all other fees are reasonable budget estimates that we will seek to get good value for money on.

Following conclusion of each of this process we will be in a strong position to continue with the main project delivery.

We trust this is sufficient for your immediate purposes and are available to commence following your approval. Please don't hesitate to call should you wish to discuss.

Yours sincerely,

Andrew Murray
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ATTACHMENTS

Nil