



Cost Benefit Analysis of proposed  
MCC office relocation

Amended Final Report – 23 October 2018

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Savills Project Management

Submitted by  
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## EXECUTIVE SUMMARY

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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 \$80.73m.
- The investment criteria – net present value (NPV) and benefit/cost ratio (BCR) – are strong. The NPV is large and positive, at \$73.2m; 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 most variations at the higher discount rate of 7% real, reported in Panel B of Table 4.2. However, the BCR falls to 0.9 when cost efficiencies and residual values are excluded.

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**

	<i>Baseline CBA</i>	<i>Excluding cost efficiencies</i>	<i>Excluding cost efficiencies and residual values</i>
<b>A. MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)</b>			
<b>Investment cost – initial construction cost</b>	\$7,515,707	\$7,515,707	\$7,515,707
<b>Benefits</b>			
<i>Property sales, net of associated costs</i>	\$236,080	\$236,080	\$236,080
<i>Capital replacement costs</i>	\$5,015,752	\$5,015,752	\$5,015,752
<i>Operating costs (building O&amp;M, vehicle costs, travel allowances)</i>	\$2,993,489	\$2,993,489	\$2,993,489
<i>Residual value of buildings after 20 years</i>	\$2,763,455	\$2,763,455	-
<i>Cost efficiencies (travel time, operational efficiencies and contribution to workplace culture)</i>	\$69,716,755	-	-
<b>Total benefits</b>	\$80,725,531	\$11,008,776	\$8,245,321
<b>Net present value</b>	\$73,209,825	\$3,493,069	\$729,615
<b>Benefit cost ratio</b>	10.7	1.5	1.1

**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.
- 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 savings on building O&M and other operating costs is a lesser factor.
- Residual value contributes because Single Site leaves MCC with a younger asset that has more years of useful life; the Base building was constructed in 2014 and the fitout would be entirely new. But a lesser factor also.
- The difference in the contributions from property sales is minor, the least significant factor.

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

	<i>Present values, January 2018</i>		
	<i>Single Site</i>	<i>Campus</i>	<i>Incremental cost of Single Site relative to Campus option</i>
<b>Property sales, net of selling costs</b>			
Biripi Way	\$0	-\$6,429,480	\$6,429,480
MCC, Forster	-\$1,876,490	\$0	-\$1,876,490
MCC, Taree	-\$1,869,276	\$0	-\$1,869,276
MCW, Taree	-\$1,393,938	\$0	-\$1,393,938
MCW, Forster	-\$1,477,623	\$0	-\$1,477,623
Sale of fitout	-\$48,233	\$0	-\$48,233
<i>Subtotal</i>	<i>-\$6,665,560</i>	<i>-\$6,429,480</i>	<i>-\$236,080</i>
<b>Initial capital outlay</b>			
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
<i>Subtotal</i>	<i>\$20,114,756</i>	<i>\$12,599,050</i>	<i>\$7,515,707</i>
<b>Capital replacement expense</b>			
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
<i>Subtotal</i>	<i>\$8,556,835</i>	<i>\$13,572,587</i>	<i>-\$5,015,752</i>
<b>Residual value</b>			
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	-\$1,033,660	-\$2,050,387	\$1,016,728
<i>Subtotal</i>	<i>-\$10,428,485</i>	<i>-\$7,665,030</i>	<i>-\$2,763,455</i>
<b>Operating costs</b>			
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
<i>Subtotal</i>	<i>\$11,016,322</i>	<i>\$14,009,810</i>	<i>-\$2,993,489</i>
<b>Staff efficiencies</b>			
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
<i>Subtotal</i>	<i>-\$110,865,656</i>	<i>-\$41,148,901</i>	<i>-\$69,716,755</i>
<b>TOTAL</b>	<b>-\$88,271,788</b>	<b>-\$15,061,964</b>	<b>-\$73,209,825</b>

## **Conclusion**

The CBA strongly favours the Single Site option, the baseline assessment returning an NPV of \$73.2m and a BCR of 10.7, 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 an 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.

## 1 INTRODUCTION

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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 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

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### 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 \$7.15m under the Single Site option, and \$6.75m under the Campus option.

Assumptions regarding the sale include:

- allowance of a vacancy period of 12 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 \$6.98m in property sales, net of selling costs, compared with \$6.67m for the Campus option, a difference of \$0.3m in favour of the Single Site.

**Table 3.1 Property values and net proceeds of property sales**

Office	Single Site				Total	Campus
	MCC Admin Forster	MCC Admin Taree	Water Services Taree	Water Services Forster		
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
<b>Valuations</b>						
	\$2,100,000	\$1,975,000	\$1,500,000	\$1,575,000	\$7,150,000	\$6,750,000
<b>Selling costs</b>						
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
<b>Net proceeds of sale</b>	<b>\$2,061,500</b>	<b>\$1,937,750</b>	<b>\$1,445,000</b>	<b>\$1,531,750</b>	<b>\$6,976,000</b>	<b>\$6,665,000</b>

### 3.3 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**

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

\* 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				Total
		MCC Admin Forster	MCC Admin Taree	Water Services Taree	Water Services Forster	
<b>Structures</b>						
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
<b>Subtotal</b>	<b>\$3,409,230</b>	<b>\$238,596</b>	<b>\$297,865</b>	<b>\$76,092</b>	<b>\$83,127</b>	<b>\$695,680</b>
<b>Finishes</b>						
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
<b>Subtotal</b>	<b>\$1,725,462</b>	<b>\$405,871</b>	<b>\$641,059</b>	<b>\$171,404</b>	<b>\$176,272</b>	<b>\$1,394,605</b>
<b>Services</b>						
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
<b>Subtotal</b>	<b>\$6,986,550</b>	<b>\$937,802</b>	<b>\$1,505,715</b>	<b>\$374,144</b>	<b>\$373,219</b>	<b>\$3,190,880</b>
<b>FITMENTS</b>						
FF&E, ex, IT and AV	\$994,705	\$367,600	\$424,230	\$94,435	\$218,445	\$1,104,710
<b>Margins and adjustments</b>						
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
<b>Subtotal</b>	<b>\$5,638,768</b>	<b>\$865,756</b>	<b>\$1,224,926</b>	<b>\$316,946</b>	<b>\$373,880</b>	<b>\$2,781,508</b>
<b>Total</b>	<b>\$18,754,715</b>	<b>\$2,815,625</b>	<b>\$4,093,795</b>	<b>\$1,033,021</b>	<b>\$1,224,942</b>	<b>\$9,167,383</b>

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**

Item	Unit cost		Quantity		Total cost	
	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
<b>Total</b>					<b>\$1,900,736</b>	<b>\$3,770,336</b>

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

### 3.4 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**

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

### 3.5 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

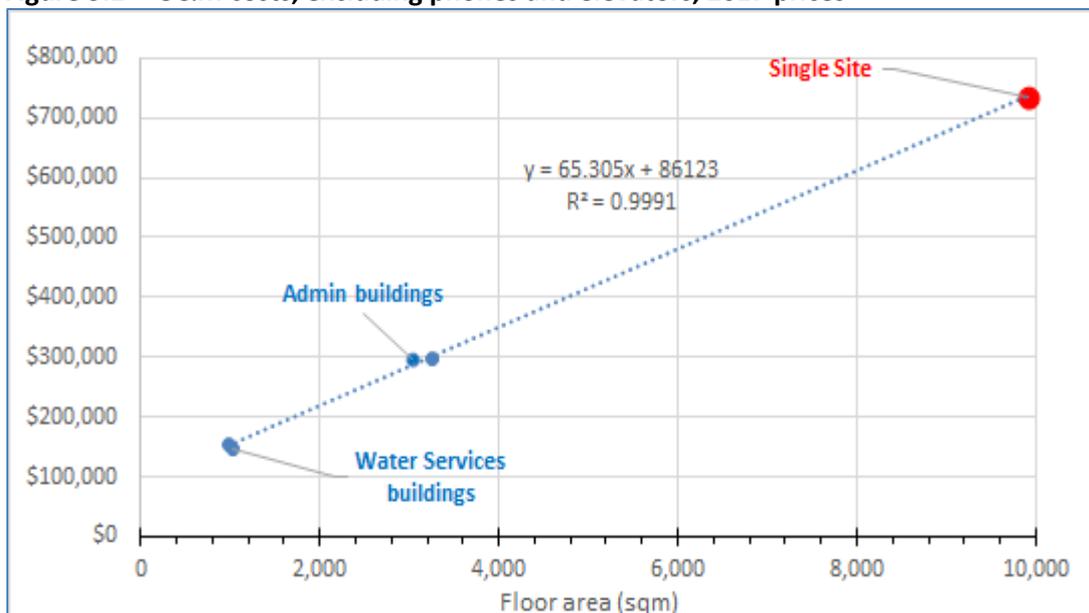
Figure 3.1 shows how these costs relate to floor area, extrapolated to include the Single Site. That implied cost for the Single Site, excluding phones, internet and elevators, is \$733,296, as shown in Panel C of Table 3.5. Adding \$112,000 for phones and internet takes the total to \$845,296.

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	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
<b>A. Breakdown of Campus O&amp;M plus estimate for Single Site</b>						
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
<b>TOTAL</b>	<b>\$845,296</b>	<b>\$299,021</b>	<b>\$304,743</b>	<b>\$209,717</b>	<b>\$204,085</b>	<b>\$1,017,566</b>
<b>B. Calculation of the Single Site estimate</b>						
Total O&M, ex. phone, internet & elevator	<b>\$733,296</b>	\$299,021	\$298,989	\$153,717	\$148,085	
Add \$112,000 for phone and internet	<b>\$845,296</b>					
<b>C. Unit costs (\$/sqm)</b>						
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**



### 3.6 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**

<b>A. Avoidable inter-office travel</b>	
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>B. Avoided costs</b>	
Single Site, 100% of costs are avoided	\$193,116
Campus, 80% of costs are avoided	\$154,493

### 3.7 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)	Av. employee (4.2 days/wk)
<b>A. Forster/Taree commute or vice versa</b>				
Travel time allowance	Single	\$34.58	\$6,847	\$6,390
Vehicle allowance	employee	\$49.64	\$9,829	\$9,173
Total	example	\$84.22	\$16,676	\$15,563
<b>B. Annual cost of all commutes: first full year</b>				
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:

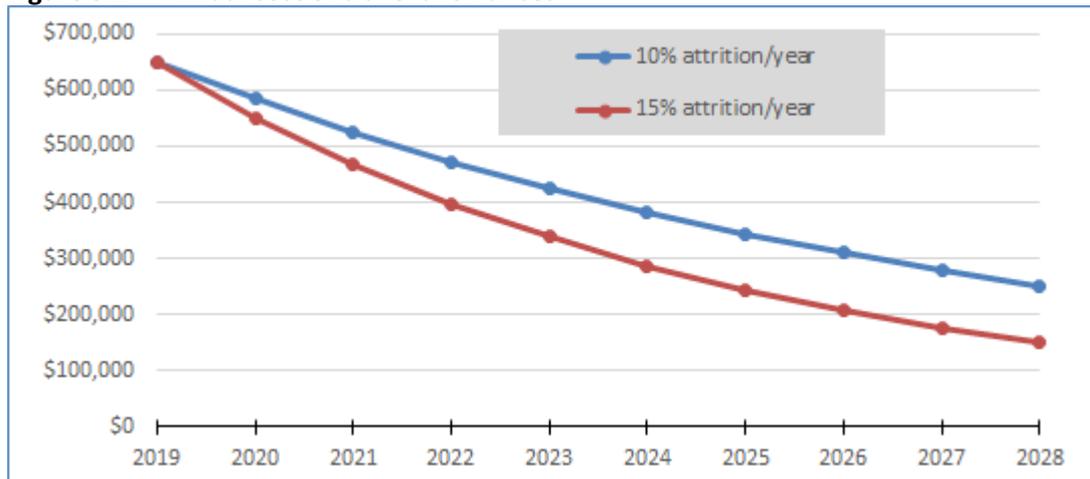
- \$3.94m for 10% attrition per year
- \$3.24m for 15% attrition per year

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**

<i>Entitlement-years that are bought out</i>	<i>Total cost</i>
1 year	\$605,000
2 years	\$1,210,000
<b>3 years</b>	<b>\$1,815,000</b>
4 years	\$2,420,000
5 years	\$3,025,000

### 3.8 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
<b>Short-term savings in travel time costs</b>				
Modelled as saving in staff time, valued at \$77,500 per staff-year	3.45	2.76	\$267,231	\$213,785
<b>Medium-term operational efficiencies</b>				
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)
<b>Conservative estimate</b>				
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
<b>Total</b>		<b>15.61</b>	<b>7.80</b>	<b>3.90</b>
<b>Ambitious estimate</b>				
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
<b>Total</b>		<b>32.12</b>	<b>16.06</b>	<b>8.03</b>

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.

### 3.9 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

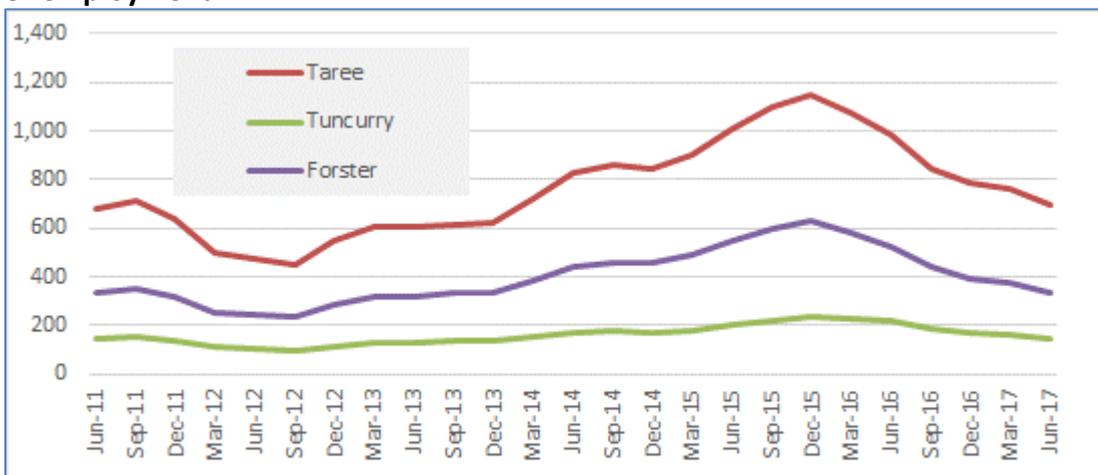
almost seamless transition to other occupants. These feedbacks and self-corrections tend to be lost or simply ignored in EIA.

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.

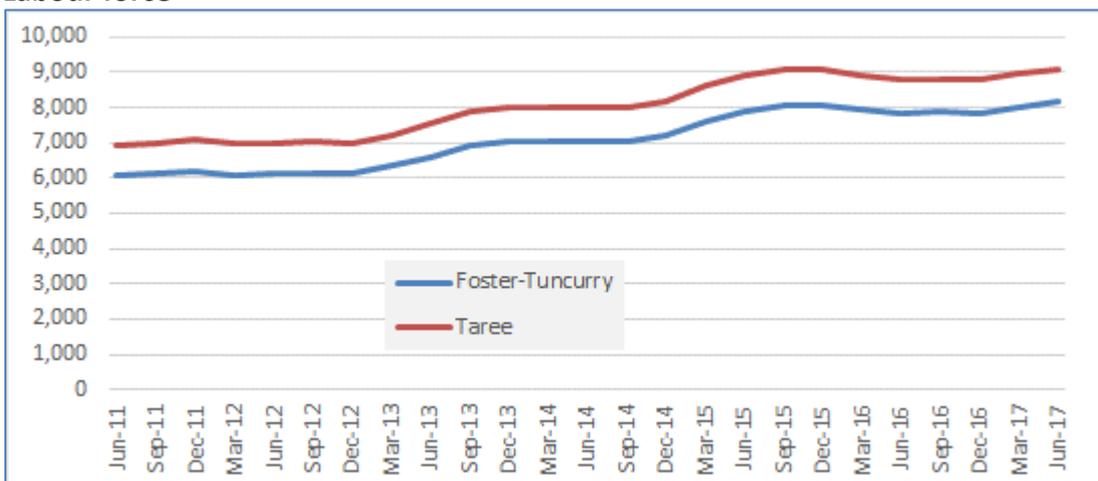
The numbers generated by an EIA can deceive. Specifically, a diversion from Forster-Tuncurry to Taree that grows to, say, \$2.5m/year over 20 years, should not be interpreted as an ‘economic loss’ of \$2.5m/year for the Forster economy. The displaced resources of land, labour and capital will find alternative 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 if 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, discounted to January 2018. Do not 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 \$80.73m.
- The investment criteria – net present value (NPV) and benefit cost ratio (BCR) – are strong. The NPV is large and positive, at \$73.2m; the BCR of 10.7 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 most variations at the higher discount rate of 7% real, reported in Panel B of Table 4.2. However, the BCR falls to 0.9 when cost efficiencies and residual values are excluded.

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**

	<i>Baseline CBA</i>	<i>Excluding cost efficiencies</i>	<i>Excluding cost efficiencies and residual values</i>
<b>A. MCC financial analysis at discount rate of 5% nominal (MCC's borrowing cost, equivalent to 2.94% real)</b>			
<b>Investment cost</b>	\$7,515,707	\$7,515,707	\$7,515,707
<b>Benefits</b>			
<i>Property sales</i>	\$236,080	\$236,080	\$236,080
<i>Capital replacement costs</i>	\$5,015,752	\$5,015,752	\$5,015,752
<i>Operating costs</i>	\$2,993,489	\$2,993,489	\$2,993,489
<i>Residual value</i>	\$2,763,455	\$2,763,455	
<i>Cost efficiencies</i>	\$69,716,755		
<b>Total benefits</b>	\$80,725,531	\$11,008,776	\$8,245,321
<b>Net present value</b>	\$73,209,825	\$3,493,069	\$729,615
<b>Benefit cost ratio</b>	10.7	1.5	1.1
<b>B. MCC financial analysis at discount rate of 7% real (NSW Treasury guidelines)</b>			
<b>Investment cost</b>	\$7,254,401	\$7,254,401	\$7,254,401
<b>Benefits</b>			
<i>Property sales</i>	\$91,725	\$91,725	\$91,725
<i>Capital replacement costs</i>	\$4,154,982	\$4,154,982	\$4,154,982
<i>Operating costs</i>	\$2,108,183	\$2,108,183	\$2,108,183
<i>Residual value</i>	\$1,226,125	\$1,226,125	
<i>Cost efficiencies</i>	\$47,184,672		
<b>Total</b>	\$54,765,688	\$7,581,016	\$6,354,891
<b>Net present value</b>	\$47,511,287	\$326,615	-\$899,510
<b>Benefit cost ratio</b>	7.5	1.0	0.9

**C. 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.
- 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.

**Table 4.3 Breakdown of financial costs: present values***(Note: negative costs are financial revenues or savings)*

	<i>Present values, January 2018</i>		
	<i>Single Site</i>	<i>Campus</i>	<i>Incremental cost of Single Site relative to Campus option</i>
<b>Property sales, net of selling costs</b>			
Biripi Way	\$0	-\$6,429,480	\$6,429,480
MCC, Forster	-\$1,876,490	\$0	-\$1,876,490
MCC, Taree	-\$1,869,276	\$0	-\$1,869,276
MCW, Taree	-\$1,393,938	\$0	-\$1,393,938
MCW, Forster	-\$1,477,623	\$0	-\$1,477,623
Sale of fitout	-\$48,233	\$0	-\$48,233
<i>Subtotal</i>	<i>-\$6,665,560</i>	<i>-\$6,429,480</i>	<i>-\$236,080</i>
<b>Initial capital outlay</b>			
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
<i>Subtotal</i>	<i>\$20,114,756</i>	<i>\$12,599,050</i>	<i>\$7,515,707</i>
<b>Capital replacement expense</b>			
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
<i>Subtotal</i>	<i>\$8,556,835</i>	<i>\$13,572,587</i>	<i>-\$5,015,752</i>
<b>Residual value</b>			
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	-\$1,033,660	-\$2,050,387	\$1,016,728
<i>Subtotal</i>	<i>-\$10,428,485</i>	<i>-\$7,665,030</i>	<i>-\$2,763,455</i>
<b>Operating costs</b>			
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
<i>Subtotal</i>	<i>\$11,016,322</i>	<i>\$14,009,810</i>	<i>-\$2,993,489</i>
<b>Staff efficiencies</b>			
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
<i>Subtotal</i>	<i>-\$110,865,656</i>	<i>-\$41,148,901</i>	<i>-\$69,716,755</i>
<b>TOTAL</b>	<b>-\$88,271,788</b>	<b>-\$15,061,964</b>	<b>-\$73,209,825</b>

- The savings on building O&M and other operating costs is a lesser factor.
- Residual value contributes because Single Site leaves MCC with a younger asset that has more years of useful life; the Base building was constructed in 2014 and the fitout would be entirely new. But a lesser factor also.
- The difference in the contributions from property sales is minor, the least significant factor.

## 5 CONCLUSION

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The CBA strongly favours the Single Site option, the baseline assessment returning an NPV of \$73.2m and a BCR of 10.7, 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 an 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.