



COST BENEFIT ANALYSIS

Report for the Shire of Three Springs for the Duffy's Store
Redevelopment and Silo Projection Project

Revised January 2022



Prepared by NAJA Business Consulting Services



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1. EXECUTIVE SUMMARY

The Town of Three Springs is located 313km north of Perth, situated in the Shire of Three Springs (the Shire) within the Mid-West region of Western Australia.

It is renowned for its picturesque townscape and old-style wheat silos, visible from all roads leading into town. Tourism is an increasing industry in the area, being the heart of wildflower country and the Shire is looking at opportunities to further grow tourism in the town, which in turn will help it succeed in its vision to become a healthy and unified community with a bright future.

One of the opportunities being investigated by the Shire is the viability for redevelopment of Western Australia's oldest weatherboard general store – “Duffy's Store” into a café / museum / visitor centre / event space, along with purchase of projection equipment for projecting on to the old town silos to hold events that attract tourists and create economic benefits to the town.

As part of this process, the Shire has contracted NAJA Business Consulting Services (NAJA) to undertake this Cost Benefit Analysis (CBA). The CBA report considers the financial implications of undertaking such a project as well as the benefits, including increased tourism as a result of the project. The total project is costed at \$2,569,514 excluding GST.

It is considered that by improving the overall amenity of the town through delivery of this project, the Shire will be better positioned to market itself to visiting tourists, as well as providing a redeveloped venue with café facilities for the community and visitors to engage, which takes advantage of the historical importance of the location and its surrounding natural assets.

The redeveloped Duffy's Store would be a unique experience and attract visitors to Three Springs who would not otherwise come to town. If these additional visitors can be encouraged to stay overnight then the economic benefit for local businesses increases significantly, which in turn supports employment and the sustainability of the local community. With the addition of the silo projected events, art images and messaging, plus the potential other uses such as a silo interpretive centre, viewing platform and adventure activity such as rock climbing and abseiling being included, this will add to the overall tourism drawcard for the town.

The project should also bring social benefits in providing residents with a community hub and meeting place at the Duffy's Store that could become a focal point for local events. Investment in infrastructure of this type is fundamental to community health, well-being and economic prosperity. The proposed facilities and services associated with community and cultural uses, and the networks they foster, will bring people together, strengthen their community and cultural capacity, building resilience and enhancing community cohesion. When developed appropriately, this type of infrastructure can cater for intergenerational needs and provide a great legacy for all to enjoy.

Financial projections in this CBA are based on information supplied by the Shire and should be viewed as giving a general indication of costs and other facts. The CBA should also be read in conjunction with the detailed business case that has been produced for the project to support possible funding applications.

On a purely financial basis, the analysis shows that the Shire will need to carefully consider implementing this project proposal as there is the potential that once implemented that this project, in particular the Duffy's Store redevelopment component, could become an item that operates at a net loss each year with the Shire having to subsidise its annual budget to keep it operational.



If all operating cost items including depreciation and asset renewal are included in the budget, this would mean that the Duffy's Store could operate at a loss of up to \$100,000 per annum. If grant funds are received to cover the annual costs of the trainee position, the café has a guaranteed anchor tenant locked in providing the projected lease income to the Shire and depreciation is only included as a book item with funds not placed into an asset renewal fund, then the Duffy's Store facility could operate on a breakeven footing. Any drop in these incomes or grant streams will have a significant impact on the project's profitability and will require careful consideration by the Shire.

It should be noted though that to offset the new asset cost, the Shire will demolish and sell existing buildings to provide maintenance and insurance savings, which have been considered in the CBA. The Shire propose to transfer the building asset depreciation reserves from these existing sold and disposed assets to the new asset. This has not been considered when undertaking this CBA as the asset renewal figures were unknown, however, this could further enhance the financial viability of the project if done so and alleviate some of the financial concerns highlighted above.

When looking at the benefits side of this project proposal the analysis shows it has the potential to ***provide a range of quantifiable and significant economic and social benefits for the Shire and its local community.***

On current estimates as just a stand-alone economic investment proposal, the development at a 7% discount rate with a 100% increase in tourism numbers at peak season provides a positive position with a ***net present benefit of \$16,778,969 and benefit cost ratio of \$4.54*** returned for every dollar invested over the 20-year period.

With the addition of the social and community benefits taken into consideration the project becomes an even more attractive proposition, with the project expected to yield a ***net present benefit of \$24,724,912 over 20 years and a benefit cost ratio of \$6.21*** for every dollar invested.

At the other end of the scenario analysis when the increase in tourism numbers at peak season is brought back to just 25%, the development at a 7% discount rate provides a positive economic only position with a ***net present benefit of \$4,377,379 and benefit cost ratio of \$1.92*** returned for every dollar invested over the 20-year period.

With the addition of the social and community benefits taken into consideration on this 25% tourism increase scenario the project is expected to yield a net present benefit of ***\$12,222,604 over 20 years and a benefit cost ratio of \$3.58*** for every dollar invested.

While not included in the CBA calculations at this stage, there are also further opportunities available to the Shire that could improve the economic, social and community benefits if implemented. This includes the investment into upgrading the facades and surrounds of the nearby shops and businesses to create a "main street precinct", which would add to the look and feel of the area and surrounds. Additionally, upgrading and expanding the Glyde Street Caravan Park would also enhance the project significantly by providing a more holistic outcome to the development and making the overall project more attractive to visitors providing another option for overnight stays.

Overall, based on the benefit figures at the top and lower end of the estimated increased tourism numbers, the Shire would be justified in proceeding with the development, subject to it accepting the potential financial operating costs, and the implications and risks of the project as outlined in this report.



2. PROPOSAL BACKGROUND

The following outlines the background of the three components that make up this proposal.

Redevelopment of the Duffy's Store

The building, known as Duffy's Store, is situated on The Midlands Road, in central Three Springs, being Three Springs Lot 56 and the whole of the land comprised in Certificate of Title Volume 1140 Folio 823. Duffy's Store and Billiard Saloon was constructed in 1909 during the opening up of the region and settlement of the Three Springs Township and traded basically under the ownership of one family until 1992. The building and land are now owned freehold by the Shire of Three Springs.

The building comprises a single storey timber framed weatherboard clad building with a metal roof, and an adjoining single storey timber framed weatherboard clad hall, known as the Billiard Saloon. The Store building comprises a two-room retail section with living quarters to the rear. The Billiard Saloon comprises two rooms. Many of the fitments of the Store have been removed, however the serving counters are still in place. As such there is a high degree of authenticity while the integrity is moderately high. The condition of the two buildings is moderately poor. There is termite damage to areas and the stumps to the Store have failed in some areas. The Store was re-roofed in 2005.

The historical value and importance of Duffy's Store being the oldest standing weatherboard clad general store in Western Australia sets apart this project. The heritage significance of the building was recognised when it was registered on the State Register of Heritage Places in March 2005.

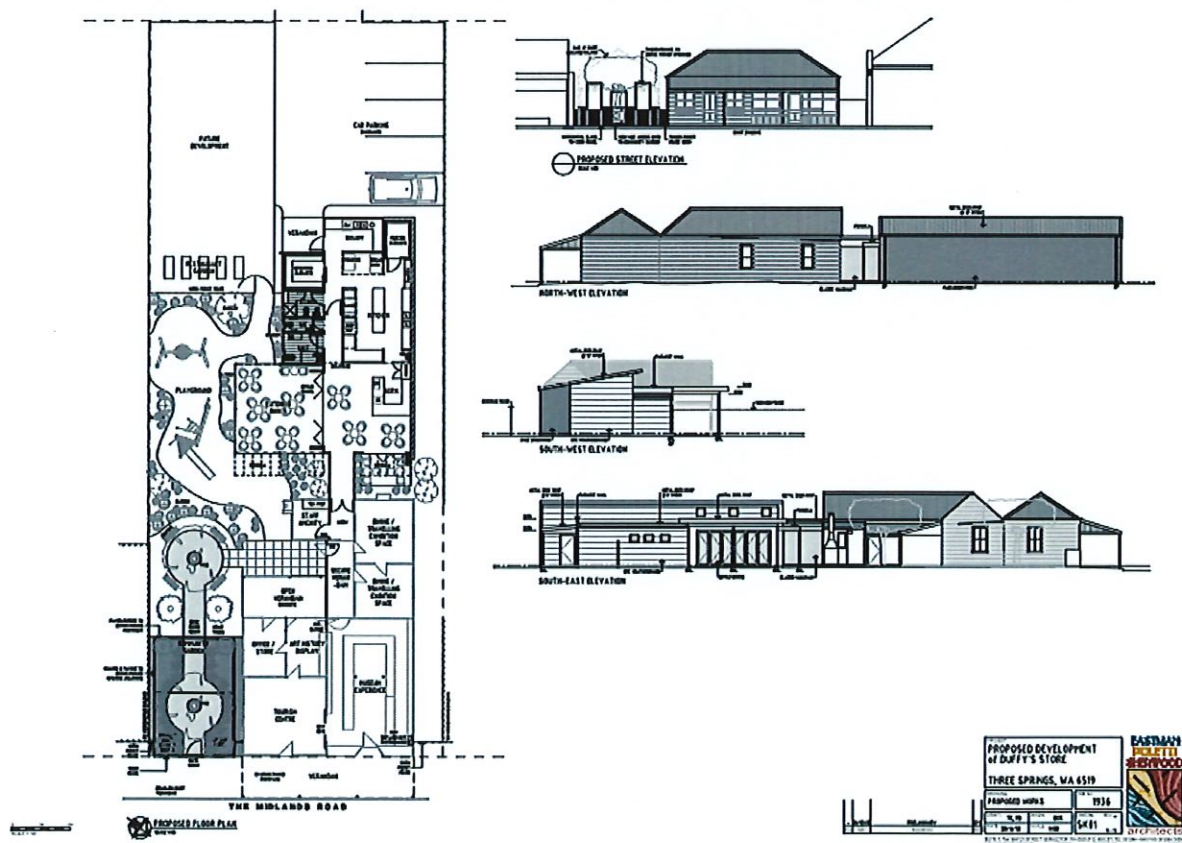
The Shire has been planning the restoration of Duffy's Store since 2006.

The Shire's Duffy's Store project goals are:

1. Provide a safe and relaxing environment that is 1909 focused with experiences for all age groups;
2. Restore Duffy's store/shop to a 1909 museum experience;
3. Museum WA endorsed experience, presenting the history of Three Springs, the region, and travelling museums exhibitions;
4. Relocate the Visitors Centre to the store;
5. Café/Restaurant offering diverse high quality licenced culinary experience from the region;
6. Sell local Aboriginal art and regional food on a commission basis;
7. Community meeting place;
8. Arts and exhibition centre;
9. Historical movies, i.e. The history of wheat and sheep in Australia;
10. Manage the silo projection system and silo tourism projects; and
11. Manage the future Shire Caravan Park.

The following plans gives a general indication of the proposed layout of Duffy's Store once restoration and renovation are complete, however the final layout may change as the project evolves. One component that will not change is the use of the original serving counters in the shop which will be retained to depict the original 1909 fit-out. The museum will be accessed through the visitor centre which will be located in the display area in the plan. Access to the rear of the building which will house the café will be through the space currently occupied by the billiard room. The billiard Room will be demolished, this will mean the café can be accessed year round and not be dependent on visitor centre opening hours.

As part of this analysis, it is recommended that consideration should also be made into relocating the café nearer the front of the redeveloped facility, rather than the current plans at the rear. Having the café up front allows it to take advantage of people inside viewing the silo projections and also attracting passing residents and visitors inside, that otherwise may walk by not realizing that a café is located at the rear. This will make the café a more financially attractive proposition.



The cost quoted to deliver this work is \$2,422,603 excluding GST (Refer to **Attachment 1**).



Silos

The silo projection project would project images on to the silos opposite Duffy's Store to attract visitors to town. Ideas to be projected could be related to particular events, for example the simulcasts of the arts, ANZAC Day, Skyworks show, road safety messages and bushfires etc.



Additional to the projection of images, the projection equipment would also be utilised to hold special events such as cinema movie nights under the stars and broadcasts of special live events from within the State or nation.

The Silo Projection Goals are:

1. The ability to project arts events from the city or other regional locations to the North Midlands. e.g. Symphony in the City and Opera in the Park.
2. To provide ability for outdoor cinema.
3. To showcase aboriginal arts.
4. To support events packaging and marketing of the Western Australian tourism locations and products.
5. To project community messaging and safety.

Discussions between the Shire and CBH are also occurring regarding the silos being further developed into an iconic tourism destination offering silo tours, education on the wheat industry, adventure sports such as rock climbing and abseiling and an unprecedented North Midlands sightseeing experience from a viewing platform at the top of the silos.





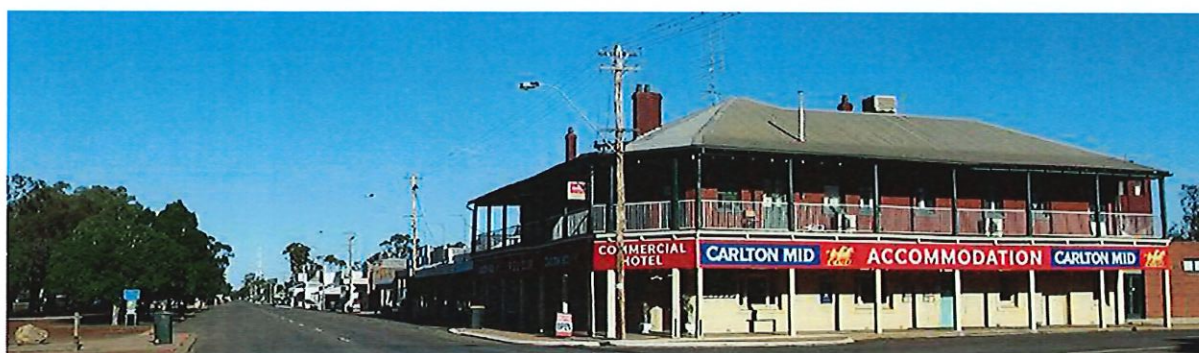
The estimated cost for the required projection equipment component for this CBA is \$103,889 excluding GST. The projection equipment would also be fitted into a Mobile Unit (Van) which would be purchased. Total cost estimated for the Van and fitting of the projector is \$43,022 excluding GST.

Other Projects outside this proposal

Additional to the above elements, but outside of this project proposal, the Shire is also investigating:

Upgrade of the main street building facades around the Duffy Store

To assist in the overall attractiveness of the town to encouraging visitors and tourists to stay overnight, as well as the Duffy's Store redevelopment the project will look at upgrading the appearance of the main street around the Duffy's Store by undertaking minor repairs and painting of the main street building facades.



These works will consist of:

- carrying out minor repairs to façade of buildings (e.g. replacement sheets etc. non-structural works)
- Painting to all buildings as agreed with Shire - face lift to facades only of shops not entire building/sides)



It should be noted that no allowance has been made for any major structural repairs to these other buildings if required.

The cost quoted to deliver this work is \$174,000 excluding GST (Refer to Attachment 2).



Development of a Shire Caravan Park on Glyde Street

This project would see the development of the former workers accommodation site that housed people working on the Mid West Energy project. Underground infrastructure including water, sewage and power remain in place making the development of a caravan park a real possibility. This project is important to maximising the economic benefit to the town from visitors staying one night or more, providing them with a further accommodation area to stay in town.

A quote for these works has not yet been costed.





3. COST BENEFIT ASSESSMENT METHODOLOGY

This section summarises the Cost Benefit Analysis (CBA) methodology and assumptions.

3.1. Methodology

A CBA is the most commonly used, and most comprehensive, of the economic evaluation techniques. Essentially, a CBA compares the monetised benefits and costs of a project to evaluate the desirability of a project.

The CBA steps include:

1. Identify the quantifiable benefits that can be monetised;
2. Calculate the value (in monetary terms) of the quantified incremental benefits and capital costs in net present value (NPV) terms using the discount rates; and
3. Calculate the benefit cost ratio (BCR) – the total present value of all net benefits compared to the present value of capital costs to determine the ratio to which incremental net benefits exceed (or undershoot) incremental costs related with the project.

3.1.1. Discount Rates

Discounting is the reverse of adding (or compounding) interest. It reduces the monetary value of future costs and benefits back to a common time dimension – the base date. Discounting satisfies the view that people prefer immediate benefits over future benefits (social time preference) and it also enables the opportunity cost to be reflected (opportunity cost of capital). Recognising the potential for multiple audiences for the business cases, real discount rates of 3, 7 and 10% have been applied. These discount rates are broadly in alignment with State and Federal Government guidelines, including the Building Better Regions Fund program.

Modelling of quantifiable benefits and costs are developed over a 20-year timeframe.

3.1.2. Financial Cost Approach

The cost benefit assessment undertaken in this report represents a “cost of capital” assessment. This approach focuses primarily on the up-front financial costs of the project with reduced consideration of non-financial costs. This generally reflects the fact that cost benefit analysis and associated business cases specifically seek to address the validity of potential financial investment in projects by State or Federal Governments. As such, evidence is required, through the CBA, of the potential return on investment (in the form of economic and social benefits) to inform this investment decision.

3.1.3. Sensitivity Analysis

For the purposes of the cost benefit assessment, NAJA has conducted sensitivity analysis and produced results for four scenarios as follows:

Scenario One:	100% of expected additional tourist night stays and attendance at events
Scenario Two:	75% of expected additional tourist night stays and attendance at events
Scenario Three:	50% of expected additional tourist night stays and attendance at events
Scenario Four:	25% of expected additional tourist night stays and attendance at events



3.2. Assumptions

For the purposes of the assessment the following assumptions have been made in the cost benefit analysis modelling:

1. CBA is conducted over a 20-year span at discount rates of 10%, 7% and 3%
2. Funding is available to complete the redevelopment with a 12-month construction process at a capital cost of \$2,569,514 exc. GST as per quotations received to undertake works.
3. All Operating Costs and Income are as expected and provided by the Shire of Three Springs. These have been indexed at CPI rate of 1.5% per annum.
4. Average Construction Salary in Australia in 2021 is \$99,983pa with direct construction of 7 FTEs created during construction of facilities over 12 months.
(<https://au.talent.com/salary?job=construction+>)
5. Average Salary in Australia in 2021 is \$70,000pa with flow on of 4 FTEs created from the construction into other industry sectors during the 12-month construction of facilities.
(<https://au.talent.com/salary?job=western+australia>)
6. Depreciation (Asset Renewal Costs) are based on Whole of Life Figures calculated by NAJA Business Consulting Services, which are modelled on the intervention point during the life span of individual components.
7. Maintenance Costs are calculated on 1.5% of capital costs.
8. Social connectedness benefits estimated at a 3.5 multiplier on Shires annual operational cost of running the associated facilities.
9. Volunteering benefit is based on volunteer hours per year provided by the Shire of Three Springs to operate the Visitor Centre, Museum and Events refer to CBA Volunteer Benefits section.
10. Anchor Tenant will be sought by Shire to operate the Café via an attractive lease arrangement (approx \$250 per week or \$13,000 p.a.) plus provision of low-cost rental accommodation provided by the Shire (at additional \$100 per week or \$5200 p.a.).
11. Café will operate initially with 2.5 FTE (1 x Chef, 1 x Café Allrounder, 1 x part-time wait person) with following expected salaries:
 - a. Chef at \$60,000pa (<https://au.talent.com/salary?job=chef>)
 - b. Café Allrounder at \$52,504 (<https://au.talent.com/salary?job=cafe+all+rounder>)
 - c. Wait Person at \$21,450 (<https://au.talent.com/salary?job=waiter+waitress>)
12. The existing Shire Community Development Officer (CDO) would transfer their office to Duffy's Store. Eighty percent of the CDO position role would remain as is with twenty percent transferred to undertake the facility management role which equates to an allocated cost of \$16, 611 including superannuation per annum to the project.
13. The Shire expect to employ a new trainee as part of the project to work on tourism, community and events areas alongside the CDO. The Shire plans to fund the position via a grant. The trainee wages are expected to be \$28,251 per annum including superannuation.
14. The proposal is to offer a very attractive lease for an anchor tenant to operate the Café, with an expectation the Anchor tenant would cover the cost of cleaning the entire facility. However, the Shire has allocated based on an hourly rate for a cleaner of \$22 per hour including superannuation with a total annual value expected of \$22 x 1.5 hours x 7 days x 52 weeks =\$12,012 per annum if this does not occur.
15. The museum experience will be offered by donation only (expect 1500 visitors a year at \$2 per each)
16. Expect to hold 10 conferences or events in the facility per year charged at \$500 per event for rent of space.
17. Expect to hold 12 silo projection events a year, which will be free events, although paid roped off corporate areas may still be considered.
18. The projection events will support local community clubs who can sell food and beverages at the events to raise funds. The Café would also be open during these events.



19. To offset the introduction of a new facilities worth estimated \$2.57m, the Shire will demolish and sell off existing assets that will in turn provide insurance and maintenance savings on these existing assets of approximately \$37,274 per annum once either all demolished or sold off. Income from sale of these assets is also estimated to be \$120,000.
20. In regard to increased tourists to the town expected from the development of the proposal and its new attractions the Shire has provided the following current and future estimates:

General Visitor numbers	Current: Average 20 visitors per day or 100 per week during July-Sept. Visitor Centre closed from October to June. Shire was averaging around 10 visitors per day as well resulting in an extra 50 visitors per week during the peak time. Average stay of current visitors is around 3 nights. Future: Based on Duffy's experience, Walk in Cinema, additional camping locations, 4 x special events and marketing the Shire expects these figures to double.
Wildflower season visitor numbers	Current: Looking at Wildflower Country (regional) the Shire estimate 500 visitors per day during peak season, with an average stay within the region to be 5 nights. Future: Based on adding experience through Duffy's experience, Walk in Cinema, additional camping locations, 4 x special events and marketing the Shire would expect these visitations to Three Springs to increase to an additional 100 persons per day.
Visitor numbers to the TS360 event	Current: 250 visitors (WAORRA teams) for 3 nights, plus approx. 200 additional spectators per day over the two days racing. Future: Based on adding experience through Duffy's experience, Walk in Cinema, additional camping locations, 4 and marketing the Shire expect these visitation numbers to increase to 300 visitors (WAORRA teams) for 3 nights, plus approx. 400 additional spectators per day over the two days racing.

21. In regard to expected increased tourist spend these have been calculated based on the following:
- Historical Tourism WA research data show that visitors to regional WA spend on average \$94 per person per night that they stay in a community¹.
 - Using the Australian Bureau of Statistics' input-output tables, tourism's total output multiplier is valued at 1.91². This means for every dollar tourism earns directly in the Australian economy, it value adds an additional 91 cents indirectly to other parts of the economy.
 - For visitors looking at wildflowers or spectators to events such as the TS350 it is estimated that their daily spend if not staying overnight is \$25 per day.

¹ Wheatbelt Way Visitor Snapshot Report October 2020

² ABS Tourism Input Output Tables



22. In regard to the number of silo projection events and attendance the Shire estimates the following:
- a. 12 special events held per year, including:
 - i. Cinema movie nights
 - ii. Movies sourced from WA Library and WA Museums
 - iii. Live streaming telecast of Opera in the park
 - iv. Live streaming telecast of Symphony in the City
 - v. Anzac Day
 - vi. Live streaming telecast of Black Swan Theatre Company plays
 - vii. Astro Tourism
 - b. Expected that special events could attract and accommodate maximum of 445 people.
 - c. Expected average spend per person at events will be \$10 on food and drinks.
 - d. There would be something projected/streaming at least once a week (wildflower slideshows, drone footage of seeding and harvest, Astrotourism footage etc) to attract regional and state interest.
 - e. Events would be free if sponsorship can be attracted to cover their cost.
 - f. Expected sponsorship/advertising per year to bring income of \$5,000 per annum indexed at CPI of 1.5%
 - g. The Shire will allow local community groups to provide catering for fundraising opportunities for their clubs at the 12 special annual events.
 - h. Additionally, VIP areas could be roped off with catering provided by Duffy's Store Café kitchen.



4. PROPOSED COSTS

The following assumptions regarding costs have been made for this cost benefit analysis:

Establishment Capital costs	Capital upfront costs of \$2,569,514 for completion of the redevelopment of the Duffy's Store and purchase of the silo projector over a 12-month time frame (excluding GST) broken down as follows: • Duffy's Store Redevelopment - \$2,422,603 • Silo Projection Equipment - \$103,889 • Mobile Unit Van - \$35,022 • Projector fitting - \$8,000 Total - \$2,569,514 (once off)
Recurrent Costs	The total recurrent (ongoing) costs of \$181,190 per annum in line with the whole of life model and sustainability analysis for the redeveloped Duffy's Store and silo projection project, broken down as follows: Total Annual Operating Costs - \$86,625 indexed at CPI of 1.5% over 20 years. Annual Maintenance Costs - \$39,497 per annum for maintenance indexed at CPI of 1.5% over 20 years. Average Annual Renewal Demand Costs - \$55,068 cash backed depreciation per annum allocated over the life of the assets over 20 years to a building and infrastructure asset renewal reserve fund.



5. PROPOSED ANNUAL OPERATIONAL BUDGET

The operational budget for the redeveloped Duffy's Store and silo projection events has been based on figures provided by the Shire of Three Springs. It is expected that this represents as close as possible to the type of budget that will be required to operate the proposed facilities and events.

While not exact they represent as close as possible the expected operational costs and revenue that will arise.

It should be noted that to offset the new asset cost, the Shire will demolish and sell existing buildings that will provide maintenance and insurance savings, which have been considered in the below budget. However, the building asset depreciation reserves from these existing buildings that will be sold or demolished were unknown and thus have not been considered in this Operational Budget analysis as a saving.

The following table provides an indicative operating budget for the proposed project for its first 5 years of operational from when the facilities first become available in 2022/23.

Shire of Three Springs Duffy St Store/Silo Project/Façade Upgrade Operating Budget	2022/23	2023/24	2024/25	2025/26	2026/27
Costs					
Operating Expenses - Duffy St Store					
Power (Excluding Kitchen)	\$7,000	\$7,105	\$7,212	\$7,320	\$7,430
Water (Excluding Kitchen)	\$5,000	\$5,075	\$5,151	\$5,228	\$5,307
Insurance	\$3,500	\$3,553	\$3,606	\$3,660	\$3,715
Telephone and Internet	\$2,000	\$2,030	\$2,060	\$2,091	\$2,123
Advertising	\$2,751	\$2,792	\$2,834	\$2,877	\$2,920
Printing & Stationery	\$1,500	\$1,523	\$1,545	\$1,569	\$1,592
Facility Manager (Transfer 20% of Existing CDO Shire Staff member time and cost)*	\$16,611	\$16,860	\$17,113	\$17,370	\$17,630
Traineeship Tourism, Community and Events*	\$28,251	\$28,675	\$29,105	\$29,541	\$29,985
Facility Cleaning*	\$12,012	\$12,192	\$12,375	\$12,561	\$12,749
Cleaning products	\$2,500	\$2,538	\$2,576	\$2,614	\$2,653
Annual Building Maintenance	\$36,339	\$36,884	\$37,437	\$37,999	\$38,569
Depreciation*	\$40,377	\$40,377	\$40,377	\$40,377	\$40,377
Total Operating Expenses - Duffy St Store	\$157,841	\$159,603	\$161,391	\$163,206	\$165,049
Operating Expenses - Silo Projection					
Movie Hire	\$3,000	\$3,045	\$3,091	\$3,137	\$3,184
Software & Licenses	\$2,500	\$2,538	\$2,576	\$2,614	\$2,653
Annual Maintenance	\$1,558	\$1,582	\$1,605	\$1,630	\$1,654
Depreciation*	\$11,189	\$11,189	\$11,189	\$11,189	\$11,189
Total Operating Expenses - Silo Projection	\$15,747	\$15,816	\$15,885	\$15,955	\$16,027
Operating Expenses - Mobile Unit Van					
Annual Maintenance	\$1,600	\$1,624	\$1,648	\$1,673	\$1,698
Depreciation*	\$3,502	\$3,502	\$3,502	\$3,502	\$3,502
Total Operating Expenses - Mobile Unit Van	\$5,102	\$5,126	\$5,151	\$5,175	\$5,200
Total Operating Costs	\$181,190	\$183,082	\$185,002	\$186,951	\$188,930



Revenues and Savings					
Offset Asset Sales and cost savings					
Income from sale of existing building assets	\$110,000	\$10,000			
Reduction in Shire building asset insurance costs	\$10,649	\$11,114	\$15,974	\$15,974	\$15,974
Reduction in Shire building asset maintenance costs	\$14,200	\$14,820	\$21,300	\$21,300	\$21,300
Total Offset Asset Sales and cost savings	\$134,849	\$35,934	\$37,274	\$37,274	\$37,274
Duffy St Store					
Duffy's Anchor Tenant Kitchen	\$13,000	\$13,195	\$13,393	\$13,594	\$13,798
Duffy's Anchor Tenant House	\$5,200	\$5,278	\$5,357	\$5,438	\$5,519
Museum Experience (donations)	\$3,000	\$3,045	\$3,091	\$3,137	\$3,184
Arts and exhibition	\$300	\$305	\$309	\$314	\$318
Sales of Aboriginal art	\$260	\$264	\$268	\$272	\$276
Product Display and Marketing	\$3,000	\$3,045	\$3,091	\$3,137	\$3,184
Pop up shops	\$260	\$264	\$268	\$272	\$276
Tourism Centre	\$250	\$254	\$258	\$261	\$265
Conference and Events	\$5,000	\$5,075	\$5,151	\$5,228	\$5,307
Facility Hire (Events)	\$3,000	\$3,045	\$3,091	\$3,137	\$3,184
Total Duffy St Store Revenue	\$33,270	\$33,769	\$34,276	\$34,790	\$35,312
Silo Projection					
Advertising/Sponsorship	\$5,000	\$5,075	\$5,151	\$5,228	\$5,307
Total Silo Projection	\$5,000	\$5,075	\$5,151	\$5,228	\$5,307
Total Revenues and Savings	\$173,119	\$74,778	\$76,701	\$77,292	\$77,893
Net Operating Result	-8,071	-108,304	-108,301	-109,659	-111,037
Net Operating Result exc marked costs*(Depn, Facility Mngr, Trainee and Cleaning)	\$103,871	\$4,491	\$5,360	\$4,881	\$4,395

Based on the above the Operational Budget for the redeveloped facilities will operate at a net loss if all costs are taken into account.

However, if the Shire proposes to transfer the building asset depreciation reserves from the existing buildings that will be sold or demolished to the new asset this would offset the new assets building depreciation costs and reserves, enhancing the financial viability of the project and reduce the overall net loss.

Additionally, if the costs for the Facility Manager (already paid by the Shire) and the new Trainee and cleaning costs, which are expected to be covered by grants and the Anchor tenant as part of the lease arrangements are removed from the budget it is then expected that the project could operate at a relative breakeven level.

Also, as it is expected that the majority of the required funds to meet the capital costs to redevelop and upgrade the facilities plus purchase the silo projector, will initially be required to come from some form of state or federal government grant funding, it is not an unlikely assumption that rather than a future asset renewal fund being in place to completely cover the cost to replace the aging facilities that the Shire would again seek financial assistance to replace these assets at that time.

It should be noted though that if costs increase or revenues are not realised as expected or the costs mentioned above are not covered by grants or the anchor tenant, then the proposed project will bear an annual loss that will need to be covered by the Shire ongoing into the future.



6. BENEFITS STATEMENT AND MODEL ASSUMPTIONS

The key benefit categories identified in relation to this project encompass:

Economic	Social
Employment	Social Connectedness
Gross Regional Product	Volunteering
Tourism	

The following cost benefit analysis seeks to map the expected benefits of the project in comparison to the costs, however it is noted that cost benefit analysis findings often overstate the actual benefits, along with the difficulties in the Western Australian context of applying outdated data and multipliers which may not be directly transferrable to the state's regional economic conditions³. As such, a very conservative approach has been taken to the development as the Shire of Three Springs do not want to imply the potential of creating an unrealistic impact. This project has been undertaken in a considered manner and it is recommended that this cost benefit analysis be further developed in conjunction with a detailed business case being prepared for the project.

6.1. Economic Benefits – Employment and Gross Regional Product

6.1.1. Economic Impact Model

To calculate the employment benefits and gross regional product for this cost benefit analysis, we have used the Flinders University – Australian Urban Research Infrastructure Network - Economic Impact Analysis Tool (EIAT)⁴. The EIAT is developed based on the location quotient adaptation of the 2009/10 national input-output (I-O) table of 19 industry sectors (consistent with the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) 1-digit level) using the 2011 Census industry employment data for local government areas in all the states and territories of Australia.

The EIAT allows us to conduct a preliminary I-O analysis for estimation of local regional economic impacts for regional infrastructure investment projects.

I-O models provide a standard approach for the estimation of the economic impact of a particular activity (e.g. construction of a new infrastructure project). Regional economic impact statements regarding the impact of major projects and policies has become a critical part of regional development analysis and is an extensive component of the applied economic literature. The linkages between employment opportunities and residents – and business to business linkages – affect urban design, infrastructure demand and provision, regional taxes etc.

The EIAT draws on 2011 Census industry of employment data and the 2009/10 national I-O table to calculate industry multipliers which in turn provide estimates of economic impacts of regional infrastructure investment projects.

There are a number of important assumptions that underpin the use of an I-O model, these must be considered in interpreting the predicted impacts. They include:

- increases in demand in the region are serviced by industries with constant proportions, there are no significant price adjustments that occur;
- industries have a linear production function, which implies constant returns to scale and fixed input proportions;

³ Department of Treasury and Finance (WA). (March 2002). Economic Research Articles. Retrieved from <https://www.treasury.wa.gov.au/uploadedFiles/ecoresearchchart2002.pdf>

⁴ <https://aurin.org.au/archived-pages/input-output-tables/>



- c) firms within a sector are homogeneous, which implies they produce a fixed set of products that are not produced by any other sector and that the input structure of the firms are the same; and
- d) the model is a static model that does not take account of the dynamic processes involved in the adjustment to an external change.

6.1.2. Method of Analysis

Location Quotient Method

The Australian Bureau of Statistics produces I-O tables, consistent with the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) 4-digit industry codes (114 sectors), at the national level only with the latest for 2009/10 year.

At the regional level, the easily accessible data generally available is industry of employment data by Place of Usual Residence and Place of Work – this data is available from the 2011 Census and reflects the responses with respect to industry and location of residency and employment. It is somewhat limited in that it depends on the Census respondents own “identification” of the industry, is influenced by the July timing of the Census and involves some degree of non-response (particularly with respect to detail of industry). It is however the only data collected consistently across all economic sectors at once.

Given that the key regional data is employment based, WISer developed regional I-O tables based on the location quotient adaptation of the 2009/10 national I-O table of 19 industry sectors using the 2011 Census employment in the region. Under the location quotient method, the basis of the mathematical distribution is to assume that if the industry is “as significant” in the region as in the nation it has the capacity to supply to local industries at the same proportion as in the nation as a whole. Otherwise, it supplies proportionally less. The location quotient ratio for each industry was calculated based on the industry’s regional employment significance to its national employment.

Input-Output (I-O) Multipliers

Regional I-O models are used to calculate industry multipliers which in turn can be applied to estimate regional economic impacts of various developments or change scenarios (see ‘Impact Factor Analysis’ section below).

Detailed explanations on calculating I-O multipliers, including the underlying assumptions, are provided in any regional economics or I-O analysis textbook (see, for example, Miller R. E., Blair P. D. 2009, Input-Output Analysis: Foundations and Extensions, Second Edition, Cambridge University Press). A multiplier is essentially a measurement of the impact of an economic stimulus. In the case of I-O multipliers the stimulus is normally assumed to be an increase of one dollar in sales to final demand by an industry sector.

Gross regional product and employment multipliers refer to changes in gross regional product per initial change in output and changes in employment per initial change in output. These multipliers are expressed as ‘per unit’ measurement and described as Type I and Type II multipliers. For example, with respect to gross regional product:

Type I gross regional product multiplier = $[\text{initial} + \text{production induced}] / \text{initial}$

and

Type II gross regional product multiplier = $[\text{initial} + \text{production induced} + \text{consumption induced}] / \text{initial}$

Impact Factor Analysis

The economic impact in terms of contribution to gross regional product and employment can be identified in terms of direct, flow-on (indirect) and total impacts.



Direct or initial impacts refer to the impact of the assumed dollar increase in sales directly in the sector. The dollar change in final demand is the stimulus or the cause of the impacts. Associated directly with this dollar increase in output is an own sector increase in household income (wages and salaries, drawings by owner operators etc.) used in the production of that dollar. Household income together with other value added, provide the total GRP from the production of that dollar of output. Also associated is own sector increase in employment, represented by the size of the employment coefficient. The employment coefficient represents an employment/output ratio and is usually calculated as 'employment per million dollars of output'.

Flow-on or indirect impacts are the sum of production-induced impacts and consumption-induced impacts. Production-induced impacts are the sum of first-round impacts and industrial support impacts. The first-round impact refers to the effect of the first round of purchases by the sector providing the additional dollar of output. Industrial-support impacts are the second and subsequent round effects as successive waves of output increases occur in the economy to provide industrial support, as a response to the original dollar increase in sales to final demand, excluding any increases caused by increased household consumption. Consumption-induced impacts are defined as those induced by increased household income associated with the original dollar stimulus in output.

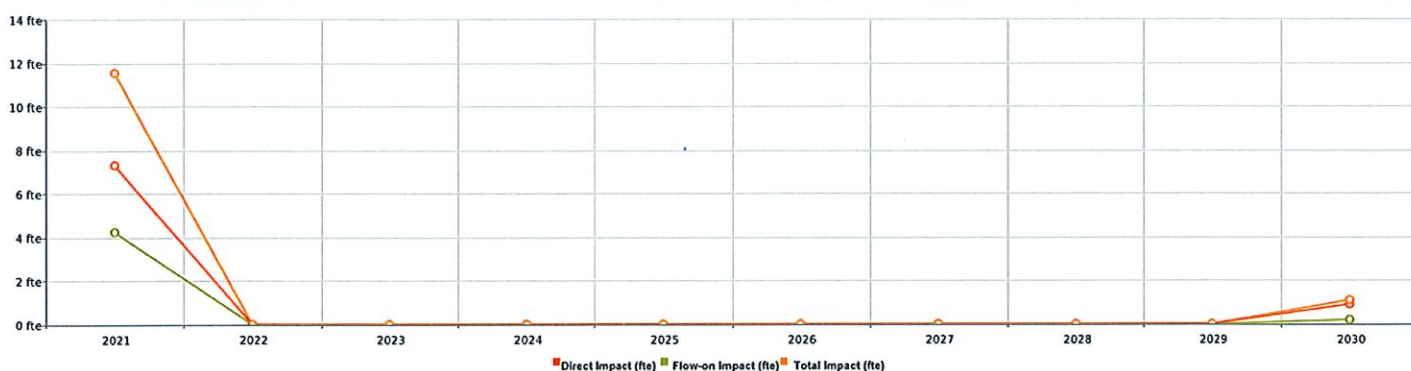
Total impacts are the sum of direct and flow-on impacts.

6.1.3. Economic Impact Analysis Tool Results for Employment Benefits

Employment Benefits

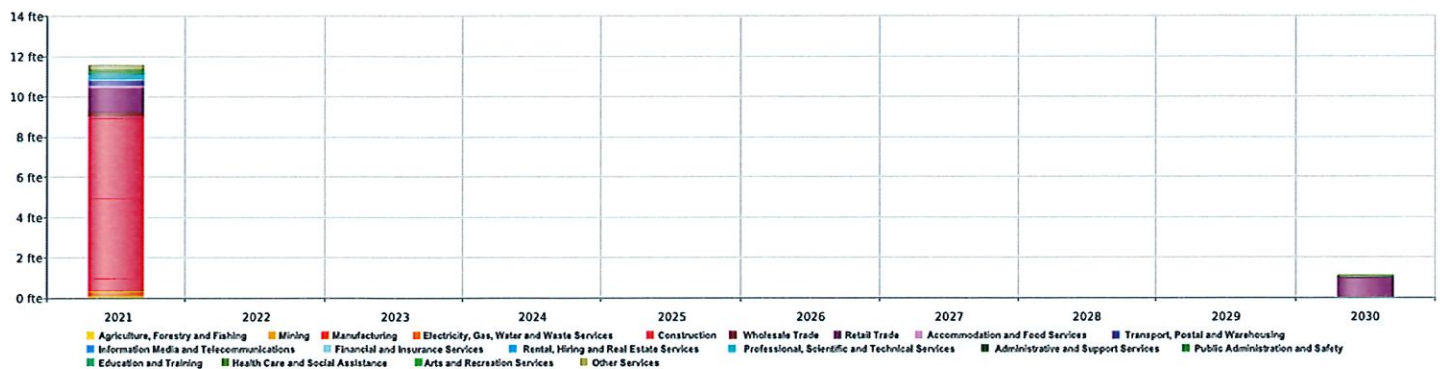
The results from the EIAT for the capital works outlay on the redevelopment of the Duffy's Store facilities and purchase of the silo projector equipment and mobile unit, all to be completed in a 12-month period, showed that it would result in an additional 11 Full time equivalents (FTEs) being employed during this 12-month build process. Of the 11 FTE in 2021, 7 FTE would be employed directly on the build and 4 FTE as flow on within related industry sectors used by the EIAT model (see graphs and tables below). Note every ten years when the silo projector and van is due for a replacement this has the potential to create 1 FTE in that year or purchase.

Employment Impact (fte) in Three Springs (S)





Employment-Total Impact (fte) by Industry in Three Springs (S)



Employment Impact (fte) in Three Springs (S)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Direct	7.30	0	0	0	0	0	0	0	0	0.90
Flow-on	4.24	0	0	0	0	0	0	0	0	0.19
Total	11.54	0	0	0	0	0	0	0	0	1.09

Employment Impact (fte) by Industry Sector Three Springs (S)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agriculture, Forestry and Fishing	0.0982	0	0	0	0	0	0	0	0	0.0208
Mining	0.0269	0	0	0	0	0	0	0	0	0.0008
Manufacturing	0.1539	0	0	0	0	0	0	0	0	0.0048
Electricity, Gas, Water and Waste Services	0.1079	0	0	0	0	0	0	0	0	0.0073
Construction	8.6966	0	0	0	0	0	0	0	0	0.0077
Wholesale Trade	0.1651	0	0	0	0	0	0	0	0	0.0091
Retail Trade	1.1733	0	0	0	0	0	0	0	0	0.9341
Accommodation and Food Services	0.1706	0	0	0	0	0	0	0	0	0.0292
Transport, Postal and Warehousing	0.2265	0	0	0	0	0	0	0	0	0.0135
Information Media and Telecommunications	0.0000	0	0	0	0	0	0	0	0	0.0000
Financial and Insurance Services	0.1032	0	0	0	0	0	0	0	0	0.0038
Rental, Hiring and Real Estate Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Professional, Scientific and Technical Services	0.1929	0	0	0	0	0	0	0	0	0.0088
Administrative and Support Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Public Administration and Safety	0.0787	0	0	0	0	0	0	0	0	0.0037
Education and Training	0.0643	0	0	0	0	0	0	0	0	0.0116
Health Care and Social Assistance	0.1291	0	0	0	0	0	0	0	0	0.0251
Arts and Recreation Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Other Services	0.1536	0	0	0	0	0	0	0	0	0.0142
Total	11.54	0	0	0	0	0	0	0	0	1.09

The expected direct employment benefits of the project, once operational, are equivalent to 3.5 new FTE with a total annual income benefit of \$162,205 (see below table). Note that the Facility Manager is not included in these figures as this will be undertaken as part of the Shires existing Community Development Officer role as 20 percent of the duties. As such no new FTE is create for this position.



Direct Employment Benefits	Annual
Chef/Professional x 1 FTE ⁵	\$60,000
Café allrounder x 1 FTE ⁶	\$52,504
Casual/Part-time wait person (0.5 FTE) ⁷	\$21,450
Traineeship Tourism, Community and Events (1 FTE) ⁸	\$28,251
Total	\$162,205

Estimation Method for Dollar Value of Employment Benefits

The expected dollar value of employment benefits for the project over twenty years is \$4,515,417 which has been included in the Cost Benefit Analysis calculated as follows:

During a 12-month build phase: 7 FTE in 2021 are estimated to be directly employed for this project. The estimated dollar value benefit of these 7 FTE salaries over the 12-month period for the build phase is \$699,881 based on the average annual construction/builder's wage in Australia as of February 2021 of \$99,983⁹ e.g. \$99,983 x 7 FTE = \$699,881 benefit during 2021 for the project.

During the same phase a flow on benefit of a further 4 FTE are expected to be employed across related industry sectors that support the building and construction sector. The estimated dollar value benefit of these 4 FTE salaries is \$280,000 based on the average annual salary in Western Australia as of February 2021 being \$70,000¹⁰ and the build timeframe for the project taking 12 months – e.g. \$70,000 x 4 FTE = \$280,000 benefit during 2021.

The expected direct employment benefits of the project are calculated as follows:

Once all components of the redevelopment are operational, the expected additional new 3.5 FTE (Café staff and new Trainee) will derive a total annual income benefit of \$162,205, which when indexed at CPI of 1.5% over the twenty-year period equates to an overall benefit of \$3,535,536.

6.1.4. Economic Impact Analysis Tool Results for Gross Regional Product

Gross Regional Product (GRP) Benefits – Build/Construction phase only

The results from the EIAT for the full build/construction for the redevelopment of the Duffy's Store, façade upgrade and purchase of the projection equipment showed that it would result in a total GRP Benefit of \$1.214m (\$0.735m in direct benefits and \$0.479m in flow on benefits, see graphs and tables below). Note every ten years when the silo projector is due for a replacement this has the potential to create an additional GRP Benefit of \$77,000 in that year or purchase.

⁵ <https://au.talent.com/salary?job=chef>

⁶ <https://au.talent.com/salary?job=cafe+all+rounder>

⁷ <https://au.talent.com/salary?job=waiter+waitress>

⁸ Expected Trainee Wage supplied by the Shire of Three Springs including superannuation.

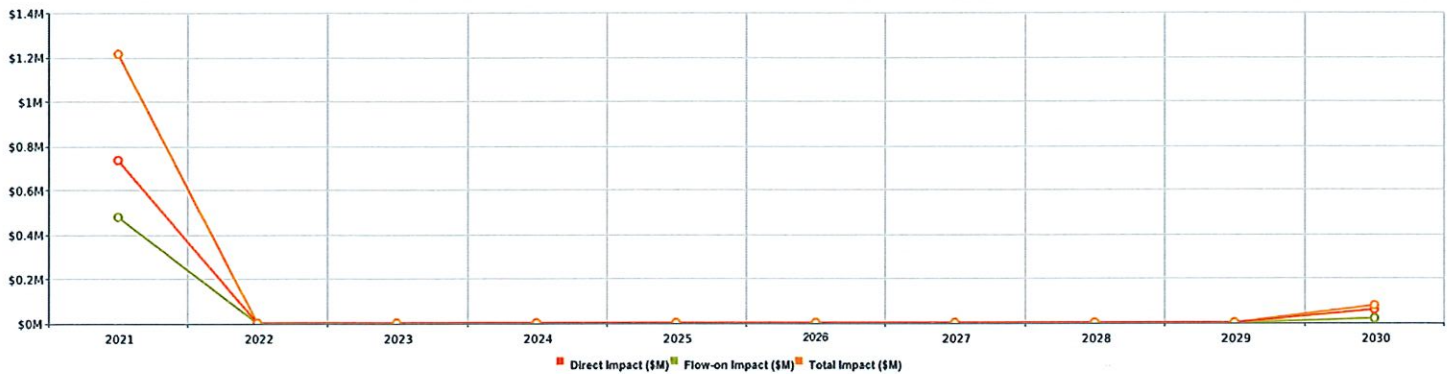
⁹ <https://au.talent.com/salary?job=construction+>

¹⁰ <https://au.talent.com/salary?job=western+australia>

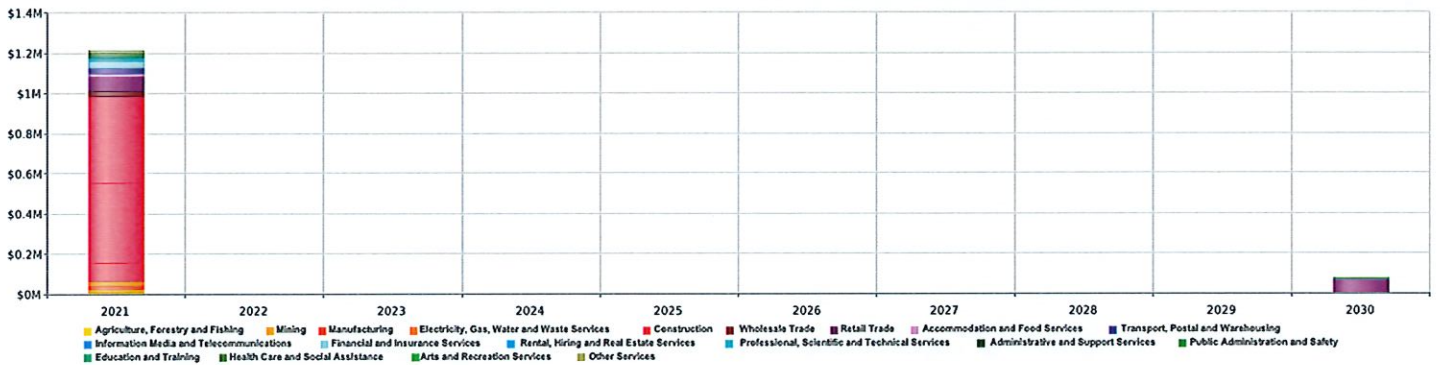


The assumption here is that the facility will be constructed by a local WA builder and that during the construction phase this will mean this money will be spent and retained within the local economy.

Gross Regional Product Impact (\$M) in Three Springs (S)



Gross Regional Product-Total Impact (\$M) by Industry in Three Springs (S)



Gross Regional Product Impact (\$M) in Three Springs (S)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Direct	0.735	0	0	0	0	0	0	0	0	0.058
Flow-on	0.479	0	0	0	0	0	0	0	0	0.019
Total	1.214	0	0	0	0	0	0	0	0	0.077



GRP Impact (\$M) by Industry Sector in Three Springs (S)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Agriculture, Forestry and Fishing	0.0089	0	0	0	0	0	0	0	0	0.0019
Mining	0.0151	0	0	0	0	0	0	0	0	0.0005
Manufacturing	0.0183	0	0	0	0	0	0	0	0	0.0006
Electricity, Gas, Water and Waste Services	0.0256	0	0	0	0	0	0	0	0	0.0017
Construction	0.9190	0	0	0	0	0	0	0	0	0.0008
Wholesale Trade	0.0242	0	0	0	0	0	0	0	0	0.0013
Retail Trade	0.0762	0	0	0	0	0	0	0	0	0.0607
Accommodation and Food Services	0.0102	0	0	0	0	0	0	0	0	0.0018
Transport, Postal and Warehousing	0.0284	0	0	0	0	0	0	0	0	0.0017
Information Media and Telecommunications	0.0000	0	0	0	0	0	0	0	0	0.0000
Financial and Insurance Services	0.0357	0	0	0	0	0	0	0	0	0.0013
Rental, Hiring and Real Estate Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Professional, Scientific and Technical Services	0.0198	0	0	0	0	0	0	0	0	0.0009
Administrative and Support Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Public Administration and Safety	0.0073	0	0	0	0	0	0	0	0	0.0003
Education and Training	0.0054	0	0	0	0	0	0	0	0	0.0010
Health Care and Social Assistance	0.0101	0	0	0	0	0	0	0	0	0.0020
Arts and Recreation Services	0.0000	0	0	0	0	0	0	0	0	0.0000
Other Services	0.0097	0	0	0	0	0	0	0	0	0.0009
Total	1.214	0	0	0	0	0	0	0	0	0.077

6.2. Tourism Benefits

In regard to this project proposal, the primary focus revolves around tourism, with the Shire looking to improve the town's attractiveness to bring more visitors and tourists to experience its unique offerings. The Shire already boasts a diverse and exciting events calendar, featuring events such as off-road motor racing, star gazing, wildflower exhibition weekend and the North Midlands arts festival and walk-in cinema.

However, many regional towns have failed to attract additional visitors when looking at tourism as a way of growing their local economies as they do not have the resources required or they simply do not have the product that visitors are looking for. Tourists, especially those in recreational vehicles (RVs) and hauling caravans do their research before travelling to a region and do talk to each other on social media about towns with something to visit and towns to be avoided. For example, if there is no, or a very poor caravan park in a town then that town will struggle to attract overnight visitors thus losing the economic benefit that overnight visitors bring.

From an economic perspective, Tourism is a significant industry for Australia. It generates \$94 billion in spending and contributes nearly \$34 billion to Australia's GDP, directly employs over 500,000 people and earns nearly 10% of our total export earnings, making it Australia's largest service export industry. It helps to fund critical economic infrastructure like airports, roads and hotels, and provides the people-to-people linkages to Australia's international interests. It also plays an important role in the economic development of regional Australia, with 46 cents in every tourist dollar spent in regional Australia.



The tourism industry consists of almost 280,000 enterprises that support the visitor economy from accommodation and cafes, tour companies, travel agents, transport companies, and parts of the retail and education sector. The industry is supported by a supply chain that generates significant economic multipliers. Every dollar spent on tourism generates an additional 91 cents in other parts of the economy – higher than multipliers in mining, agriculture and financial services¹¹. Historical Tourism WA research data also shows that visitors to regional WA spend on average \$94 per person per night that they stay in a community¹².

Tourism is also more than just holiday travel, incorporating a broader “visitor economy” that includes domestic and international travel for business, study and work, and for visiting family and friends.

In the Mid-West Region of Western Australia for which the Shire of Three Springs is located, there has been an increase in specific types of tourism in recent years and in the Mid-West a significant increase in the interest in astrotourism due to the low levels of light pollution throughout the region. These trends when added to the existing tourism attractions such as the wildflowers would suggest that the Mid West will continue to grow as a tourist destination.

The northern shires of the Mid-West are also positioning themselves as a geotourism region. It is also estimated that 80% of visitors to the Mid-West are intrastate visitors and come from Perth however few accurate records are kept, and little research is undertaken. By far and away the largest market currently visiting the region is the self-drive caravan and RV market predominately during the wildflower season from July to September each year. It is this segment that the Shire will be initially targeting with implementation of this project to increase their overnight stays.

Research shows to be a successful tourist town that receives the benefits that tourism brings, that in addition to nature based and Aboriginal tourism activities there also needs to be an attraction in the town for it to become a destination rather than a place to pass through on the way to somewhere else. That is why on top of the Shire's already exciting events calendar, the introduction of the redeveloped Duffy's Store use of the Silos for events, adventure activities and marketing, plus the potential development by the Shire to develop the Glyde Street Caravan Park and the Mainstreet Façade upgrade (both outside this proposal), all become important factors, which would potentially cement Three Springs as a tourist destination for visitors with all of the benefits that go hand in hand to boost the local economy.

It would be expected that the full range of initiatives/elements including upgrading the Main Street façade upgrade and the caravan park and developing the light projection on the silos will be required to maximise the benefits to Three Springs. By expanding the current calendar of events to include the following elements:

- A redeveloped Duffy's Store into an iconic historical tourist site and community hub, including visitor centre, museum and café; and
- Development of the old CBH grain silos to incorporate the projection livestreaming of cultural events and as a walk-in cinema; plus, silo tours with a strong focus on education, adventure sports and sightseeing with unprecedented viewing over the North Midlands landscape.

It is expected that existing tourism numbers for visitors and overnight stays in Three Springs could double during its peak season of July to September each year, bringing with it a substantial economic benefit to the local economy and its local businesses.

¹¹ Tourism Australia – Tourism 2020 Strategy

¹² Wheatbelt Way Visitor Snapshot Report October 2020



Based on the above figures (that visitors spend on average \$94 per person a night that they stay in a regional community, in turn generating a further indirect \$85 per person ($\$94 \times \$0.91$) a night into other parts of the town's and surrounding local economy) doubling the current visitor overnight stays to Three Springs over the three-month peak season would bring a substantial economic benefit.

It should be noted though that the tourism industry is very susceptible to domestic and international trends and events as has recently been demonstrated by the Covid-19 pandemic in which the WA borders were closed and travel within Australia and internal of WA limited. This resulted in many tourism businesses in regional areas closing during restrictions. It would be expected that domestic consumer confidence will take some time to recover and it could be well into 2021 and more likely 2022 before the conditions are right to encourage international visitors. However, this project is currently more focused on the intrastate and interstate visitors and it will take many more months of planning and construction before Duffy's Store and the other elements are open for business. It is hoped by that time that the current impact from Covid-19 on this project will be minimal.

Estimation Method

In order to establish an indicative measure of the potential direct and indirect tourism benefits from the proposed project, the following approach has been applied:

- We have used the current visitor data provided by the Shire for general visitors to the visitor centre that have resulted in overnight stays averaging 3 nights during the peak season plus those recorded during the holding of the event for the TS360, which also average 3 nights. The Shire predicts that current general visitor numbers will increase by 100% during peak season (July -September). For the TS360 event it is expected that there will be a 25% increase in visitor participants to the event (refer to Assumption 20 figures)
- These figures across each scenario have then been multiplied by the average nightly regional spend in WA of \$94 per night to calculate the direct benefit.
- Additionally, we have also calculated the expected benefit from the current visitor numbers recorded during the Wildflower peak season over August-September each year with visitor numbers expected to increase by 20% as a result of the new attractions in town. It is expected that these day visitors on average spend \$25 per day in town (refer to Assumption 20 figures).
- In regard to the spectator visitors for the TS360 event, the Shire expects that with the additional attractions and increased participants that these visitors will also increase by 100%. It is expected as per the wildflower day visitors that they will spend on average \$25 per day (refer to Assumption 20 figures).
- All tourism spent dollars above have also then been multiplied by a \$0.91 to calculate the indirect benefit that this direct spend will flow on to the local economy based on the ABS input output multipliers.
- A calculation has also been made on the 12 events and the potential benefit derived from attendees to these events. It is expected that each individual attending an event will spend on average \$10 on food and beverages with a maximum capacity for events of 445 people. Note that the income from these events has been treated as direct benefit and no calculation has been made on the flow on effects as per the other tourism spent items above.



- All above figures have then been run through a sensitivity analysis to cover the 4 scenarios of a 100% increase, 75% increase, 50% increase and 25% increase on current visitor numbers (night stays, day trippers and event attendees) to look at the varying impact this has on potential benefits.
- The annual total figures for both direct and indirect benefits were then indexed at a CPI rate of 1.5% over twenty years which equates to the total tourism benefits for each scenario as listed in the below table.

The following table shows the end results of the likely total Tourism Benefits that can be derived per annum based on these assumptions and calculations.

Visitor Category	Predicted additional tourists / visitors / spectators	Scenario 1 - 100%		Scenario 2 - 75%		Scenario 3 - 50%		Scenario 4 - 25%	
		Direct Benefit \$	Indirect Benefit \$	Direct Benefit \$	Indirect Benefit \$	Direct Benefit \$	Indirect Benefit \$	Direct Benefit \$	Indirect Benefit \$
General - 3 night stays	150 per week for 13 weeks during peak season	549,900	500,409	410,592	373,639	274,950	250,204	135,642	123,434
Wildflower Season day visits	100 per day for two months of peak season	152,500	138,775	114,375	104,081	76,250	69,387	38,125	34,694
TS360 Event - 3 night stays	50 participants	14,100	12,831	10,434	9,495	7,050	6,415	3,384	3,079
TS360 - spectator day visits	200 spectators on day visits	5,000	4,550	3,750	3,412	2,500	2,275	1,250	1,137
Event nights	445 attendees x 12 events	53,400	-	40,080	-	26,640	-	13,320	-
Annual Total		\$774,900	\$656,565	\$579,231	\$490,627	\$387,390	\$328,282	\$191,721	\$162,345
Total over 20 years indexed at CPI		\$16,890,276	\$14,310,961	\$12,625,334	\$10,694,066	\$8,443,830	\$7,155,480	\$4,178,888	\$3,538,586
		\$31,201,237		\$23,319,400		\$15,599,310		\$7,717,474	

Note that the proposed tourism benefits are conservative in nature as only the increased tourist numbers from the peak season between July and September have been calculated as part of this CBA. With other events planned to utilise the silo projection all year round there is expected to be further increased tourist numbers from day trips and also overnight stays outside the peak season, bringing further potential increased tourism benefits to the local economy than those shown above.



6.3. Social Connectiveness Benefits

Social connectedness is extremely important in combating the sense of isolation. Loneliness and social isolation are on the rise in Australia, with more than eighty percent of Australians believing that our society is becoming a lonelier place, and of these, sixty percent reported that they 'often felt lonely'¹³. Evidence demonstrates direct correlations between loneliness, isolation and mental and physical health issues of individuals (including issues related to lack of exercise, obesity, alcohol or smoking), and the subsequent impact on overall community wellbeing.

The evidence is also mounting that links community and cultural connectedness and well-being to mental health. It is important for an individual's mental health to have access to connect with others through community clubs, events, social and sporting activities.

The Duffy's Store redevelopment, plus the silo projection events has been designed in a way that it will provide opportunities for social and cultural connectedness within the local community, surrounding Shires and also for the tourists that travel to see it. The Duffy's Store and the silo events will become a very important part of addressing social and cultural connectiveness for the community.

Community centres or hubs work at the heart of communities across Australia assisting many thousands of individuals, contributing to improvements in mental health and local community development.

They offer and provide activities, programs and services that support the objectives of social inclusion and address multi-factors that have led to social exclusion. These include, inter alia, enabling people to engage in further learning and work through volunteering, build foundation skills and breaking down barriers to participation such as through cultural, literacy and numeracy and the provision of meeting and recreation (café) facilities that enable engagement and participation.

A study undertaken by the South Australian Centre for Economic Studies¹⁴ looking at the economic and social impact of the Community Centres Sector highlights that the economic and social impact of these centres/hubs is significant. The study estimates that for every dollar that a centre/hub expends annually that it has the capacity to leverage 3.5 times that amount in social impact outcomes. Based on this, the operational costs to run the Duffy's Store facilities and the Silo Events should also generate a flow on social impact to the community.

It is now universally recognised by all levels of government that physical activity and social recreation in communities are integral to bringing people together and improving community cohesion, social capital and resilience.

Redevelopment of the Duffy's Store will have the benefit of making these facilities a central point in the town of Three Springs for the community to gather and socialize. This is likely to encourage more people to get involved in activities that can use the facilities bringing benefits in terms of connectedness and wellbeing.

Estimation Method

In order to establish an indicative measure of the potential social connectiveness benefits from the project, the following approach has been applied:

¹³ <https://www.psychology.org.au/for-members/publications/inpsych/2018/December-Issue-6/The-impact-of-loneliness-on-the-health-and-wellbeing>

¹⁴ <https://www.communitycentressa.asn.au/documents/item/174>



- To calculate the social value from the ongoing costs to operate the facilities and the events a multiplier of 3.5 has been used against the annual operating costs of the facilities (excluding depreciation) and events, which in 2022/23 totaled \$126,122 delivering a benefit of \$441,428. Over twenty years indexed at a CPI rate of 1.5% this equates to a total of \$9,621,688 in social connectiveness benefits.

6.4. Volunteering Benefits

In 2015, Volunteering WA commissioned the Institute of Project Management to undertake a research study to quantify and present a comprehensive analysis of the economic, social and cultural value of volunteering to Western Australia.

The study applied a model of value creation to locate the discrete values of volunteering activity in Western Australia and, for the first time, illustrate the dynamic ways in which they interact. The findings depicted how individuals, businesses and all levels of government use their time, resources and money to enable volunteering across the State and how this alters individual and community states of physical, human, social and symbolic capital.

The research findings¹⁵ place volunteering front and centre as one of Western Australia's largest industries, annually contributing \$39 Billion in benefits to the community. It also showed that volunteering offers a significant return on investment, with \$4.50 returned for every dollar invested, with each hour of volunteering costing the community \$6.15. It noted that volunteering is both essential to the wellbeing of Western Australians, impacting positively upon the welfare of society and also a key driver of economic growth influencing fiscal growth across a range of other sectors.

It is expected that the Duffy's Street Store Redevelopment with its Visitor Centre and the holding of community events using the projection on to the silos will be a significant volunteer operation, and it will also provide a significant contribution to the Shire and the WA local economy based on this research undertaken by Volunteering WA.

Estimation Method

To estimate the value of the volunteering benefits for the Duffy's Street Store Redevelopment with its Visitor Centre and the holding of community events using the projection on to the silos, we have utilised the Volunteering WA's Volunteer Benefits Calculator¹⁶.

The volunteer benefits calculator looks at two main factors when coming up with the benefits as follows:

1. What is the 'replacement cost'?

The replacement cost of an individual's time is calculated with reference to the Australian Bureau of Statistics' 2015 data for Western Australia on the average part-time wage earnings of each age cohort, indexed for employer on-costs.

This is added to the cost of relevant resources acquired by the individual in pursuit of their volunteering. In other words, it is the amount of money a Western Australian business would have to spend to replace the overall contribution of the individual volunteer.

2. What is 'value'?

The value a volunteer-involving organisation delivers to the Western Australian community is a different measure to replacement cost. It aggregates the commercial, community and individual benefits created by each act of volunteering, and includes things like:

¹⁵ Institute of Project Management (2015), "The Economic, Social, and Cultural Value of Volunteering to Western Australia, prepared for Volunteering WA"

¹⁶ <https://www.volunteeringwa.org.au/resources/volunteer-benefits-calculator>



- The employment and tax revenue created by the direct expenditure of individuals and organisations on volunteering;
- The costs avoided by civic institutions such as government departments of health, education, emergency services and the like;
- The productivity surplus enjoyed by employers as a result of their employees' volunteering; and
- The wellbeing benefits returned to individuals and the community.

You can use the replacement cost and value calculators interchangeably for individuals and organisations; however, the value calculator is not sensitive to age differences.

To calculate the Duffy's Street Store Redevelopment with its Visitor Centre and the holding of community events using the projection on to the silos volunteer benefit we utilized the following number of volunteer hours provided by the Shire of Three Springs, that was then input into the calculator to provide these benefits:

Duffy's Street Store Redevelopment and Silo Projection Event Volunteer Hours

Individual Age Group Hours		Individual Benefit value per year	
15-24	531	\$ 12,213	
25-34	656	\$ 26,896	
35-44	691	\$ 33,859	
45-54	632	\$ 31,600	
55-64	330	\$ 17,160	
65-74	383	\$ 15,703	
75+	108	\$ 4,428	
Total volunteer patrol hours	3,332	\$ 141,859	
Organisational Volunteer hours		Organisation Benefit value per year	
Club Management Committee	63	\$ 4,855	
Other Committees	1704	\$ 130,465	
Total committee hours	1,767	\$ 135,320	
Total Annual volunteer hours		Total Annual Benefit value	\$277,179
	5,099		

This calculation results in the Duffy's Street Store Redevelopment and Silo Projection Event project providing \$277,179 in value to the Shire and WA community each year through its volunteering hours. Over twenty years this equates to a total of \$5,266,392 in volunteering benefits.



7. RESULTS

The breakdown of costs and benefits, as defined above is provided below, along with a cost-benefit assessment.

Establishment Capital costs	Capital upfront costs of \$2,569,514 for completion of the redevelopment of the Duffy's Store and purchase of the silo projector over a 12-month time frame (excluding GST) broken down as follows: - Duffy's Store Redevelopment - \$2,422,603 - Silo Projection Equipment - \$103,889 - Mobile Unit Van - \$35,022 - Projector fitting - \$8,000 Total - \$2,569,514 (once off)
Recurrent Costs	The total recurrent (ongoing) costs of \$181,190 per annum in line with the whole of life model and sustainability analysis for the redeveloped Duffy's Store and silo projection project, broken down as follows: Total Annual Operating Costs - \$86,625 indexed at CPI of 1.5% over 20 years. Annual Maintenance Costs - \$39,497 per annum for maintenance indexed at CPI of 1.5% over 20 years. Average Annual Renewal Demand Costs - \$55,068 cash backed depreciation per annum allocated over the life of the assets over 20 years to a building and infrastructure asset renewal reserve fund.

Note for the purposes of the assessment of resultant benefits, sensitivity analysis was undertaken on four scenarios varying the expected projected increased tourism figures and the resultant benefits as a result of delivering the project. All other benefit areas are assumed to achieve the full 100% future value benefit result across these alternative tourism scenarios or 75%, 50% and 25% tourism figures achieved.

Benefit Area	Future Value of Benefits over 20 years			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	100% projected increased Tourism figures achieved	75% projected increased Tourism figures achieved	50% projected increased Tourism figures achieved	25% projected increased Tourism figures achieved
Employment	\$4,515,417	\$4,515,417	\$4,515,417	\$4,515,417
Gross Regional Product	\$1,368,000	\$1,368,000	\$1,368,000	\$1,368,000
Tourism (Direct & Indirect)	\$31,201,237	\$23,319,400	\$15,599,310	\$7,717,474
Social Connectedness	\$9,621,688	\$9,621,688	\$9,621,688	\$9,621,688
Volunteering	\$5,266,392	\$5,266,392	\$5,266,392	\$5,266,392



A standard cost-benefit framework was used to develop a 20-year discounted cash flow analysis of the benefits and costs identified in the preceding sections. Assuming a discount rates of 3%, 7% and 10%, the proposal is expected to yield positive Net Present Value Benefits across all three discount rates and scenarios tested. The Benefit Cost Ratios are also economically positive as shown in the following tables. As discussed earlier, given the very conservative approach taken in this analysis, it is likely that the actual social benefits could be higher than estimated.

Scenario 1 - 100 % Projected increased tourism figures achieved

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$40,521,952	\$29,468,657	\$24,065,044
Net Present Value (\$m)	\$34,864,616	\$24,724,912	\$19,764,431
Benefit to Cost Ratio	7.16 : 1	6.21 : 1	5.60 : 1

Economic Benefits only for Scenario 1

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$29,392,955	\$21,522,714	\$17,679,963
Net Present Value (\$m)	\$23,735,619	\$16,778,969	\$13,379,350
Benefit to Cost Ratio	5.19 : 1	4.54 : 1	4.11 : 1

Social Benefits only for Scenario 1

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$11,128,997	\$7,945,943	\$6,385,081
Net Present Value (\$m)	\$5,471,661	\$3,202,197	\$2,084,468
Benefit to Cost Ratio	1.97 : 1	1.67 : 1	1.49 : 1

Scenario 2 - 75 % Projected increased tourism figures achieved

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$34,515,792	\$25,205,603	\$20,653,263
Net Present Value (\$m)	\$28,858,456	\$20,461,858	\$16,352,650
Benefit to Cost Ratio	6.10 : 1	5.31 : 1	4.80 : 1

**Economic Benefits only for Scenario 2**

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$23,528,696	\$17,360,379	\$14,348,788
Net Present Value (\$m)	\$17,871,360	\$12,616,633	\$10,048,175
Benefit to Cost Ratio	4.16 : 1	3.66 : 1	3.33 : 1

Social Benefits Stage only for Scenario 2

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$10,987,096	\$7,845,224	\$6,304,475
Net Present Value (\$m)	\$5,329,760	\$3,101,479	\$2,003,862
Benefit to Cost Ratio	1.94 : 1	1.65 : 1	1.47 : 1

Scenario 3 - 50 % Projected increased tourism figures achieved

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$28,771,876	\$21,128,685	\$17,390,448
Net Present Value (\$m)	\$23,114,539	\$16,384,939	\$13,089,835
Benefit to Cost Ratio	5.09 : 1	4.45 : 1	4.04 : 1

Economic Benefits only for Scenario 3

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$17,784,780	\$13,283,460	\$11,085,973
Net Present Value (\$m)	\$12,127,443	\$8,539,715	\$6,785,360
Benefit to Cost Ratio	3.14 : 1	2.80 : 1	2.58 : 1

**Social Benefits Stage only for Scenario 3**

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$10,987,096	\$7,845,224	\$6,304,475
Net Present Value (\$m)	\$5,329,760	\$3,101,479	\$2,003,862
Benefit to Cost Ratio	1.94 : 1	1.65 : 1	1.47 : 1

Scenario 4 - 25 % Projected increased tourism figures achieved

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$22,907,616	\$16,966,349	\$14,059,273
Net Present Value (\$m)	\$17,250,280	\$12,222,604	\$9,758,660
Benefit to Cost Ratio	4.05 : 1	3.58 : 1	3.27 : 1

Economic Benefits only for Scenario 4

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$11,920,520	\$9,121,125	\$7,754,798
Net Present Value (\$m)	\$6,263,184	\$4,377,379	\$3,454,185
Benefit to Cost Ratio	2.11 : 1	1.92 : 1	1.80 : 1

Social Benefits Stage only for Scenario 4

Discount Rate	3%	7%	10%
Present value of costs – project plus ongoing renewal (\$m)	\$5,657,336	\$4,743,746	\$4,300,613
Present value of benefits (\$m)	\$10,987,096	\$7,845,224	\$6,304,475
Net Present Value (\$m)	\$5,329,760	\$3,101,479	\$2,003,862
Benefit to Cost Ratio	1.94 : 1	1.65 : 1	1.47 : 1

Note: that figures above have been rounded and thus may not exactly match when added together.



8. CONCLUSIONS

On a purely financial basis, the Shire will need to carefully consider implementing this project proposal as there is the potential that once implemented that this project, in particular the Duffy's Store redevelopment component, could become an item that operates at a significant net loss each year with the Shire having to subsidise its annual budget to keep it operational.

Currently the operational budget if all items including depreciation and asset renewal fund are included would mean that the Duffy's Store operates at a loss of up to \$100,000 per annum. If grant funds are received to cover the costs of the trainee annually, the café has a guaranteed anchor tenant locked in annually ongoing providing guaranteed lease income to the Shire and asset renewal fund for depreciation is not included then the Duffy's Store facility can operate on a breakeven footing. Any drop in these incomes or grant streams will have a significant impact on its profitability and will require careful consideration by the Shire.

In regard to the Café, while the Shire will lease out its operations, the Shire should note that for an Anchor tenant to be successful in running such facilities they will need to at a minimum look at a weekly turnover of approximately \$5,000 or \$260,000 per annum. Based on previous research undertaken this would be needed just to cover the cost of staff salaries, lease, cost of goods sold and general operational costs of the café. Should this not be achievable, and the anchor tenant folds, the Shire would then lose its lease income and be required to pick up the other operational costs involved with the Café until a new tenant could be sourced. This is a significant financial cost and risk that the Shire needs to recognise should it proceed with the project proposal.

However, when looking at the benefits side of this project proposal the analysis shows it has the potential to provide a range of quantifiable and significant economic and social benefits for the Shire and its local community.

Based on the various scenarios alternating the level of increased tourism numbers that could be created from the redevelopment of Duffy's Store plus the use of the old silos for various initiatives, the analysis showed that the project would provide positive Net Present Values and Benefit Cost Ratios in all cases.

Of note is that purely on an economic basis the modelling shows that the whichever scenario is implemented it should still return a positive benefit cost ratio, without reliance on the social benefits that are harder to quantify and justify. This does not discount the additional significant social benefits that are expected to be generated from the delivery of the project.

It should be noted though that the economic and social benefits derived from this project proposal will not bring a direct income stream back to the Shire to offset its costs of implementation. The benefits generated are more indirect in nature, but they will have a substantial impact on the Shire's local economy, which in turn will help the Shire succeed in its vision to become a healthy and unified community with a bright future.

On current estimates as just a stand-alone economic investment proposal, the development at a 7% discount rate with a 100% increase in tourism numbers at peak season provides a positive position with a net present benefit of \$16,778,969 and benefit cost ratio of \$4.54 returned for every dollar invested over the 20-year period.

With the addition of the social and community benefits taken into consideration the project becomes an even more attractive proposition, with the project expected to yield a net present benefit of \$24,724,912 over 20 years and a benefit cost ratio of \$6.21 for every dollar invested.

At the other end of the scenario analysis when the increase in tourism numbers at peak season is brought back to just 25%, the development at a 7% discount rate provides a positive economic only position with a net present benefit of \$4,377,379 and benefit cost ratio of \$1.92 returned for every dollar invested over the 20-year period.



With the addition of the social and community benefits taken into consideration on this 25% tourism increase scenario the project is expected to yield a net present benefit of \$12,222,604 over 20 years and a benefit cost ratio of \$3.58 for every dollar invested.

On the basis of these benefit figures at the top and lower end of the estimated increased tourism numbers the Shire would be justified in proceeding with the development of the project, noting the potential financial operating costs, implications and risks of the project as outlined at the beginning of this section.



9. ATTACHMENTS

9.1. Attachment 1 – Duffy's Store Redevelopment QS opinion of probable cost

Eastman Poletti Sherwood Architects have reviewed the original 2020 construction costs, and due to the highly stimulated Western Australian building sector, the QS has indicated recent escalation has been around 15%. As such the Project budget has been revised as at 4 January 2022 as per below table.

Project Budget		Original QS		Revised QS
		11/12/2020		4/01/2022
		EPSA		
Construction cost		\$ 1,219,700.00	15%	\$ 1,402,655.00
Design Contingency	5%	\$ 61,100.00	5%	\$ 70,132.75
Construction Contingency	10%	\$ 122,100.00	10%	\$ 140,265.50
Museum Shop Fit out		\$ 120,000.00		\$ 120,000.00
Tourism Centre Fit out		\$ 120,000.00		\$ 300,000.00
Loose Furniture		\$ 20,000.00		\$ 20,000.00
Totals excluding GST		\$ 1,662,900.00		\$ 2,053,053.25
Compliance requirements	5%	\$ 83,200.00	5%	\$ 102,652.66
Professional Fees	15%	\$ 249,500.00	13%	\$ 266,896.92
Grand Total		\$ 1,995,600.00		\$ 2,422,602.84
BBRF Grant	75%	\$ 1,496,700.00	75%	\$ 1,816,952.13
Shire Contribution	25%	\$ 498,900.00	25%	\$ 605,650.71
Total		\$ 1,995,600.00		\$ 2,422,602.84



**Duffy's Store Three Springs
Heritage Building Restoration & New Kitchen/Dining
Opinion of Probable Cost**

This opinion of probable cost of construction (OPC) is based on my experience and qualifications and represent my judgement as a consultant familiar with the construction industry but shall not be a guarantee that construction costs will not vary from this OPC. It is further noted that I have no control over the cost of labour, material or equipment, the means methods and procedures of the construction process or the competitive bidding process.

The OPC is Current at 11 December 2020

The OPC is based on

Eastman Poletti Sherwood Architects Drawing SK01 dated 8/12/20

No specialist cost advice has been received for

Electrical services
Mechanical services
Hydraulic services

The following are excluded

Latent site and building conditions
Rear boundary fencing
Community vegetable garden
Escalation beyond December 2020

Erik Postmus AAIQS
Quantity Surveyor

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Mobile 0419 865 741
Email qserik@hotmail.net.au



Duffy's Store Three Springs
Heritage Building Restoration & New Kitchen/Dining
Opinion of Probable Cost
Trade Summary

Trade	Duffy's Store	Billiard Saloon Demolition	Kitchen & Dining	Landscaping	Totals
Preliminaries	35,500	2,100	149,900	11,900	199,400
Demolition	12,000	13,500	-	-	25,500
Earthworks	2,800	-	8,000	2,500	13,300
Concretework	-	-	29,600	-	29,600
Brickwork	-	-	17,400	-	17,400
Steelwork	-	-	32,300	-	32,300
Metalwork	300	-	35,400	6,000	41,700
Carpentry	58,200	-	55,300	1,900	115,400
Joinery	-	-	500	-	500
Cabinetwork	8,500	-	15,500	-	24,000
Doors	7,700	-	62,100	-	69,800
Windows	5,500	-	20,400	-	25,900
Roofing	-	-	38,500	-	38,500
Ceilings & Linings	-	-	31,400	-	31,400
Ceramic Tiling	-	-	25,600	-	25,600
Resilient Finishes	1,200	-	-	-	1,200
Glazing	6,900	-	-	-	6,900
Painting	33,800	-	13,000	3,100	49,900
Plumbing	15,500	-	46,300	-	61,800
Electrical Services	25,100	-	49,000	-	74,100
Mechanical Services	-	-	88,400	-	88,400
Coolrooms	-	-	52,000	-	52,000
Kitchen Equipment	-	-	90,000	-	90,000
PV power system	-	-	27,000	-	27,000
Paving	-	-	12,300	18,900	31,200
Playground Equipment	-	-	-	20,000	20,000
Fencing and Gates	-	-	-	9,400	9,400
Landscaping	-	-	-	17,500	17,500
	213,000	15,600	899,900	91,200	1,219,700
Design Contingency 5%	10,700	800	45,000	4,600	61,100
Construction Contingency 10%	21,300	1,600	90,000	9,200	122,100
Heritage Shop Fitout	120,000	-	-	-	120,000
Tourism Centre Fitout	120,000	-	-	-	120,000
Loose Furniture	-	-	20,000	-	20,000
Totals excluding GST	485,000	18,000	1,054,900	105,000	1,662,900
Compliance requirements 5%					83,200
Professional Fees 15%					249,500
					1,995,600
GST					199,560
					2,195,160

Erik Postmus

Quantity Surveyor

11/12/2020



9.2. Attachment 2 – Quotation for Upgrade of the main street building facades



ESTIMATE NO. 3158

Keith Woodward
Shire of Three Springs
132 Railway Road
Three Springs WA 6519

Site: 132 Railway Road Three Springs
Order No.:
Created Date: 13/02/2021
Valid For: 30 Day(s)

Re: 132 Railway Road Three Springs

Description

Carry out the following works as per meeting with Keith

Painting upgrades to main street/ faced repairs

- Consist of carrying out minor repairs to façade of buildings as per discussed (replacement sheets etc. non structural works)
- Painting to all building as discussed - face lift to facades only of shops not entire building/ sides)
- Paint selected from Dulux premium paint range
- Temporary fencing/ barricading while works are been carried out to each building with adequate signage
- Hire of Scissor lift/ cherry picker for façade painting/ works
- Accommodation for duration of works
- Mobe and demobe to site

No allowance for the following

- Structural repairs
- Painting to sides of buildings etc.
- Mural painting

I thank you for considering UI Building & Improvements for the above works and look forward to your reply.

Any queries, please don't hesitate to call (08) 9965 3353

With Regards

Paul Johnson

Paul Johnson
Manager

Sub-Total ex GST	\$174,000.00
GST	\$17,400.00
Total Inc GST	\$191,400.00

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