



Kempsey Shire Council
Kempsey Cinema
Cost Benefit Analysis

March 2018

Table of contents

1.	A: Project Description.....	1
1.1	Investment name	1
1.2	Location	1
1.3	Investment Description and Objectives	1
1.4	Project Context	3
1.5	Interdependencies	4
1.6	Project Benefits.....	5
1.7	Consultant involvement.....	6
2.	B: Summary of Evaluation Results for Options.....	8
2.1	Base case (Retention of status quo).....	8
2.2	Project case (Cinema construction).....	8
2.3	Sensitivity analysis.....	9
2.4	Exclusion of indirect benefits from NPV and BCR.....	9
3.	C: Evaluation assumptions.....	10
3.1	Demand calculations.....	10
4.	D: Accounting Income.....	11

Table index

Table 1	Base case summary.....	8
Table 2	Project case summary.....	8
Table 3	Rate sensitivity	9
Table 4	Demand sensitivity	9
Table 5	Assumptions.....	10
Table 6	Screen Australia visitation statistics	11

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1. A: Project Description

1.1 Investment name

Kempsey Shire Council is seeking to support the development of a Cinema in the Kempsey CBD, NSW.

This report evaluates the economic and wider benefits of the proposed Cinema. A rapid benefit cost analysis approach and economic impact assessment has been applied in order to meet the assessment criteria outlined in the Treasury NSW Guidelines.

1.2 Location

Kempsey and the surrounding Macleay Valley was first inhabited by the Dunghutti people. Kempsey's first white settler was Enoch William Rudder. In 1836, the town was named as it reminded Rudder of Kempsey in Worcestershire, England. Settlers were drawn to the area in search of cedar and rosewood.

Today, Kempsey Shire is a local government area in the mid north coast region of New South Wales, Australia. It is home to just under 30,000 permanent residents, with tourism, agriculture and resource production as the major industries. The shire services an area of 3,380 square kilometres (1,310 sq. mi) and is located adjacent to the Pacific Highway and the North Coast railway line.

Kempsey Shire was formed in 1976 by the amalgamation of the former Kempsey Municipality and the former Macleay Shire as well as the Macleay River County Council.

1.3 Investment Description and Objectives

1.3.1 Scope

This economic assessment evaluates the economic and wider benefits of the proposed Cinema located in the Kempsey CBD. This development is expected to drive new jobs, visitation, tourism, and expenditure to the Central Business District.

1.3.2 Proposed development

The development of a four-screen Cinema is proposed in the Kempsey CBD. The overall cost of the project is around \$6.15 million. No commercial cinema currently exists in Kempsey. Movies have previously been screened at an adapted theatre called the 'Bandbox Theatre' in West Kempsey. The Bandbox no longer operates due to capability and technical constraints.

The Kempsey CBD and immediate surrounds is the primary employment location in Kempsey, employing around 5,300 workers in 2011 and with a value of around \$417 million.¹ This accounts for around 60% of all employment in drives growth in the LGA.

1.3.3 Objectives

Contributing to economic growth in the region

Kempsey is the Macleay Valley's main service centre. The Pacific Highway Upgrade bypassed Kempsey in 2013. The ensuing job losses affected the economy at first. However, since 2014 the Council has invested over \$9 M in revitalising the former highway corridor to benefit of

¹ ABS Census of Population and Housing

business operators and the community. A further \$1.8M was invested to attract a highway service centre and open up further industrial land for development to create new jobs.

Recent studies by Dr Bruno Parolin of Tran-Stat Research International have identified that employment has risen to a level above the peak prior to opening of the bypass.² Similar gross business revenue has also increased above the previous peak levels. There is a need for the investment in renewal to translate into the area of growing new opportunities. This will continue to generate economic turnaround in the Kempsey Shire Area.

Retail is particularly susceptible for several reasons. Many locals opt to spend at larger neighbouring towns. A disproportionate number of the Macleay Valley's higher income-earners opt to live outside the shire where they can enjoy better quality services and facilities.

Most individuals tend to spend where they live rather than where they work due to a higher level of leisure and family time.

GHD envisages that the shared public-private investment in cinema infrastructure will generate significant positive social change, short and long-term job growth, and broader local and regional economic benefits. An estimated retail leakage rate of 43% has been observed and it is anticipated that the presence of a cinema will help stem this loss.

The extent to which the project supports or addresses disadvantage in the region

The NSW Mid North Coast's 2012-2014 Regional Education, Skills & Jobs Plan³ identifies Kempsey as one of Australia's 20 priority employment areas. The study has documented a decline of the Macleay Valley and its main service town of Kempsey. A relatively small reduction in loss will have substantial local impacts due to the multiplier factor of money spent within a local economy.

Unemployment is linked with antisocial behaviour and increased crime levels higher than State average. As identified in the '*Factors affecting crime rates in Indigenous communities in NSW: Kempsey and Gunnedah*'⁴, the boredom and associated negative behaviours linked to unemployment are attributed to Kempsey's "lack of structured and safe activities for young people was identified as a key factor contributing to youth crime."

The Vinson Report – Dropping off the Edge⁵ also brings attention to Kempsey's long-term disadvantage, rating it NSW's 22nd most disadvantaged postcode in 2015 and 23rd lowest in 2007.

The ABS SEIFA 2011 indices⁶ used to measure socio-economic advantage and disadvantage scored Kempsey at 876, ranking it 47th lowest in Australia and fourth lowest in NSW.

Accounts for approximately 8,700 jobs in the Kempsey region⁷ jobs in 2016/17 and accounting for 15% of all employment. Strategies to improve its performance will therefore have strong flow-on impacts.

The development of a cinema will also diversify the economy by increasing the employment and output of the Information, Media and Telecommunications sector. These strong economic outcomes align strategically with Kempsey's current situation of social disadvantage, offering new opportunities for unemployed, particularly youth and indigenous, to take up new job opportunities in retail, tourism and entertainment.

² Parolin B, Kempsey Post Bypass Impacts Monitoring Study, 2017.

³ NSRF200394_RESJ_NSW_MNC

⁴ NSRF200394_Kempsey_Gunnedah_Report

⁵ NSRF200394_Vinson Report

⁶ NSRF200394_SEIFA_2011_Indexes

⁷ <http://www.economyprofile.com.au/rdamidnorthcoast/industries>, Accessed 03/11/17

Increases investment and builds partnerships in the region

The \$2 M being sought from the Federal Government will immediately leverage a committed \$4.15 M investment through the Kempsey Cinema Memorandum of Understanding (Mandatory documents) between three partners. These are the Council (\$2 M commitment), Gowing Bros Limited and Majestic Cinemas (combined \$2.15 M commitment).

It also responds to community demand for investment and aligns with Council's post-bypass economic strategy⁸ and Master Plan⁹ to revitalise its town centre.

A strong and diverse CBD is an increasingly strategic advantage for regions and is critical in terms of responding to growth in the service sector economy and leveraging off the benefits of agglomeration. A viable form of entertainment for the town centre will essential diversification for the economy and provide a building block for sustainable growth by driving visitation, length of visit, multi-purpose visits and expenditure.

A cinema also provides an important role in the night-time and tourism economy, by increasing the hours of trading and extending the regional catchment of the CBD.

The project will also drive other important partnerships, as there is no university campus in the Macleay. Local students must travel long distances to attend lectures, but Cinema theatres are increasingly being hired by universities to deliver education as evidenced by the Majestic Cinema outlet at Port Macquarie.

Such activities encourage cultural partnerships between commercial providers, schools, filmmakers and other community groups which will enrich the quality of entertainment, creative pursuit and cultural/social inclusion for local residents. Additionally, and in terms of regional partnerships, this project is supported by Mid North Coast RDA.¹⁰

A material public benefit of the proposal is that the cinema will be available to the Council for up to 10 occasions per year outside of peak operational times. As a community cultural hub, the Cinema complex will also host a community noticeboard linking cultural and community groups with their target audience across the shire.

1.4 Project Context

As detailed in the Kempsey Cinema Project Plan, Business Plan and Kempsey Cinema MOU, this project has been rigorously assessed by its partners as being viable and sustainable in respect of its funding, development, construction, and operations. Further variation of the funding model is not possible. The Organisational Capacity Experience Mandatory document details the Council's ability to deliver the project, as well as capacity of its project partners, Gowing Bros and Majestic Cinemas.

The funding and partnership model for the Kempsey Cinema Project is detailed in the Kempsey Cinema MOU, including each partner's financial commitment to the project (\$2 M from, Kempsey Shire Council, plus \$2.15 M from Gowing Bros and Majestic Cinemas. The balance \$2 M is provided from the approved Federal Government grant to match the cash contribution made by the Council.to complete the \$6.15 M required for the project

As is attested through the commitment letter from Council's General Manager David Rawlings¹¹ and the mandatory Financial Statements (14/15 and 15/16), Council has identified its funding to be available from Council's Community Assets Fund. These are reserves held for unrestricted

⁸NSRF200394_Bypass_Strategy

⁹ NSRF200394_Corridor_Master_Plan

¹⁰ NSRF200394_RDAMNC_Letter_of_Support

¹¹ NSRF200394_KSC_GM_Letter_of_Support

internal purposes. A large proportion of the reserves stems from previous commercial property sales.

As a large and professional organisation, Kempsey Shire Council is committed through its financial management strategy to addressing long-term infrastructure issues, assisted by a recent IPART-approved special rate variation.

The Macleay Valley Coast Destination Management Plan 2014-2016¹² also highlights a cinema as a significant gap in the current tourism experience. This suggests the cinema will be well attended, with economic modelling suggesting a cinema will attract 78,300 more visitors a year to Kempsey.

Financial projections as detailed in the Business Case demonstrate a 4-screen cinema complex located in Kempsey will be a viable business over the longer term.

Tourism numbers, community demand, and financial analysis of costs and revenues have all been factored into the Business Case and scrutinised by the commercial partners to ensure the business case is viable and achievable.

1.5 Interdependencies

The Kempsey Cinema project is considered to be strategically important as it will deliver Council's desired economic outcomes for the town centre as part of its post-bypass economic strategy. Project partners Gowings Bros and Majestic Cinemas are similarly motivated to revitalise the town centre.

Gowings is the owner of the Kempsey Central Shopping Centre, which is anchored by a loss making Coles supermarket that seeks an exit from the centre.¹³

This would have a detrimental impact on the retailers in the centre and would likely result in their failure. Kempsey would witness inevitable retail sales leakage to other regional centres.

Gowings is committed to the Kempsey Cinema project as it provides an opportunity to strengthen its own shopping centre performance, protecting and growing the 129 jobs instead of seeing them lost.

Majestic Cinemas is a successful Mid North Coast cinema operator. Majestic has expressed a desire to retain the company's competitive strength within the region. The Project Schedule¹⁴ details the planned phases of the project through its critical milestones. Five-year cash flows are included with the Business Case.

The Risk Management Strategy identifies known risks and describes treatments to reduce risk, thereby securing the project's overall viability and sustainability. The construction of the cinema will take place within the existing Kempsey Central Shopping Centre in the form of a third level extension and be project managed by Gowing Bros Limited as the owner of this asset. Gowings is an extremely experienced shopping centre developer with a record of accomplishment spanning more than 100 years.

The company's capacity to undertake the development is described in detail in the Business Case, Procurement Management Plan, and Asset Management Plan and Organisational Capacity statement.

¹² NSRF200394_DMP_MVC_2014-2016

¹³ NSRF200394_Coles_letter

¹⁴ NSRF200394_Project_Management_Plan

1.6 Project Benefits

The rapid benefit cost assessment has estimated benefits and costs over a 20-year period. The overall result of the rapid BCA can be determined by using two methods:

Net Present Value (NPV) - equal to the difference between the present value of the benefits and the present value of the costs

Benefit Cost Ratio (BCR) - the ratio of the sum of the present value of the benefits against the sum of the present value of the costs.

As per the NSW treasury guidelines:

First and foremost, input-output analysis is concerned with measuring economic activity, and is not a tool for the evaluation of projects. Input-output analysis does not take account of the alternative uses (opportunity costs) of resources. Input-output analysis, however, will always indicate positive impacts - activity - without providing guidance as to whether such impacts correspond with net benefits. Poor investments, perhaps in heavily subsidised fields of endeavour, could be associated with greater levels of activity than good investments.

Second, published impact multipliers are inappropriate for assessing impacts associated with additional marginal investment. Published multipliers measure the overall linkages between an industry and the remainder of the economy, and are therefore concerned with average rather than marginal impacts.¹⁵

Part D features the full range of economic multiplier analysis employed in this project for consideration of wider benefits. However, these multiplier benefits **are not factored** into the final NPV and BCR.

1.6.1 Construction benefits

The construction of the Kempsey Cinema would constitute a \$6.15 m impact from the Construction industry. This direct construction effect has flow-on to other industries and consumption effects as well. Construction tends to fluctuate significantly with the commencement or completion of new projects.

The total impact would be 16 FTE per annum during the construction phase and \$2.3 million in value-add from the construction phase of the project.

1.6.2 Increased cinema sales

The operation of the Cinema will have ongoing economic impacts for the Kempsey economy over the short, medium, and long term.

New sales activity associated with the Cinema can add to the value of the Motion and Sound Recording, Publishing and Broadcasting sector (with the Information media and Telecommunications industry). This also includes within the supply chain, retail, food services, and administration.

1.6.3 Value-add

The combination of all direct, industrial and consumption effects would result in an estimated addition in Value-added of \$7.6 million in the Kempsey economy.

Value-added by industry represents the industry component of Gross Regional Product (GRP). The impact on Kempsey's GRP as a result of staging this event is directly equivalent to the change in Value-added outlined above.

¹⁵ TPP07-5_NSW_Government_Guidelines_for_Economic_Appraisal

1.6.4 Employment impact

The direct addition of new spend to the local economy as a result of the new Cinema in Kempsey is estimated to lead to a corresponding direct increase of Full time equivalent positions (EFT);

- On-going maintenance employment - 0.8 FTE/annum, average annual wages of \$60,000
- Cinema management/administration and operations – 8.3 FTE per annum – average salary/wages of \$45,000
- Local retail multiplier – 1.5 FTE per annum – average wages of \$35,000

The net impact on local salaries and wages on an annual basis would be \$1.2 million.

1.6.5 Non-cinema revenue

The operation of the Cinema will also induce new non-cinema sales due to new visitation to the Kempsey CBD. The Cinema will help elevate Kempsey CBD in the regional retail hierarchy, which will help support the ongoing activity levels required to maintain profitability of businesses and landowners. Presently there is limited night-time activity in the Kempsey CBD. The development of a Cinema will provide an important anchor to growing the night time economy and extending trading activity.

Additional local spend is excluded from this model as it is assumed that this would be a transfer of retail sales within the Kempsey LGA. It would also be difficult to quantify and largely relies on experience of operators within other centres.

1.6.6 Qualitative benefits not quantified

The following benefits have been identified but have not been assigned a value. Some of the wider benefits include:

- Elevation of the Kempsey CBD in the regional retail hierarchy
- Support of ongoing activity levels required to maintain profitability of businesses and landowners.
- Injection of revenue into Kempsey and positive impacts employment
- Anchoring of the nightlife economy.
- Diversification of visitation profile by attracting a wider demographic.
- Contribution to social benefits for the Kempsey CBD, allowing for community cohesion and increased sense of place and community for residents.
- Reduction of retail leakage from Kempsey by capturing Cinema visitation locally.
- Extension of visits, expenditure, and enhancement of the tourism market.
- Increased viability of key anchor tenants.
- Rates revenue to support local programs

1.7 Consultant involvement

GHD Pty Ltd assisted with the preparation of this Cost-Benefit Analysis.

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2. B: Summary of Evaluation Results for Options

The results below summarise the key financial metrics of the proposed cinema.

2.1 Base case (Retention of status quo)

No cinema is to be built under the base case. Current status quo is retained.

Table 1 Base case summary

Value	Result
Life	In perpetuity. Modelled on 20-year timeframe for consistency
Net Present Value (NPV) @ 7%	Nil
NPV per dollar capital outlay	Nil – No outlay
Benefit Cost Ratio (BCR)	N/A – BCR incremental on Base Case
Internal Rate of Return (IRR)	N/A
Present Value of Costs	Nil
Special considerations	None – Regional indirect costs or benefits not factored in due to

2.2 Project case (Cinema construction)

The development of a four-screen Cinema is proposed in the Kempsey CBD. The overall cost of the project is around \$6.2 million.

Table 2 Project case summary

Value	Result
Life	Modelled on 20-year timeframe.
Net Present Value (NPV) @ 7%	\$13.58m
NPV per dollar capital outlay	\$2.21
Benefit Cost Ratio (BCR)	2.208
Internal Rate of Return (IRR)	26.62%
Present Value of Costs	\$11,240,932
Special considerations	Assumes a four-screen cinema with capacity of up to 400 people operating at 25 sessions per week

2.3 Sensitivity analysis

Sensitivity of the NPV and BCR are measured against two key variables. The first is the discount rate and the second is the projected demand visitation. An analysis of demand statistics follows in part C.

Table 3 Rate sensitivity

Rate	NPV	BCR
4%	\$21,687,228	2.524
7%	\$13,580,609	2.208
10%	\$8,571,230	1.929

The table below varies the projected variation in NPV and BCR with a $\pm 20\%$ variation of projected demand.

Table 4 Demand sensitivity

Visitation	NPV	BCR
-20% scenario	\$9,783,362	1.960
Default	\$13,580,609	2.208
+20% scenario	\$17,377,856	2.414

2.4 Exclusion of indirect benefits from NPV and BCR

As per the NSW modelling guidelines, while Part D illustrates direct and indirect benefits, the NPV and BCR only account for direct benefits.

3. C: Evaluation assumptions

Key assumptions used in this evaluation feature below.

Table 5 Assumptions

Variable	Value	Source
Revenue assumptions		
2021 Kempsey LGA population	29,000	2016 Census QuickStats
Annual population growth	3.00%	2016 Census QuickStats
Cinema visits per person per annum	3.2	Screen Australia
Cinema tariff per person	\$16	
Average additional cinema spend per person	\$8	
Residual sale value	45% of capex	Built infrastructure resale assumption
Benefit multipliers		
Construction multiplier	1.462	REMPPLAN data
Industrial multiplier	0.462	
Consumption	0.307	
Employment Impact		
Cinema Maintenance	1.5%	Based on capex
Cinema Retail	65%	Cost % - 50% of cost applied to wages, 35% of cost applied to external services/inputs
Cinema Retail	35%	
Costs		
Construction	\$6 million	MOU
Internal fit-out	\$150,000	MOU

3.1 Demand calculations

The table below presents the attendance rate and frequency of visits per person by age group for Cinemas in Australia. This is based on data from Screen Australia. Persons aged 14-24 had the highest attendance rate at around 86%.¹⁶

The results below model the potential Cinema visitation by Kempsey residents based on the age propensities (Screen Australia), and applying them to current population estimates from the ABS Population by Age and Sex, Regions of Australia, 2015.

Based on this analysis, Kempsey residents generate demand for around 78,000 visits per year in 2013, based on population and tourist growth the numbers if forecasted at 92,98 00 by 2021. Visitation forecast is based on a persons aged 15 or more.

¹⁶ <https://www.screenaustralia.gov.au/fact-finders/cinema/audiences/attendance-patterns/by-age>

Table 6 Screen Australia visitation statistics

Ages	Attendance rate (%)				Frequency			
	14–24 yrs.	25–34 yrs.	35–49 yrs.	50+ yrs.	14–24 yrs.	25–34 yrs.	35–49 yrs.	50+
2000	89.80%	79.20%	70.60%	51.30%	10.8	8.4	6.7	7.6
2001	89.00%	78.20%	72.00%	52.60%	10.3	8.1	7.1	7.7
2002	89.80%	79.80%	73.40%	56.60%	10.2	8.3	6.7	8.1
2003	88.90%	78.30%	72.80%	55.40%	10.2	8.2	6.6	7.8
2004	90.00%	79.30%	73.10%	57.00%	9.8	7.8	6.5	7.4
2005	87.10%	74.60%	69.60%	54.30%	9.3	7.6	6.1	7.3
2006	85.20%	73.20%	69.10%	54.80%	8.9	7.4	6.1	7.3
2007	84.40%	72.90%	68.00%	54.00%	9	6.7	6	7.2
2008	84.10%	69.90%	68.80%	53.00%	9.3	7.6	5.6	6.9
2009	85.90%	72.80%	69.40%	56.90%	9.7	7.3	5.9	7
2010	84.60%	76.00%	70.90%	55.70%	9.3	7.4	5.7	6.9
2011	85.60%	72.40%	68.80%	55.80%	9.2	6.8	5.7	6.8
2012	85.80%	73.50%	68.90%	57.80%	8.5	6.6	5.5	6.9
2013	86.20%	76.10%	70.10%	58.40%	7.6	6.7	5.4	7.5
2014	84.40%	73.80%	68.10%	57.90%	7.9	6.9	5.6	7
2015	85.00%	75.10%	68.90%	58.80%	7.7	6.4	5.3	6.8
2016	85.70%	75.70%	73.40%	61.10%	7.9	6.1	5.4	7

Applying the breakdown of visitation returns an average of 5.4 visits per annum. Given the median age of residents in Kempsey is 47, GHD has taken an indicative rate of 60% visitation visits per Kempsey resident per annum and multiplied the two to return an average visitation rate of 3.2.

Demand for the cinema is assumed to grow slightly faster than population growth due to the added tourism impact, 3% per annum growth rate has been applied.

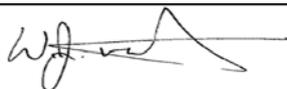
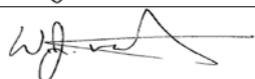
4. D: Accounting Income

Accounting models available upon request by Treasury.

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