

**Benefit-Cost Analysis of the Closure of the Cronulla Fisheries Research Centre**  
 Analysis conducted by Strategic Policy & Economics Division, September 2012

**Summary**

A benefit-cost analysis (BCA) of the closure of the Cronulla Fisheries Research Centre was conducted at the request of the Department of Primary industries (DPI). The net financial benefit to DPI from the closure over the next twenty years was estimated at \$4.2 million with a benefit-cost ratio of 1.4:1. Around 60% of these benefits are derived from payroll cost savings from a current estimate of 10 vacant positions that are currently not planned to be transferred to another location in NSW. The project will also generate intangible and non-DPI specific benefits that have not been quantified, although the total direct and indirect regional employment increase has been estimated at 165 jobs.

**Benefit-Cost Analysis Summary Table**

	Note	NPV* (\$)
<b>Benefits</b>		
Avoided Facility Maintenance Costs	1	1,133,560
Avoided Facility Running Costs	2	3,548,041
Avoided Vehicle Costs	3	453,424
Avoided Boat Costs	4	340,068
Residual Asset Value - Port Stephens	5	172,818
Residual Asset Value - Nowra	5	96,778
Residual Asset Value - Coffs Harbour	5	69,127
Residual Asset Value - Newington	5	13,825
Avoided Payroll Expense	6	9,068,476
<b>Total Benefits</b>		<b>14,896,117</b>
<b>Costs</b>		
Relocation Costs	7	250,000
Transferred Officer (6) Entitlements	8	100,312
Estimated Additional Transferred Officer Entitlements (42 staff)	9	702,184
Staff Severance (11 staff)	10	663,596
Estimated Additional Staff Severance (33 staff)	11	1,990,789
Capital Expenditure - Port Stephens	12	625,000
Capital Expenditure - Nowra		350,000
Capital Expenditure - Coffs Harbour		250,000
Capital Expenditure - Newington		50,000
Capital Asset Maintenance - Port Stephens	13	354,237
Capital Asset Maintenance - Nowra	13	198,373
Capital Asset Maintenance - Coffs Harbour	13	141,695
Capital Asset Maintenance - Newington	13	28,339
Rent - 59 Berry St Nowra (Office)		2,071,546
Rent - 180A Princess Hwy, South Nowra (Storage Facility)		430,753
Overheads - 59 Berry St Nowra (Office)	14	335,171
Sydney Institute of Marine Science (SIMS) - contribution costs/service charge		2,153,763
<b>Total Costs</b>		<b>10,695,759</b>
<b>Net Benefit (Cost)</b>		<b>4,200,358</b>

\* Net Present Value. Future values are discounted at 7% per annum over 20 year period from 2012-13.

No attempt has been made to value a number of other important benefits associated with the closure that are either intangible or do not accrue to DPI, including:

- community access to the Cronulla site (an independent consultant has been engaged to recommend alternative local community uses for the property);
- greater synergies with universities arising from co-location and improved collaboration;
- improved relations with commercial fishers through their greater access to, and interaction with, departmental officers; and
- more efficient service delivery and greater understanding of regional issues that impact other stakeholders and clients.

## **Analysis Assumptions and Notes**

### Benefits

The BCA analysis assumes benefits derived from avoided costs in building and fire equipment maintenance (Note 1) and the 'housing' of staff at the Cronulla facility (Note 2), including costs in cleaning, waste disposal, utilities, consumerables and postal expenses, to be in order of \$100,000 and \$313,000 per annum respectively.

Two mid-sized motor vehicles and one boat will no longer be required due to synergies at the alternate locations. Savings in running and lease expenses are estimate at \$20,000 per annum per car and \$30,000 per annum for the boat (Notes 3 and 4)

The analysis assumes that a 'condition based maintenance' scheme (maintained as new) will be applied to the capital assets built at the new locations. Consequently, the residual asset value at the end of the 20 year period is assumed to be equal to the value of the original investment in 2012-13 (Note 5).

At this stage it has not been determined whether approximately 10 non fisheries positions will be transferred following the closure of the facility (including site management and administrative staff). Decisions on whether to fill these positions will be based on future business needs of the department. Factors such as site management requirements at new locations, current changes to fisheries administrative systems, research planning and budgetary considerations will influence the number of positions that will be transferred and filled. These 10 positions have estimated annual salaries of \$80,000. This benefit-cost analysis is based on the assumption that these positions will not be filled and there will be a resulting total annual payroll saving estimated at \$0.8 million. If some of these 10 positions are filled these savings will be reduced (Note 6).

### Costs

As at August 2012, DPI had expended \$100,312 in staff transfer entitlements for 6 staff (Note 8). The analysis assumes that DPI will be liable for an additional \$702,184 in staff entitlements for another 42 staff, with an average staff entitlement estimated at \$16,719 (Note 9).

As at August 2012, DPI had expended \$663,596 in staff severance payments to 11 staff (Note 10). The analysis assumes that DPI will be liable for an additional \$2 million in redundancy payments for another 33 staff with an average severance package estimated at \$60,327 (Note 11). The Department has also expended

\$69,304 to date, of an estimated total of \$250,000, on other relocation related expenses such as transport and staff inspections of new locations (Note 7).

DPI anticipates total capital expenditure of \$1.275 million at Port Stephens, Nowra, Coffs Harbour and Newington to relocate operations planned at those locations from Cronulla. Total capital expenditure at Port Stephens is estimated at \$1.2 million, however only \$625,000 can be attributed directly to operations moving from Cronulla (Note 12). The analysis allows for an annual condition based maintenance expense in relation to these capital assets of 5% of the initial capital expenditure (Note 13).

DPI also anticipates that it will incur rent, service charges and overhead expenses for the operations moving into facilities not owned by the Department as detailed in the summary table. Overhead charges at the Nowra facility include cleaning, waste disposal, security, fire equipment maintenance, water, sewerage and garbage rates.

#### Regional Employment

DPI anticipates, at this stage, that around 93 positions previously located at Cronulla will be relocated to regional NSW. The average indirect and induced (Type II) multiplier effect of these new jobs in those regions is estimated to be an additional 72 jobs for a total of 165 regional jobs.

In addition to these direct impacts, there are longer-term benefits associated with the transfer of jobs to regional areas, such as the easing of congestion in metropolitan areas coupled with better regional infrastructure utilisation, as well as skills transfer to the regions, which in turn promotes regional innovation and growth.