

# Mary Cairncross Scenic Reserve Business Case Assessment

## Financial Analysis Addendum

March 2012

A number of changes were made to the original financial forecasts prepared by the Stafford Group (Appendix A). In large there changes were undertaken to:

- refine the capital investment costs required in order to appropriately fit out the site under the assumptions of the different options;
- apply more realistic assumptions on both visitor spend and penetration rates for each option; and
- rationalise visitor numbers based on recent traffic counts.

The following information is contained in this Addendum.

### **Table 1** – Capital cost estimates

The up-front capital investment required for each option is based on building cost estimates for each functional area, allowing for contingencies and project management fees.

### **Table 2** – Cost-benefit assumptions

This table indicates all critical assumptions for each option, also highlighting where they are different from the original Stafford Group assumptions.

Cost-benefit analysis for all options (Tables 3 to 9).

On-going operating costs are forecast over 25 years with the income component primarily driven by visitation numbers.

### **Table 3** – Cost-benefit analysis –“do nothing” Option

### **Table 4** – Cost benefit analysis – Basic Upgrade Option

### **Table 5** – Cost benefit analysis – Option 1

### **Table 6** – Cost benefit analysis – Option 2a

### **Table 7** – Cost benefit analysis – Option 2b

### **Table 8** – Cost benefit analysis – Option 3

### **Table 9** – Cost benefit analysis – Option 4

### **Table 10** – Sensitivity summary

The financial model shows a high degree of sensitivity to operating cost and revenue. Sensitivity to visitor numbers and capital expenditure was moderate and low respectively.

Table 1 - Capital cost estimates

Expenditure items	Basic upgrade	Option 1	Option 2a	Option 2b	Option 3	Option 4
Building form	pavilion style	pavilion style	integrated	integrated	integrated	integrated
Levels	one level	one level	one level	two levels	two levels	two levels
Total Gross Floor Area (m <sup>2</sup> )	508	693	788	788	988	1348
<b>Food and beverage</b>						
Size of kiosk/café (incl kitchen) (m <sup>2</sup> )	40	40	40	40	40	120
Size of undercover seating (m <sup>2</sup> )	200	220	200	200	400	400
Construction rate (per sqm)	\$1,000	\$1,500	\$2,500	\$2,500	\$2,500	\$2,500
Construction Cost	\$40,000	\$390,000	\$600,000	\$600,000	\$1,100,000	\$1,300,000
Commercial Kitchen Fitout	\$80,000	\$100,000	\$100,000	\$100,000	\$120,000	\$200,000
Liquor License	\$0	\$0	\$1,200	\$1,200	\$1,200	\$1,200
Capital Expenditure	\$120,000	\$490,000	\$701,200	\$701,200	\$1,221,200	\$1,501,200
<b>Covered Picnic Area/Outdoor Classroom</b>						
Size of picnic area/classroom (m <sup>2</sup> )		100	100	100	100	100
Construction rate (per sqm)		\$800	\$800	\$800	\$800	\$800
Capital Expenditure		\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
<b>Meeting room / theathrette</b>						
Size of meeting room (m <sup>2</sup> )	80	80	80	80	80	80
Construction rate (per sqm)	\$1,000	\$1,500	\$2,500	\$2,500	\$2,500	\$2,500
Construction Cost	\$80,000	\$120,000	\$200,000	\$200,000	\$200,000	\$200,000
Technology/Equipment Fitout	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Furniture Fitout	\$15,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Capital Expenditure	\$110,000	\$155,000	\$235,000	\$235,000	\$235,000	\$235,000
<b>Gift Shop</b>						
Size of retail (m <sup>2</sup> )		15	30	30	30	30
Construction rate (per sqm)		-	\$2,500	\$2,500	\$2,500	\$2,500
Construction Cost		-	\$75,000	\$75,000	\$75,000	\$75,000
Furniture Fitout		\$10,000	\$20,000	\$20,000	\$20,000	\$20,000
Capital Expenditure	0	\$10,000	\$95,000	\$95,000	\$95,000	\$95,000
<b>Education Centre</b>						
Size of education centre (m <sup>2</sup> )	110	110	80	80	80	80
Construction rate (per sqm)		-	\$2,500	\$2,500	\$2,500	\$2,500
Construction Cost		-	\$200,000	\$200,000	\$200,000	\$200,000
Refurbishment Cost	\$80,000	\$80,000	-	-	-	-
Technology/Equipment Fitout	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Furniture Fitout	\$15,000	\$15,000	\$20,000	\$20,000	\$20,000	\$20,000
Interpretation Fitout	\$130,000	\$130,000	\$200,000	\$200,000	\$200,000	\$200,000
Capital Expenditure	\$325,000	\$325,000	\$520,000	\$520,000	\$520,000	\$520,000
<b>Viewing Platform</b>						
Size of viewing platform (m <sup>2</sup> )		50	180	180	180	180
Construction rate (per sqm)		\$500	\$1,500	\$1,500	\$1,500	\$1,500
Construction Cost		\$25,000	\$270,000	\$270,000	\$270,000	\$270,000
elevator to levels 1 and 2 from ground		-	\$70,000	\$70,000	\$70,000	\$70,000
Interpretation signage		\$10,000	\$15,000	\$15,000	\$15,000	\$15,000
Capital Expenditure		\$35,000	\$355,000	\$355,000	\$355,000	\$355,000
<b>Canopy Walk</b>						
Size of canopy walk (m <sup>2</sup> )		-	-	-	-	180
Construction rate (per sqm)		-	-	-	-	\$3,000
Foundations (m <sup>2</sup> )		-	-	-	-	100
Construction rate (per sqm)		-	-	-	-	\$2,000
Construction Cost		-	-	-	-	\$740,000
Interpretation signage		-	-	-	-	\$25,000
Capital Expenditure		0	0	0	0	\$765,000
<b>Additional Fit Out (omitted from Stafford Group report)</b>						
Water/sewerage	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000
Demolition	\$10,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Office/kitchen/research area (46m <sup>2</sup> )	\$60,000	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
Verandah (staff only 12m <sup>2</sup> )		\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Toilets (staff+café patrons 20m <sup>2</sup> )	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000
Car parking		\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
Landscaping		\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
Workshop shed		\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Capital Expenditure	\$185,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
<b>Pre-contingency Estimate</b>	<b>\$740,000</b>	<b>\$1,495,000</b>	<b>\$2,386,200</b>	<b>\$2,386,200</b>	<b>\$2,906,200</b>	<b>\$3,951,200</b>
Margin for 2 stories (15%)				\$154,680	\$232,680	\$274,680
Contingencies (30%)	\$222,000	\$448,500	\$715,860	\$762,264	\$941,664	\$1,038,264
Fees (10%)	\$74,000	\$149,500	\$238,620	\$238,620	\$290,620	\$395,120
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>\$1,036,000</b>	<b>\$2,093,000</b>	<b>\$3,340,680</b>	<b>\$3,541,764</b>	<b>\$4,371,164</b>	<b>\$5,659,264</b>

Table 2 - Cost / benefit assumptions

Cost/benefit parameters	Stafford Group	Basic upgrade	Option 1	Option 2a/2b	Option 3	Option 4
<b>Food/Drink Services</b>						
Commerical kitchen size (m <sup>2</sup> )		40	40	40	60	120
Undercover seating for 80 patrons size (m <sup>2</sup> )		200	200	400	400	400
Type of services		kiosk	tea house	tea house	tea house	restaurant
Provision of alcoholic beverages		none	BYO	fully licenced	fully licenced	fully licenced
Café turnover allocated to Council after 3yrs	5%	5%	5%	5%	5%	5%
Lessee rent after 3yrs	\$25,000	\$10,000	\$25,000	\$25,000	\$25,000	\$35,000
Average spend at café per person (op yrs 1-7)	\$14	\$7.50	\$7.50	\$7.50	\$7.50	\$30.00
Average spend at café per person (op yrs 8-15)	\$17	\$11.95	\$11.95	\$11.95	\$11.95	\$38.00
Average spend at café per person (op yrs 16-25)	\$21	\$19.05	\$19.05	\$19.05	\$19.05	\$48.14
Penetration (% visitors who purchase café items)	55%	40%	40%	40%	40%	20%
<b>Gift shop</b>						
Size (m <sup>2</sup> )		none	15	30	30	30
Average spend at retail per person (op yrs 1-7)	\$4.50		\$2.25	\$4.50	\$4.50	\$4.50
Average spend at retail per person (op yrs 8-15)	\$7.00		\$3.50	\$7.00	\$7.00	\$7.00
Average spend at retail per person (op yrs 16-25)	\$9.00		\$4.50	\$9.00	\$9.00	\$9.00
Penetration (% visitors who purchase gift items)	25%		20%	20%	20%	20%
<b>Education Centre</b>						
	<b>Options 1 to 4</b>					
% of visitors who will donate	56%	56%				
Average donation per person (op yrs 1 - 13)	\$1.00	\$1.00				
Average donation per person (op yrs 14-25)	\$2.00	\$2.00				
<b>Other assumptions</b>						
	<b>Options 1 to 4</b>					
Cost of goods sold (gift shop)	45%	45%				
Inflation	3%	3%				
Maintenance costs per sqm pa	\$30	\$30				
Utility costs pa (year 1)	\$45,000	\$20,000				
Utility overheads increase pa	4%	4%				
Discount rate	6.5%	6.5%				
Revenue from meeting room hire	\$200	\$0				

consultant assumptions changed

















**Table 10 - Sensitivity summary**

<b>Sensitivity factor</b>	<b>Adjustment</b>	<b>NPV sensitivity</b>	
Capital expenditure	10%	-11%	Low sensitivity
	30%	-32%	
Visitor numbers	-30%	-44%	Moderate sensitivity
	-10%	-15%	
	20%	29%	
Operating cost	10%	20%	High degree of sensitivity
	30%	59%	
Revenue	-30%	-63%	
	-10%	-21%	
	20%	42%	