

## Wagga Wagga Clay Shooting CBA

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**Attachments:** Wagga Clay Target Assoc CBA FINAL.pdf (46.3 kB)

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Hi Jenny,

Sorry - Stewart's team finished this late last week and I've been so flat out since I haven't had a chance to send through.

I have also sent this to Peter Minucos in DPO as he was asking.

Happy to talk through if any questions / discuss what next steps might look like for this.

Thanks,

Chris

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# Australian Clay Target Association Facility

## Cost Benefit Analysis

### 1. Background

#### 1.1. Project Description

The Australian Clay Target Association (ACTA) is planning the development of a large clubhouse / conference facility and associated infrastructure at their existing facility in Wagga Wagga, NSW. The existing facility houses the national headquarters of ACTA and is a major shooting range that hosts national and international events. The project is the third stage of development activities at the site and involves the following components (sic):<sup>1</sup>

- *Building of new club house/hall of fame/events and national office. The capacity would be approximately 650 banquet/seated and 1,000 theatre style. The building would be available for other user groups.*
- *Purchase of land to the west for additional 5 traps, catering for the growth of the sport over the next twenty five years. This will bring the number of competition traps to 20.*
- *Further alignment and sealing of roads within the complex*
- *Improving draining on the ground within the scope allowed*
- *Build further shaded grandstand areas*

The proponent has expended over \$3 million on the previous two development stages. The third and final stage is estimated to cost \$6.77 million. The proponent has committed \$1.2 million to fund the proposal, with the \$5.57 million shortfall sought from the NSW Government. Most (67%) of the capital expenditure is anticipated to occur in 2017 (calendar year), with the remaining 33% to be expended in early 2018.

Consultants GHD were engaged by Department of Industry (DoI) to complete a business case for the proposal in consultation with the proponent. The business case included an economic appraisal of the proposal that returned a benefit cost ratio of 2.02. The appraisal methodology used by GHD is not consistent with the NSW Government's *Guide to Cost-Benefit Analysis* (TPP 17-3) and the business case is overall of poor quality. Investment Appraisal Unit (IAU) has used some of the relevant parameters included in the business case in this analysis.

It is noted that the business case prepared by GHD includes present value estimates of additional maintenance costs (\$257,000), operating costs (\$2.7 million) and revenues (\$693,000) to ACTA from the project over 25 years. The implication being that the project is estimated to cost ACTA \$2.3 million (present value) in addition to any initial capital outlays. ACTA capacity to cover this cost and to deliver the project as specified in the business plan are not within the scope of this assessment.

DoI has requested a cost benefit analysis on the proposal, which the Investment Appraisal Unit has conducted based on publicly available data and GHD's "*Final Business Case*".

<sup>1</sup> GHD, "*ACTA Business Plan Revised – Final Business Case*", March 2017.

## 2. Analysis Methodology

### 2.1. Methodology and Referent Group

This analysis applies the methodology described in the NSW Government's *Guide to Cost-Benefit Analysis* (TPP 17-3). Outcomes are measured from the perspective of all NSW residents (the referent group). The net impact on each of the following elements is estimated:

- returns to NSW labour ("labour surplus");
- returns to NSW-owned businesses ("producer surplus");
- returns to NSW Government; and
- returns to NSW residents.

### 2.2. Analysis Assumptions

#### 2.2.1. Counterfactual – Base Case or 'Do Nothing' Option

To estimate the net benefits or costs of the project, this analysis compares the outcomes associated with the proposal to the outcomes under the counterfactual. All outcomes are measured from the perspective of the referent group (NSW residents), rather than only the NSW Government or the proponent. The use of a base case for comparison is consistent with the methodology outlined in TPP 17-3.

This analysis assumes that the project does not proceed in the absence of NSW Government assistance. This analysis also assumes that any surpluses (to suppliers) from the additional maintenance and operating expenditure of ACTA is either included in the surpluses estimated from out-of-state visitor and retained NSW resident expenditure, or not additional where it is attributed to NSW visitors and therefore displaces identical expenditure in another NSW facility.

#### 2.2.2. Analysis Period

To be consistent with the GHD business case, this assessment provides for a 25 year assessment period, starting from the 2017 calendar year.

#### 2.2.3. Base Year

The economic analysis has adopted the 2017 calendar year as the base year. All future amounts have been discounted back to 2017 calendar year values.

#### 2.2.4. Discount Rate

Future costs and benefits of the proposal have been converted to present values assuming a discount rate of 7% per annum, consistent with TPP 17-3 (p15).

## 3. Analysis Results

### 3.1. Project Costs

Total proposal capital costs are estimated at \$6.62 million (present value). The cost to the NSW Government is equal to the assistance sought, \$5.45 million (present value). The capital cost to ACTA (\$1.2 million) has been excluded from the analysis as it is assumed these funds would be expended on the facility in the absence of the

project. The additional maintenance and operating costs anticipated for the operators have been excluded from the analysis for reasons outlined in Section 2.2.1.

### 3.2. ACTA Visitation and Visitor Expenditure

The project is anticipated to generate additional international and interstate visitor expenditure in the City of Wagga Wagga (LGA) and NSW. This expenditure results from specific attraction visitation (where the primary purpose of the visit to NSW is an event held at the improved ACTA facility).

The GHD business case estimates 220 and 600 additional average annual international and interstate visitors respectively to the City of Wagga Wagga as a result of the project. The business case also assumes that per night expenditure for each visitor is \$180. This analysis accepts the expenditure assumption for international visitors and that all the additional visitors are specific purpose visitors. For interstate visitors, the per night visitor expenditure is assumed to be \$141, consistent with the estimate from the most recent Tourism Research Australia (TRA) survey of domestic visitors to Regional NSW.<sup>2</sup>

The GHD analysis further assumes that the international and interstate visitors will stay, on average, 5 and 10 nights respectively per trip to the City of Wagga Wagga. Total stay within NSW has not been specified. This is an oversight given TPP17-03 specifies that the central analysis must be from the perspective of all NSW residents.

According to the most recent TRA surveys international and interstate visitors to Regional NSW on average stay 17.7 nights and 3.4 nights respectively. Given the average length of event currently on ACTA's calendar for 2017 is 5 days GHD's assumption for international visitor stay within NSW is considered unrealistically low.<sup>3</sup> This analysis assumes the TRA estimate of 17.7 nights for international visitors and accepts GHD's estimate of nights (10) in Wagga Wagga for interstate visitors as the NSW estimate.

In summary the following visitor parameters are assumed for the project:

Table 1: Specific Visitor Expenditure Parameters

	Interstate	International
Specific Average Annual Visitors to NSW	600	220
Length of stay in NSW (nights)	10.0	17.7*
Per night spend in NSW	\$141*	\$180
Per trip spend in NSW	\$1,410	\$3,186

\*denotes TRA estimates substituted for GHD estimates.

Although there is a large number of other NSW facilities offering clay target shooting, they appear to mostly cater to their local populations. Therefore the specific interstate and international visitors attracted to Wagga and NSW as a result of the project are not anticipated to be at the expense of other NSW facilities.

ACTA's proposal also calls for an expanded clubhouse that will include a conference facility. GHD has estimated that the conference facility will result in 1,200 additional visitor to the City of Wagga Wagga. No breakdown of visitor by place of residence was provided in the business case. Intrastate visitation will likely displace the use of other facilities in Wagga Wagga and it is considered highly unlikely that the conference facility will attract significant numbers of international and interstate visitors to NSW.

<sup>2</sup> For Year Ending 30 September 2016.

<sup>3</sup> <https://www.claytarget.com.au/events/events-info/events-calendar.html> - Accessed 10 April 2017

### 3.3. Returns from Additional Visitor Spend

Returns to NSW labour, NSW-owned businesses and the NSW Government derive from additional international and interstate visitor expenditure. It is assumed that additional international and interstate visitors attracted to NSW as a result of the project will generate additional demand for goods and services in NSW, result in increasing demand for NSW labour, additional profits for NSW businesses and revenues to NSW Government.

Returns to NSW Government from payroll tax was estimated from the additional labour surpluses generated by visitor spend. It is assumed that 70.1% of the labour surplus is subject to payroll tax.<sup>4</sup>

Visitation expenditure by NSW residents has not been included in the analysis, as it is assumed that this expenditure would be displacing other NSW-based expenditure in the counterfactual. In addition, no surpluses are assumed to be generated from the construction or maintenance of the improved facility, as it is assumed that that this expenditure would be displacing other NSW-based expenditure.

Surpluses generated from additional expenditure were estimated by using both:

- Tourism Research Australia (TRA) data that detailed average expenditure patterns of visitors to NSW; and
- An Input-Output table of the NSW economy

Based on the assumptions above, the following returns are estimated:

Table 2: Net Benefits from Visitor Spend (\$'000) (present value)

Returns to NSW labour	1,382
Returns to NSW-owned businesses	2,225
Returns to NSW Government (payroll tax)	53
<b>Total returns to NSW labour and NSW-owned businesses</b>	<b>3,660</b>

Note: Due to rounding, amounts may appear not to sum or multiply correctly.

### 3.4. Returns from Retained NSW Resident Spend

The proposal is also assumed to result in the prevention of some NSW residents travelling interstate and overseas to participate in shooting events. This will arise because the proposal is assumed to result in larger international and interstate shooting events than currently held at the facility.<sup>5</sup> As with the induced visitor expenditure, retained NSW residents will generate additional demand for goods and services in NSW, resulting in increasing demand for NSW labour, additional profits for NSW businesses and revenues to NSW Government.

The number of retained NSW residents per annum was estimated by assuming that 32% of the attendees of national shooting events held at the facility are NSW residents, equal to NSW's share of Australia population. International events are assumed to have a 10% NSW resident attendance. This equates to the annual retention of 282 NSW residents that would travel interstate and 24 NSW residents that would travel overseas in the absence of the project. This is the maximum number of retained residents as it is likely that some participants will not travel out-of-state to attend an event. The retained expenditure per trip is assumed to be the same as out-of-state visitors, \$1,410 for those travelling interstate and \$3,186 competing overseas.

Given part, if not all, of the retained expenditure will be spent on travel, accommodation and other tourism related items by the NSW residents to attend the event at Wagga, the surpluses are estimated using identical

<sup>4</sup> Based on the "Report on GST Revenue Sharing Relativities – 2015", p60, Commonwealth Grants Commission, which indicates that 70.1% of NSW private sector wages and salaries were liable for payroll tax in 2013-2014.

<sup>5</sup> GHD, "ACTA Business Plan Revised – Final Business Case", March 2017.

parameters to those used for induced out-of-state visitors in Section 3.3 . Based on these assumptions the following returns are estimated from retained NSW resident expenditure:

Table 3: Net Benefits from Retained NSW Resident Spend (\$'000) (present value)

Returns to NSW labour	413
Returns to NSW-owned businesses	705
Returns to NSW Government (payroll tax)	16
<b>Total returns to NSW labour and NSW-owned businesses</b>	<b>1,134</b>

## 4. Results Summary

Based on the business case prepared by GHD, and on the assumptions described in this document, it is estimated that the project would represent a net cost to the referent group of approximately \$653,000 and achieves a benefit/cost ratio of 0.88 over the assessment period of 25 years.

Benefits are expected to derive from induced interstate and international visitor expenditure and retained NSW resident expenditure, causing increased demand for goods and services in NSW. However these benefits are not sufficient to offset the project cost.

Table 4: Net Benefits to the Referent Group (\$'000) (present value)

Returns to NSW labour	1,795
Returns to NSW-owned businesses	2,930
Returns to NSW Government (payroll tax)	69
Cost of project	(5,447)
<b>Total project benefit (cost)</b>	<b>(653)</b>

Note: Due to rounding, amounts may appear not to sum or multiply correctly.

Table 5: Project metrics

Present value of net benefits (cost) (NPV) (\$'000)	(653)
Benefit/cost ratio (BCR)	0.88

## 5. Sensitivity Analysis

Sensitivity analysis is used to establish the extent to which the outcome of the analysis, particularly the net present value, is sensitive to the assumed variables or key inputs.

### 5.1. Discount Rate

The project was tested for discount rate sensitivity at 3% and 10% per annum. As shown below, the project is very sensitive to the discount rate. This is due to the relatively high upfront cost, followed by benefits distributed across the remaining years of the 25 year assessment period.

## Northern Rivers Rail Trail – Tweed Stage Cost/Benefit Analysis

Table 6: Discount Rate Sensitivity Analysis

Discount rate	3%	7%	10%
Net Present Value (\$'000)	1,564	(653)	(1,645)
Benefit/cost ratio	1.28	0.88	0.70

Although the project represents a net cost to the State at the Treasury recommended central rate of 7%, it does result in a net benefit to the referent group the lowest rate tested (3%).

## 5.2. Visitor Parameters

The benefits from induced international and interstate visitor expenditure in NSW is the primary source of benefits for the project. The project was therefore separately tested for visitor parameters assuming GHD estimates and TRA estimates for nightly expenditure and length of stay.

Table 7: Visitor Parameters Sensitivity

Parameters source	TRA	GHD	Mixed (Default)
Net Present Value (\$'000)	(3,786)	(1,145)	(653)
Benefit/cost ratio	0.30	0.79	0.88

As expected, the project is highly sensitive to visitor parameters used. It is noted that the highest BCR is achieved under the default assumptions. TRA assumptions have not been used as they are considered to underestimate the international visitors' nightly expenditure (skewed by student visitors) and underestimate the interstate visitors' length of stay (3.4 nights). Similarly, GHD parameters likely underestimate international visitors' length of stay at only 5 nights and overestimate interstate visitors' nightly expenditure at \$180.