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Loddon-Mallee Housing Action Plan: Mildura Worker Housing project business case

Swan Hill Rural City Council

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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

Offices in Canberra, Hobart, Melbourne, and Sydney, on Ngunnawal, muwinina, Wurundjeri, and Gadigal Country.

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Executive summary

This document is one of four reports on projects which could unlock additional housing supply in the Loddon-Mallee region. The projects were identified during preparation of the Loddon-Mallee Housing Action Plan.

This business case report is focussed on the expansion of an existing seasonal worker accommodation facility in Mildura in the Mallee region. The project is designed to address a shortage of accommodation for workers which is constraining the agricultural sector and economic output in the region.

Project description

The proposal is the development of a **\$7m dollar international worker housing facility** that will be owned and operated by SMECC, a not-for-profit organisation. The facility will comprise of 62 twin-share rooms and three 2-bedroom apartments on a block of land on Ramsay Court.

Methodology

The development concept was assessed using an Investment Logic Mapping (ILM) framework to clearly define and outline the benefits of addressing the shortage of worker accommodation, and show how the proposed facility would address the problem.

The business case includes quantitative analysis to answer two questions:

- **Financial feasibility assessment** – Does the project need capital or operational funding to ensure its viability?
- **Cost benefit analysis** – Do the benefits generated for Victorians by the proposed rebate lift community welfare? Will net benefits, as expressed through measures such as Benefit Cost Ratio (BCR) and Net Present Value (NPV), be generated for Victorians?

ILM Findings

The development concept addresses the two problems identified.

- The first problem of **insufficient housing leading to poor economic and social outcomes** is addressed by the increased availability of housing that will take some people out of overcrowded accommodation into housing that provides adequate space. The increase in housing lifts the capacity of Mildura to bring in more seasonal workers to relieve the pent-up demand for workers. Adequate housing space reduces the risk of mental health illness and physical illness that is more prevalent in crowded and poor-quality housing.
- The second problem of **exploitation risk leading to negative outcomes** is addressed through a reputable organisation, SMECC, providing housing at a fair price, which means workers have a greater level of take-home pay. The proposal offers access to a concierge officer (support worker) who can provide workers with easy access to services and assistance. The provision of support

services will enable international workers easier access to the knowledge to navigate the system and knowledge of the rights and privileges available to them as international workers in Australia.

Financial feasibility results

The assessment showed the project's revenues will be able to cover the operational costs from the first year the facility begins operations and on an ongoing basis. From the net operating surplus per annum, \$1.7m of the project's capital cost of \$7m can be serviced with a 15-year commercial loan. **The financial analysis suggests that the operator would need \$5.3m in additional capital grant funding to enable the project to proceed.**

Cost-benefit analysis results

The cost-benefit analysis showed the project will generate a **net benefit of \$1.30 for every dollar invested** which shows there is a net benefit to Victorians. The benefits include increased economic output through enhanced labour productivity and cost-savings to the State in terms of health and safety provision. Even when the benefits are varied +/-5%, the project will still generate a net benefit to Victorians with the BCR above 1. The results of the cost-benefit analysis results are shown below.

COST BENEFIT RESULTS SUMMARY

	Net Present Value
Capital costs	\$7,000,000
Operating costs	\$3,477,000
Total incremental costs	\$10,477,000
Enhanced labour productivity	\$2,289,000
Health cost savings	\$1,474,000
Enhanced human capital	\$1,116,000
Reduced crime and harmful behaviours	\$732,000
Education benefit	\$155,000
Residual asset value	\$1,486,000
Revenue	\$6,486,000
Total incremental benefits	\$13,738,000
Net benefits	\$3,261,000
BCR	1.3

Source: SGS Economics and Planning

Funding support options

The \$5.3m capital support to enable this project to proceed could come from the following sources.

- A State Government capital grant, effectively covering 76% of the capital cost.
- Alternatively, a low interest loan could be provided to SMECC for all or part of the capital, however a loan for say 90% of the capital cost (\$6.3m) at say 2% interest per annum would take more than 50 years to repay.
- A further alternative then would be for government to be an equity partner though this would require a governance and accountability regime which might be cumbersome.

Guidance for local councils

Other councils, with appropriate support, could replicate a project similar to this following the identification of a worker housing need. The how to guide for pursuing a similar project is shown overleaf.

GUIDANCE FOR SIMILAR PROJECTS

Key stages	Role of Housing Support Officer
1. Needs assessment to ascertain the type of worker housing needed.	<p>Assessment funding: find the finance for the required needs assessment</p> <p>Needs establishment: procure the consultant/s to conduct the required needs assessment/s including quantitative of the local economy</p> <p>Community consultation: assist the consultant in the community consultation process by securing the key stakeholders pivotal for confirming the aspects of need and developing an appropriate worker housing development proposal</p>
2. Identify and secure suitable land that can be used for worker housing. Undertaking a pre-feasibility assessment to identify preferred site.	<p>Hold land owner summit: A forum to gauge interest from potential landowners who could provide land Or Identify if there is council land suitable for the need identified Or Identify if there is State-owned land that could be declared surplus and able to be devoted to the project</p> <p>Secure potential land: obtain a non-binding option to use the land for housing or an in-principle agreement conditional on agreed terms such as securing a housing provider and finance; ultimately, and once development partners are involved, a project has approval and finance for development has been secured a formal process of land title transfer or land sale would need to occur (for state owned land relevant process and protocols can be found in Victorian Government Landholding Policy and Guidelines and associated documents)</p>
3. Early planning analysis	<p>Address planning issues: Work alongside council to identify and address any statutory planning issues that may affect the worker housing project on identified potential sites. This process will also identify desirable approval pathways from a planning perspective.</p>
4. Seeking a development partner - with social housing, service providers and others such as construction industry contractors, State government departments and parliamentary representatives	<p>Development sector and stakeholder forum: organise and host a targeted forum to advertise and build relationships with potential social housing providers and/or developers in the worker housing space.</p>
5. Consultation with key stakeholders to establish aims and objectives that will guide the expression of interest	<p>Co-design: host a co-design session to develop the aims and objectives to inform the EOI</p>
6. Early concept development to address findings	<p>Concept plan: Working alongside development partners and council to address findings from step 5</p>
7. Development of business plan and financial evaluations	<p>Procurement funding: Find and secure funding for feasibility studies / business cases</p> <p>Consultant Procurement: Procure and engage the relevant consultants to provide the needed inputs.</p>
8. Establish potential funding sources	<p>Engagement with financiers: find potential funding sources and build relationships if needed with financiers, using feasibility analysis and business cases to justify project support</p>
9. Final Expression of Interest	<p>Development of project EOI: with project details, aims and requirements.</p>
10. Tendering project	<p>Tendering: developing the EOI and assessing the appropriate provider</p>

Source: SGS Economics and Planning

1. Introduction

1.1 Housing Action Plan and four associated projects

This document is one of four reports on projects which could unlock additional housing supply in the Loddon-Mallee region. The projects were identified during preparation of the Loddon-Mallee Housing Action Plan.

While each report relates to a particular project or issue, the strategic responses and lessons from each provide recommendations that are mostly replicable and scalable to similar issues elsewhere in the region. There are two 'business cases' and two 'strategic policy guides' covering the projects. The business cases are quantitative and focus on the economic case for the housing proposal. The strategic guides address good practice processes and steps.

The projects are:

- Mildura worker housing project – expansion of an existing seasonal worker accommodation facility in regional Victoria (quantitative business case report)
- Etty Street housing site opportunity – a potential social and affordable housing development site with multiple titles, including state-owned and Crown land with associated Aboriginal lands rights implications (strategic policy guide report)
- Buloke worker housing project – understanding the strategic need for key worker housing to support the local community and considering options for key worker housing in Donald, in the Buloke Shire (strategic policy guide report)
- Newbridge Water and Sewerage Infrastructure extension – strategic approach to investing in infrastructure supporting new housing development in a small-town context (quantitative business case report).

All documents draw out and summarises replicable and scalable steps. The reports and especially their included "How to guides", are intended to provide housing practitioners with a toolkit to actively address typical barriers to new housing supply found in regional Victoria.

1.2 This report

This business case report is focussed on the expansion of an existing seasonal worker accommodation facility in Mildura in the Mallee region. The project is designed to address a shortage of accommodation for workers which is constraining the agricultural sector and economic output in the region. The report addresses the question of what external financial support is needed to enable the project to proceed and ensure its long-term financial viability. It also includes a business case in support of the project, identifying the economic 'case' for the project using a cost benefit analysis framework.

2. Problem definition and project details

2.1 Defining the problem

Mildura faces constraints in providing enough worker housing. Of particular concern in this business case is housing for seasonal workers from overseas. These are an essential group that enable firms to remain productive and competitive in export-oriented industries which directly contribute to Victoria's economic performance. Mildura is a nationally significant area for agricultural and horticultural production (total agricultural production in the Mildura Local Government Area was worth \$1.13 billion in 2020-21, the highest amount of any LGA in Australia¹). Agriculture and related industries such as food and beverage manufacturing are the principal engines for economic activity.

As the Loddon Regional Economic Development Strategy points out in relation to workforce constraints:

Agriculture is becoming increasingly skill and capital intensive. Projected skill demand for the industry includes an increase to agronomists, farm managers, irrigation managers which will require greater attraction or upskilling efforts from the current workforce. Full-time industry employment is expected to decrease over the next five years as small land holdings are merged to create larger, and more competitive corporate businesses. At the same time, farmers consistently face difficulties attracting seasonal workers to assist with harvesting, and consequently rely on international labour.²

The inability to provide sufficient housing for workers and seasonal workers in particular leads to overcrowding, the use of ill-suited solutions for shelter (make-shift housing, caravans and tents) and stresses in the rental sector, adverse impacts on labour productivity, poor social outcomes and risk of exposure to illegal labour practices. More broadly the lack of housing makes it challenging to attract and retain both skilled and unskilled workers which means that businesses relying on temporary workers operate under avoidable productivity constraints and are deterred from investing in business growth. This, in turn, means that the State's GDP performance falls short of its full potential.

The challenges being faced in Mildura in terms of temporary and seasonal labour supply are not unique to that LGA. Indeed, this is a widespread problem across regional Victoria as well as other parts of regional Australia.

¹ ABS Value of Agricultural Commodities Produced, Australia
<https://www.abs.gov.au/statistics/industry/agriculture/value-agricultural-commodities-produced-australia/latest-release>

² Mallee Regional Economic Development Strategy, p.23
https://www.rdv.vic.gov.au/__data/assets/pdf_file/0006/2063913/Mallee-REDS-2022.pdf

Importantly, Mildura and more broadly the Loddon-Mallee region is seeking solutions that could be readily transferred to other LGAs or regions and / or complement other strategies being applied in those regions.

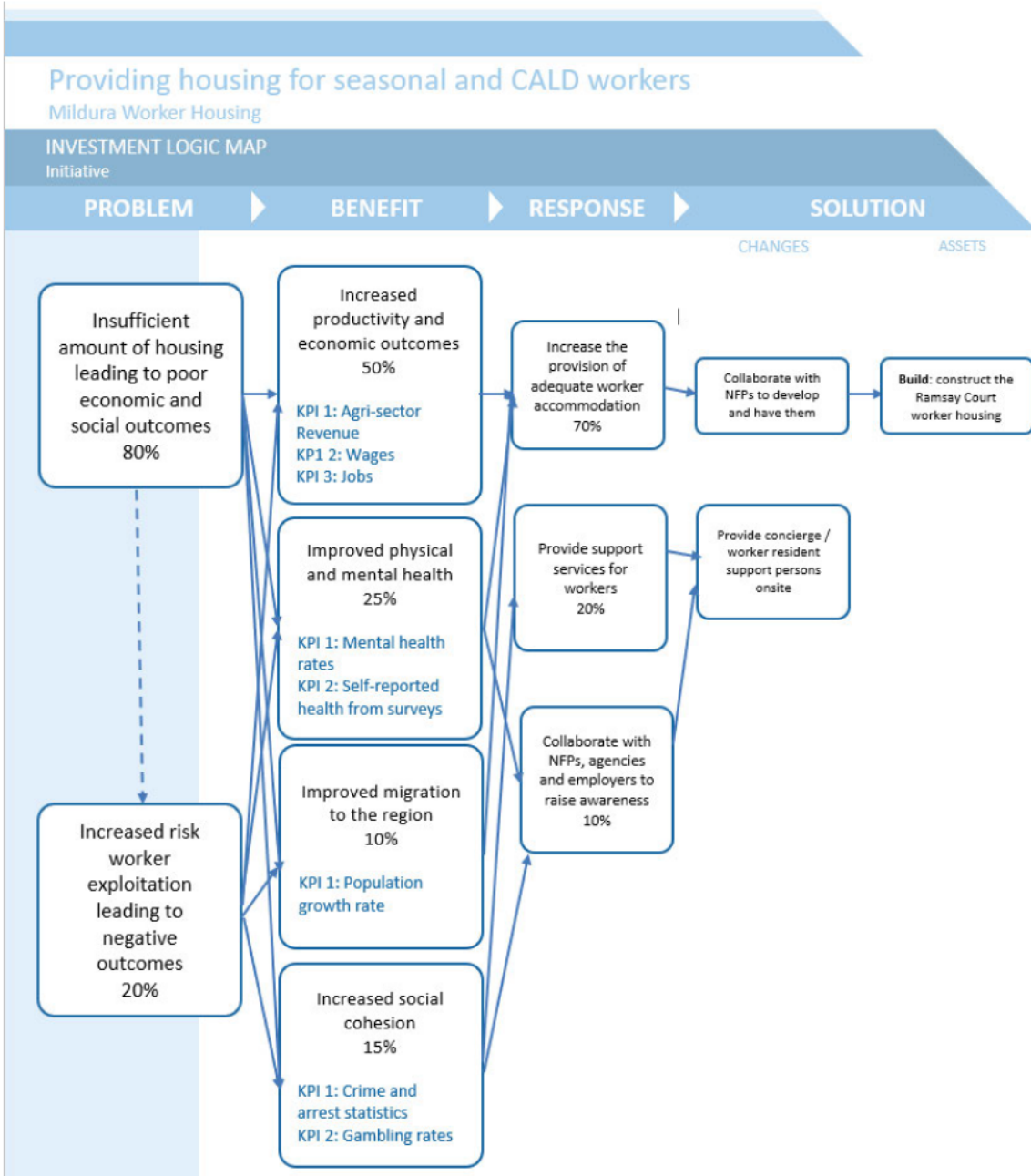
2.2 Investment logic

Investment Logic Mapping is a process used to clearly define the problem and the benefits that are generated by addressing the problem. This process is essential to ensuring an adequate strategic response is defined and to optimising the likelihood of success of a proposed investment.

The process follows a number of steps, and for each step, the relevance of a component and its evidence base is identified. The steps are as follows:

1. Problem definition – at this step the problem is formulated including its key drivers. Consensus is to be reached about the significance of each driver.
2. Benefits – a description of the benefits that are generated if the problem was adequately addressed, and for each benefit, the relative significance. In addition, there is a description of key performance indicators that measure the level of success over time. Please note that the solution definition comes after this to ensure that the solution aims to address all the benefits.
3. Response – a description of the strategic response. In formulating responses one should consider a wider range of possible intervention types including policy changes, asset and non-asset based approaches.
4. Solution – a description of a proposed project that aligns with the response. Our experience in ILM shows us that the steps from Benefits to Response to Solution often adds value and the initially proposed project may be amended or changed to optimise the benefits. The solution describes the changes that are required, including non-asset based changes, while the last category is a description of the required assets investment.

Investment Logic Map



2.3 Definition of the problem

Two key problems are the leading forces behind poor housing outcomes for workers. These are defined below, with further evidence of the drivers provided in following sub-section.

Insufficient amount of housing leading to poor economic and social outcomes

Mildura does not have sufficient suitable housing to house workers and families who are wanting to move to the LGA. Key drivers are the low rental vacancy rates driven by housing supply lagging behind demand. The barriers to housing supply are detailed in the Loddon-Mallee Housing Action Plan Supporting Document. The housing shortage challenge is described in the Loddon Regional Development Strategy:

Limited access to appropriate housing constrains the region's ability to attract workers and sustain population growth. Most communities throughout the Mallee experience housing shortages, where locals and seasonal workers face lower-than average rental vacancy rates, illegal rooming issues and long wait times for building new homes. The lack of land ready for development, difficulty obtaining investment finance, availability of skilled tradespeople and the rising cost of materials all contribute to this complex issue.³

For seasonal workers from overseas, the lack of housing is leading to overcrowding, people resorting to living in unsuitable conditions and exploitation. This has an impact on physical and mental health, on the availability of sufficient workers, and an increased risk of illegal employment operators. This can undermine the economic productivity and prosperity of agricultural businesses in the region. In reaction to the worsening housing situation Mildura council declared a housing crisis⁴. Without government intervention

Increased risk of worker exploitation leading to negative outcomes

International workers are a vulnerable cohort. The lack of housing puts workers in precarious positions that at times leads to exploitation. The high demand for housing but limited stock leads international workers to opt to live in poor-quality housing. Though limited, this may come in the form of high-cost but poor-quality housing and has a flow-on effect on safety. This issue is inextricably linked to the first driver, in that if adequate housing was available this problem would be significantly curtailed. But in addition, for international workers, it is often difficult to access support services and to navigate the system, or they may not want to raise issues for fear of consequences from authorities. As a result, they are sometimes unable to access the services they need not just international workers

³ Mallee Regional Economic Development Strategy, p.35
https://www.rdv.vic.gov.au/__data/assets/pdf_file/0006/2063913/Mallee-REDS-2022.pdf

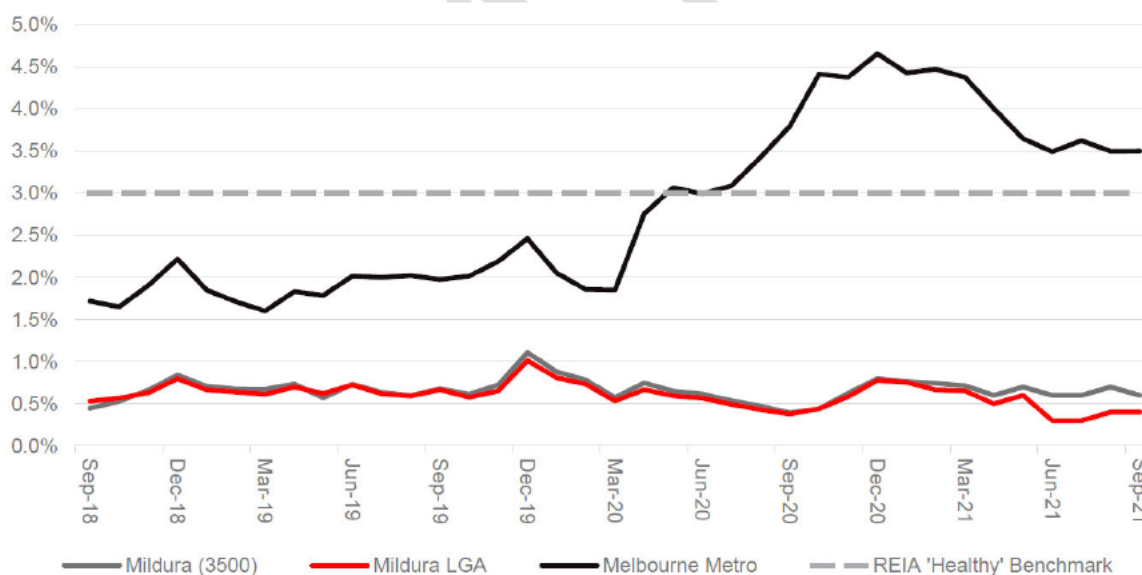
⁴ <https://alga.com.au/mildura-council-calls-for-action-to-ease-regional-housing-crisis/>

2.4 Evidence of drivers

Lack of housing in the region

There is a severe lack of rental accommodation in the region. The rental vacancy rate in Mildura LGA is 0.4% which is below the REIA 'healthy' benchmark rate of 3% as shown in the figure below. In addition, the rate is below REIV's 2.5% benchmark. Rental prices remained stable year on year in quarter three of 2021 at \$350 per week⁵. However, the rent level is quite high for seasonal workers from overseas who tend to get paid close to the minimum wage, noting that according to the ABS workers in the agri-sector get paid \$1,053 per week⁶ (inclusive of all occupation levels) compared to \$812.60 per week⁷. Using the 30 percent rule for rent to household income and the SGS Rental Affordability Index calculation, rental housing is unaffordable for those on low incomes⁸. These two factors push rural workers from overseas into precarious housing that is overcrowded and/or very poor quality that results in poor economic, social and health outcomes.

FIGURE 1: VACANCY RATE MILDURA 2018 TO 2021



Source: PRD Research

Seasonal and social housing providers have collected anecdotal information showing the living conditions of seasonal workers due to lack of housing

⁵ <https://www.prd.com.au/mildura/research-hub/article/mildura-property-market-update-2nd-half-2021/>

⁶ <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/latest-release#industry>

⁷ <https://www.fairwork.gov.au/pay-and-wages/minimum-wages#:~:text=As%20of%201%20July%202022,in%20their%20award%20or%20agreement.>

⁸ <https://www.sgsep.com.au/projects/rental-affordability-index>

When visiting this client I realised that he is not sleeping in the house shared with others. Because there are too many people in the house, he has made a broken vehicle his sleeping space. It's really not safe.

Workers have resorted to living in cars and make-shift dwellings when they have not been able to secure a sleeping space in a house. These spaces are of poor quality, lacking in hygiene and at times exposed to the elements, as shown in the images below.

FIGURE 2: ACCOMMODATION CAMPSITE WITH SEASONAL WORKERS



Source: Social Housing Providers

FIGURE 3: SEASONAL WORKERS LIVING IN A CAR



Source: Social Housing Providers

Economic impacts

The lack of housing is a handbrake on the economic performance of the Mildura. Agriculture and manufacturing are important contributors to Mildura's and overall Victoria's economic output. As stated earlier the Mildura and the larger Sunraysia area (which includes Mildura) is a nationally significant economic sub-region. Agriculture, horticulture and other sectors in Mildura rely on rural workers from overseas for their production activities as it is difficult to attract locals.

Poor health outcomes

Poor access to suitable accommodation and poor access to support services is leading to poor physical and mental health outcomes and these effects are compounded in low-income households and CALD people. Academic literature shows a link between the lack of privacy and noise levels caused by overcrowding on mental health⁹. High-density living environments have a negative effect on the mental health of both men and women. While women living in crowded homes are more likely to be depressed, men report higher levels of withdrawal, and some males respond with both aggression and withdrawal¹⁰. Declining mental health is shown to lead to reduced worker productivity which leads to lower profits and economic output at a macro-level¹¹.

Though there is no data on the effect of overcrowding on the health and wellbeing of seasonal workers, anecdotal evidence shows they are exposed to conditions that would result in poor health outcomes. The images shown earlier show the poor conditions that rural workers from overseas live in.

Overcrowding increases the risk of infectious disease transmission, and interventions that reduce overcrowding would see a high decrease in the spread of infectious diseases¹². For example, the COVID virus has been shown to spread quicker in overcrowded housing and this is likely to have had a significant impact on workforce productivity of the entire household if one person was positive with the virus¹³.

Social impacts

Overcrowded conditions could lead to harmful behaviours that have a negative social impact. Anecdotal evidence collected by social housing providers is of family breakdowns and people starting a gambling or a drug habit due to wanting an escape or change of environment from where they are

⁹ AHURI, 2001, Do housing conditions impact on health inequalities between Australia's rich and poor?, Positioning Paper 2

https://www.ahuri.edu.au/sites/default/files/migration/documents/AHURI_Positioning_Paper_No2_Do_housing_conditions_impact_on_health_inequalities_between_Australias_rich_and_poor.pdf

¹⁰ Regoeczi, W.C., 2008. Crowding in context: An examination of the differential responses of men and women to high-density living environments. *Journal of Health and Social Behavior*, 49(3), pp.254-268.

¹¹ Bubonya, M., Cobb-Clark, D.A. and Wooden, M., 2017. Mental health and productivity at work: Does what you do matter?. *Labour Economics*, 46, pp.150-165.

¹² Bansal, R. K., and D. M. Saxena. "Overcrowding and health." *Indian Journal of medical sciences* 56, no. 4 (2002): 177-179.

¹³ Varshney, K., Glodjo, T. and Adalbert, J., 2022. Overcrowded housing increases risk for COVID-19 mortality: an ecological study. *BMC Research Notes*, 15(1), pp.1-4.

residing. Academic literature does show overcrowding increases the risk of being a victim and committing a crime¹⁴, and is associated with the onset of gambling¹⁵. All these behaviours lead to poorer mental health and family breakdown.

2.5 Benefits

Increased productivity and economic outcomes

Were the problem defined in section 2.1 to be successfully addressed, the key benefit would be a significant lift in agricultural turnover levels leading higher State GDP compared to a business-as-usual scenario for worker housing and labour market operations in the Mildura.

This anticipated boost to agricultural turnover will be generated by improved stability and efficiency in the labour market arising from a range of improvements.

Housing targeted at seasonal workers would free up housing for other types of workers and other seasonal workers. The wider community will enjoy better access to services across health, education, recreation and social support. These services will benefit from more reliable supply of specialist skills and unskilled labour. The upshot will be a stronger, more resilient community as it will have the skills and social infrastructure to better withstand shocks.

A further collateral benefit is that with its more productive and resilient economy, the North West would become more attractive and viable as a living option for more Victorians. This expansion of lifestyle/workstyle choices will be a material improvement in aggregate utility in the State.

Improved physical and mental health

Having better housing would reduce the risk of disease spread and prevents the incidence of mental illness. This has the benefit of workers being able to work more productively, which contributes to Mildura's and Victoria's economic performance. In addition, there is reduced need for health services which contributes to a better budget bottom-line for the State government.

Having better access to support services for international workers will support them addressing any health issues.

Improved migration to the region

Providing housing to rural workers creates the opportunity for increased migration to the region. Increased migration would enable other skilled and unskilled workers to live and work in Mildura. As a result, the quantum and quality of goods and services provided would increase, which would improve the utility of all residents in the region.

¹⁴ Friedman, D., 2010. *Social impact of poor housing*. London: Ecotec, pp.597-606.

¹⁵ Fluharty, M., Paul, E. and Fancourt, D., 2022. Predictors and patterns of gambling behaviour across the COVID-19 lockdown: Findings from a UK cohort study. *Journal of affective disorders*, 298, pp.1-8.

Improved social cohesion

Reduced harmful behaviours would have a positive effect on social cohesion. There would likely be a reduced risk of family breakdown due to the reduced incidence of negative social behaviour such as gambling and substance use. Reduced incidence of anti-social behaviour in the community decreases the risk of stigmatisation of seasonal workers.

2.6 Policy alignment

State productivity and economic growth are clearly of strategic importance to the State Government, as is the robustness of regional economies.

The suite of Regional Economic Development Strategies produced by Regional Development Victoria highlight the importance of regional economic development for the government.

Regional Victoria is a driving force behind our state's economic growth and prosperity. Victoria's Regional Economic Development Strategies (REDS) identify strategic directions to further drive growth and prosperity in regional Victoria.¹⁶

The DJPR Strategic Plan highlights the regions as a priority in the organisation's purpose:

Here at the Department of Jobs, Precincts and Regions, we're firmly focused on Victoria's economic recovery and growth, ensuring it benefits all Victorians — by creating more jobs for more people, building thriving places and regions, and supporting inclusive communities.¹⁷

The State Government's Budget Paper #2 'Strategy and Outlook' 2022-23 reaffirms 'a resilient economy' as one of 5 key planks in long term management of Victoria's finances. This is defined to mean 'supporting an innovative and diversified economy that will unlock employment growth, long-term economic growth and productivity in Victoria' (p 7).

Budget Paper #2 also notes that 'Victoria's regional businesses and producers are critical to the state's economic growth and prosperity' (p 16).

¹⁶ <https://www.rdv.vic.gov.au/resources/regional-economic-development-strategies>

¹⁷ DJPR Strategic Plan 2021-25 https://djpr.vic.gov.au/__data/assets/pdf_file/0015/2033151/DJPR-Strategic-Plan-2021-25.pdf

2.7 The project

In the Mildura region the Sunraysia Mallee Ethnic Communities Council (SMECC) is a not-for-profit (NFP) organisation that aims to assist CALD workers in the community. SMECC owns and operates accommodation services and has identified the need to increase its accommodation capacity. To that end, it has developed the Ramsay Court Worker Accommodation project.

The proposed investment aims to develop and provide affordable and secure accommodation for international workers and enable labour flow into Mildura. The site is currently an underutilised carpark within a residential area on Ramsay Court. SMECC leases the land under a college lease arrangement which is when a local school, college or other government entity owns the land but the development proponent owns the improvements. SMECC aim to operate the housing once complete, and to provide onsite concierge services to enable access to health and other support services.

The project comprises 62 rooms and three 2-bedroom apartments that will accommodate seasonal workers from CALD backgrounds. SMECC estimate the capital cost of the project at \$7m. The concept design of the development is shown Figure 4 below.

FIGURE 4: MILDURA WORKER HOUSING DEVELOPMENT



Source: SMECC 2022

The development addresses the two problem statements identified.

- The first problem of insufficient housing leading to poor economic and social outcomes is addressed by the increased availability of housing that will take some people out of overcrowded accommodation into housing that provides adequate space. The increase in housing lifts the

capacity of Mildura to bring in more seasonal workers to relieve the pent-up demand for workers. Adequate housing space reduces the risk of mental health illness and physical illness that is more prevalent in crowded and poor-quality housing.

- The second problem of exploitation risk leading to negative outcomes is addressed through a reputable organisation, SMECC, providing housing at a fair price, which means workers have a greater level of take-home pay. The proposal offers access to a concierge officer (support worker) who can provide workers with easy access to services and assistance. The provision of support services will enable international workers easier access to the knowledge to navigate the system and knowledge of the rights and privileges available to them as international workers in Australia.

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3. Financial evaluation

3.1 Framework

This section presents the project's operational feasibility assessment and the suitable funding structure given its financial operational position. The table below lists the cost and revenue items used in the operational feasibility assessment.

TABLE 1: FINANCIAL EVALUATION FRAMEWORK

Costs	Revenue
Operating expenditures include: <ul style="list-style-type: none"> - College lease - Rates - Insurance - General repairs & maintenance - Air conditioning service - Pest control - Gutter cleaning - Test and Tag - Waste Removal - Utilities (power and natural gas) - Water rates - Water usage 	Rental revenue from the: <ul style="list-style-type: none"> - 62 room twin bed facility - 3 two-bedroom houses
Concierge/support officer who will manage the running of the property and provide support services for the tenants	
Capital renewal which covers significant repair work	

Source: SMECC; SGS Economics and Planning

3.2 Costs

Operating costs

Operating costs were sourced from SMECC and are assumed to be constant across the 15-year evaluation period. The table below shows the dollar values used in the operational feasibility model.

TABLE 2: OPERATING COSTS

	FY24	FY25	FY26	FY27	FY28 and onwards

Operating costs (\$000s)	251.9	251.9	251.9	251.9	251.9
Support/concierge worker (\$000s)	59.8	59.8	59.8	59.8	59.8
Capital renewal (\$000s)	70.0	70.0	70.0	70.0	70.0

Source: SGS Economics and Planning; SMECC

Capital renewal

SGS assumes SMECC will use \$70,000 per annum on capital renewal. Capital renewal is assumed to be 1% of the total capital expenditure and is over and above the expenditure on general maintenance and repairs. Anecdotal evidence from SMECC suggests the property may experience substantive wear and tear, this capital renewal amount accounts for periods of high and low capital renewal.

Concierge/support

A staff member of SMECC will be employed to manage the facility. In addition, to management duties, the employee will provide social support to the tenants. One FTE will be employed for this role at an annual cost of \$59,800 per annum (in real dollars)¹⁸.

Revenues

Rental income will be the only source of operational income for the housing facility. It is assumed the facility will operate year-round and have an occupancy rate of 75%. The occupancy rate accounts for the likely turnover of tenants who will be international workers coming to the region for a specified period. Tenants in the twin-share units will pay \$140 per week (approximately 90% of the market rate) and tenants of the 2 bedroom apartments will pay \$300 per week (approximately 85% of the market rate). The expected rental income is shown in Table 3 below.

TABLE 3: OPERATING INCOME

	FY24	FY25	FY26	FY27	FY28 and onwards
Rental income units (\$000s)	677.0	677.0	677.0	677.0	677.0
Rental income apartments (\$000s)	35.1	35.1	35.1	35.1	35.1
Total (\$000s)	712.1	712.1	712.1	712.1	712.1

Source: SMECC and SGE Economics and Planning

¹⁸ Salary based on SMECC data on organisation wage and salary levels.

3.3 Results

Discounted cashflow assumptions

The operating cashflows were discounted using a rate of 8%, reflecting the weighted average capital cost. The evaluation period was 15 years. The values were kept as real values, that is not scaled over time to reflect inflation.

Operational performance

Based on the assumptions outlined above, the SMECC housing venture is operationally feasible. The SMECC facility will operate with a positive surplus over the 15-year evaluation period, as shown in the table below. There will be a positive surplus from the first year of operation. The key income driver will be rental income from the units. As is typical for cost benefit analysis and mentioned above the dollar figures are shown as real values, that is net of inflation (CPI). Using real values avoids the need to speculate on cost and income escalation in future in the modelling, though the expectation is that SMECC will increase rental prices in line with (or above) operating cost increases, or that rents and costs will increase in concert at rates consist with the CPI rate.

TABLE 4: OPERATIONAL FEASIBILITY DCF

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Revenue (\$000s)		712.1	712.1	712.1	712.1	712.1	712.1	712.1
Costs (\$000s)		381.7	381.7	381.7	381.7	381.7	381.7	381.7
Net cashflow (\$000s)		330.3	330.3	330.3	330.3	330.3	330.3	330.3
DCF (\$000s)		330.3	305.9	283.2	262.2	242.8	224.8	208.2
	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38
Revenue (\$000s)	712.1	712.1	712.1	712.1	712.1	712.1	712.1	712.1
Costs (\$000s)	381.7	381.7	381.7	381.7	381.7	381.7	381.7	381.7
Net cashflow (\$000s)	330.3	330.3	330.3	330.3	330.3	330.3	330.3	330.3
DCF (\$000s)	192.8	178.5	165.3	153.0	141.7	131.2	121.5	112.5

Source: SGS Economics and Planning

SMECC cannot solely finance the \$7m in capital needed to build the facility on its net operational income. Based on the surplus cashflow generated, SMECC can borrow \$1.7m to build the facility. This is based on the parameters of 60% of the operational surplus being used to service debt and a commercial interest rate of 8% over a 15 year term. The remaining share of the operational surplus (40%) is set aside to enable the financing of other SMECC programs and developments and acts as a buffer to cover any additional outlays that could arise.

The modelling therefore suggests that SMECC needs \$5.3m in additional capital grant funding to enable this project to proceed.

3.4 Funding support options

The \$5.3m capital support to enable this project to proceed could come from the following sources.

- A State Government capital grant, effectively covering 76% of the capital cost.
- Alternatively, a low interest loan could be provided to SMECC for all or part of the capital, however a loan for say 90% of the capital cost (\$6.3m) at say 2% interest per annum would take more than 50 years to repay.
- A further alternative then would be for government to be an equity partner though this would require a governance and accountability regime which might be cumbersome.

Council could offer support to reduce the cost and repayment obligations by discounting costs associated with infrastructure or reducing rates or by providing other cash or in-kind support (fast tracked approvals etc). In these and other ways Council could play a role as a co-funder or supporter of the project alongside State government.

The cost-benefit analysis in the next section shows that state provided support for the housing facility will generate a net benefit to Victorians.

4. Cost benefit analysis

4.1 Cost benefit framework

Cost benefit analysis is an economic appraisal of the social, economic and environmental costs and benefits of a proposed projects. If it is found that the benefits of the project outweigh the costs, then there is a net community benefit from the Ramsay Court worker accommodation project, which justifies government support.

As per convention, the cost benefit analysis (CBA) is undertaken at the State level and assesses the costs and benefits to Victoria as a whole.

CBA is an appraisal method that compares the costs and benefits of a project (the project case) to a situation without the project (Business as Usual case, or base case). Under the base case this facility would not be built, assuming that government funding would not be provided. Table 5 lists the costs and benefits of the project.

TABLE 5: COST BENEFIT FRAMEWORK

Incremental costs	Incremental benefits
Capital costs	Enhanced labour productivity - Secure and affordable housing reduces housing stress which enhances the productive potential of an individual (<i>economic benefit</i>)
Operating and maintenance costs	Health cost savings to the public healthcare system - Housing is a crucial element in maintaining and enhancing health. Overcrowded conditions increase the risk of disease, and the lack of adequate privacy can impair mental health. Access to adequate and affordable housing will reduce the public health system expenditure burden (<i>social and economic benefit</i>)
	Enhanced human capital - Adequate and affordable housing allows greater opportunity to undertake activities that improve human capital. Overcrowded and/or poorly quality housing hinders the ability to engage human capital improving activities (<i>economic and social benefit</i>)
	Reduced crime and harmful behaviours - The lack of privacy and overcrowded conditions can lead to deteriorating mental and emotional health. This can lead to engaging in behaviours that negatively impact a community. (<i>social and economic benefit</i>)
	Education benefit - A conducive environment for learning and upskilling increases the potential for human capital formation, resulting in better returns for the employers and higher wages for the employees living in the facility. (<i>economic and social benefit</i>)
	Asset residual value – is the asset value at the end of the evaluation period and represents the intrinsic value of the housing, which is a benefit to Victorians (<i>economic benefit</i>)
	Revenue – rent incomes (<i>economic benefit</i>)

Source: SGS Economics and Planning

Notes: quantification values for each benefit sourced from SGS (2022) report

In the quantification of benefits, the share of public cost savings accruing to the Federal government was excluded

Incremental costs

The incremental costs are the capital costs and the operating costs shown in Table 6

TABLE 6: INCREMENTAL COSTS

	Total	FY23	FY24	FY25	FY26	FY27 and onwards
Capital costs (\$000s)	7000.0	7000				
Operating costs (\$000s)	5726.1		381.7	381.7	381.7	381.7

Source: SGS Economics and Planning

Incremental benefits

Enhanced productivity and reduced health costs will be the most significant benefits generated by the housing project. Providing adequate housing is crucial to enhancing and maintaining health. The lack of housing can create an excess health burden for the public health system. The table below shows the dollar values for each of the benefits.

TABLE 7: INCREMENTAL BENEFITS

	Total	FY24	FY25	FY26	FY27	FY28 and onwards
Enhanced labour productivity (\$000s)	5386.4	359.1	359.1	359.1	359.1	359.1
Health cost savings (\$000s)	4046.2	269.7	269.7	269.7	269.7	269.7
Enhanced human capital (\$000s)	2626.0	175.1	175.1	175.1	175.1	175.1
Reduced crime and harmful behaviours (\$000s)	1205.9	80.4	80.4	80.4	80.4	80.4
Education benefit (\$000s)	256.0	17.1	17.1	17.1	17.1	17.1
Revenue	10681.3	712.1	712.1	712.1	712.1	712.1

Source: SGS Economics and Planning

In addition to the benefits in the table above, the residual asset value at the end of the evaluation period is \$4.1m based on the depreciation rate of 2.5% per annum and disposal costs which are real estate agent fees, marketing and legal costs

Cost Benefit Assessment

Overarching assumptions

Overarching assumptions for the discounted cashflow analysis are as follows:

- Values 2023, real (i.e. no escalation)
- Timeframe 15 years (2023 to 2038)
- Discount rate 7% real.

Table 8 provides a description of the performance measures to understand the results of the cost benefit analysis in the tables that follow.

TABLE 8: CBA PERFORMANCE MEASURES

Performance measure	Estimation method	Decision rule
Net Present Value (NPV)	This is the value in the present of a sum of future net cash flows. It is calculated by deducting the present value of the stream of costs from the present value of the stream of benefits (with the present value of costs and benefits determined by using an appropriate discount rate).	- Accept options with a positive NPV - Reject options with a negative NPV - The greater the NPV, the better.-
Benefit Cost Ratio (BCR)	Ratio of discounted present-day benefits over discounted present-day costs.	- Accept options with a BCR > 1 - Reject options with a BCR < 1 - The greater the BCR, the better.

Source: SGS Economics and Planning

Results

The economic evaluation supports the case for a government contribution to enable the building of the SMECC run worker housing. The cost-benefit assessment shows the project will provide a net benefit to Victoria with a return of \$1.30 for every dollar invested in the project. Even when the benefits are varied +/-5%, Table 11 shows the project will still generate a net benefit to Victorians with the BCR above 1.

TABLE 9: COST-BENEFIT RESULTS

	Net Present Value
Capital costs	\$7,000,000
Operating costs	\$3,477,000
Total incremental costs	\$10,477,000
Enhanced labour productivity	\$2,289,000
Health cost savings	\$1,474,000
Enhanced human capital	\$1,116,000
Reduced crime and harmful behaviours	\$732,000
Education benefit	\$155,000
Residual asset value	\$1,486,000
Revenue	\$6,486,000
Total incremental benefits	\$13,738,000
Net benefits	\$3,261,000
BCR	1.3

Source: SGS Economics and Planning

TABLE 10: SENSITIVITY TEST ASSUMPTIONS

	Base assumption	Pessimistic	Optimistic
T1: Discount rate	7%	10%	4%
T2: Benefits	-	-5%	+5%

Source: SGS Economics and Planning

TABLE 11: SENSITIVITY RESULTS

	Pessimistic (BCR)	Optimistic (BCR)	Pessimistic (NPV)	Optimistic (NPV)
T1: Discount rate	1.1	1.5	\$1,309,000	\$5,990,000
T2: Benefits	1.3	1.3	\$2,981,000	\$3,543,000

Source: SGS Economics and Planning

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4.2 Guidance for similar projects

Similar shortages of worker accommodation occur in various locations in Victoria. The definition of the strategic need as per the ILM, is transferable to these other instances. The specific solutions may vary. In this case, a NFP organisation with a long term site leasehold and with a track record in providing these services and having well developed plans has been a positive start but there is still a need for financial support to enable the Ramsay Court seasonal worker accommodation project to proceed, and to achieve the wider benefits that the cost benefit analysis identifies. Without capital support the project is not viable.

The ILM shows the importance for 'wrap-around services' to ensure that residents of the workers accommodation have access to support services. This lesson also applies to other areas with similar issues.

The CBA components are also transferable to areas with similar issues. The CBA results for this business case demonstrate there is a wider community benefit to support the development. It provides a justification for Council to collaborate, advocate for government capital funding (or equivalent in loans) and potentially contribute funding or other in-kind support to enable the project to proceed. While the exact results of the CBA may vary from site to site, the components of the CBA will be broadly similar across areas with similar issues.

Though the economic and financial analysis was focused on the SMECC project, this project required some preconditions to enable an organisation like SMECC to reach this stage of the implementation process. The table below shows the broad steps that would need to be undertaken and the responsibilities the Loddon-Mallee Housing Support Officer might initiate to enable a project like the SMECC worker housing project to be replicated in other local government areas.

TABLE 12: GUIDANCE FOR SIMILAR PROJECTS

Key stages	Role of Housing Support Officer
1.Needs assessment to ascertain the type of worker housing needed.	<p>Assessment funding: find the finance for the required needs assessment</p> <p>Needs establishment: procure the consultant/s to conduct the required needs assessment/s including quantitative of the local economy</p> <p>Community consultation: assist the consultant in the community consultation process by securing the key stakeholders pivotal for confirming the aspects of need and developing an appropriate worker housing development proposal</p>
2. Identify and secure suitable land that can be used for worker housing. Undertaking a pre-feasibility assessment to identify preferred site.	<p>Hold land owner summit: A forum to gauge interest from potential landowners who could provide land Or Identify if there is council land suitable for the need identified Or Identify if there is State-owned land that could be declared surplus and able to be devoted to the project</p> <p>Secure potential land: obtain a non-binding option to use the land for housing or an in-principle agreement conditional on agreed terms such as securing a housing provider and finance; ultimately, and once development partners are involved, a project has approval and finance for development has been secured a formal process of land title transfer or land sale would need to occur (for state owned land relevant process and protocols can be found in Victorian Government Landholding Policy and Guidelines and associated documents)</p>
3.Early planning analysis	<p>Address planning issues: Work alongside council to identify and address any statutory planning issues that may affect the worker housing project on identified potential sites. This process will also identify desirable approval pathways from a planning perspective.</p>
4. Seeking a development partner - with social housing, service providers and others such as construction industry contractors, State government departments and parliamentary representatives	<p>Development sector and stakeholder forum: organise and host a targeted forum to advertise and build relationships with potential social housing providers and/or developers in the worker housing space.</p>
5.Consultation with key stakeholders to establish aims and objectives that will guide the expression of interest	<p>Co-design: host a co-design session to develop the aims and objectives to inform the EOI</p>
6.Early concept development to address findings	<p>Concept plan: Working alongside development partners and council to address findings from step 5</p>
7.Development of business plan and financial evaluations	<p>Procurement funding: Find and secure funding for feasibility studies / business cases</p> <p>Consultant Procurement: Procure and engage the relevant consultants to provide the needed inputs.</p>
8.Establish potential funding sources	<p>Engagement with financiers: find potential funding sources and build relationships if needed with financiers, using feasibility analysis and business cases to justify project support</p>
9.Final Expression of Interest	<p>Development of project EOI: with project details, aims and requirements.</p>
10.Tendering project	<p>Tendering: developing the EOI and assessing the appropriate provider</p>

Source: SGS Economics and Planning

MELBOURNE

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

CANBERRA

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

SYDNEY

Suite 2.01/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

DRAFT

