

KEMPSEY REGIONAL SALEYARDS

STRATEGIC OPTIONS

P A P E R



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1. Executive Summary

This report has been prepared to provide information and analysis to support the evaluation of options available to Kempsey Shire Council ("Council") in relation to the future of the Kempsey Regional Saleyards ("Saleyards").

The Saleyards have been owned and managed by local government in the Macleay Valley since the early 1900s and at the current saleyard site since 1969. They are well situated between saleyards at Taree and Grafton and have averaged annual throughput of over 33,000 head of cattle over the past 15 years. They are highly valued as a community asset by users, although historically less so by the broader community.

The Saleyards have generated consistent operating cash surpluses between 2009/10 and 2016/17 after a period of significant capital upgrades. However, this has not been adequate to fund the loan repayments on the \$2.2m of capital expenditure on facility improvement between 2001-2009. The final payment in relation to borrowings to fund that capital expenditure will occur during 2018/19. During this period Council's General Fund has contributed over \$1.2m to the Saleyards, of which more than \$0.5m was funded by the Environmental Levy. The generation of surpluses in some of these years was only made possible by the non-allocation of administrative and management costs incurred by Council in relation to the Saleyards.

In 2017/18 the Saleyards produced an operating cash deficit even before loan servicing costs are considered with the same result forecast for 2018/19. Whilst continuing to operate as is, the Saleyards are forecast to incur ongoing operating cash deficits to be funded from Council's General Fund.

There are challenges currently facing the Saleyards. To address some of these such as animal welfare and occupational health and safety will require significant additional funding, whilst others would require additional resourcing and hence also funding.

There is an argument that as a community asset, Council should be prepared to continue to subsidise the operation of the Saleyards. However as this represents contribution from general ratepayer funds, Council's position in the absence of broader community support for the contrary is that the facility should be independently financially sustainable.

Looking at the saleyards industry more broadly, the trends are consolidation and increasing private ownership. Kempsey is ideally situated geographically as a location for a new livestock selling complex. However, it is unlikely that it could generate the annual throughput of cattle to make a new facility commercially viable either for Council or a private operator. Gaining the market share of all saleyards within a 180km radius of Kempsey would not likely be sufficient to provide a return on investment to support investment in a green field site, based on market analysis. Kempsey would need also to attract business from Armidale and/or Grafton which have the new or significantly upgraded facilities of Tamworth and Casino respectively within approximately 100 kms, to obtain sufficient volumes to support the substantial investment in a new facility.

Cattle numbers have been declining across Northern Coastal NSW for many years. The short-term outlook for the local beef cattle industry in terms of cattle numbers is negative. Online marketing of cattle and direct selling to feedlots is increasing, further reducing the number of cattle being sold through saleyards.

In terms of the annual throughput of cattle through the facility, the Saleyards have maintained a reasonably consistent long-term average compared with declining throughput across neighbouring yards. As such its share of the Northern Coastal Saleyards market has almost doubled since 2006. However, there is no available data to quantify how much that market has been reduced through direct sales outside saleyards.

There is no question as to the need for or merits of a saleyards facility in or near Kempsey. There is less certainty as to whether the current operating model and service delivery by Council of the Saleyards provides the best solution in the long term when balancing the interests of Saleyards users and the broader community.

It is prudent of Council to consider the future direction of the Saleyards to ensure it is best serving its broader constituency as well as the local cattle industry and other key stakeholders. It is also necessary with all of its licence agreements concluding within the next twelve months that Saleyards management are able to plan, act and negotiate with a long-term strategy for the Saleyards in place.

To that end this paper articulates and analyses five potential options in relation to the management and ownership of the Saleyards. Whilst not necessarily mutually exclusive, these have been identified as representing the high-level potential decision points in relation to the Saleyards and each possessing a distinct financial profile.

The five options are:

Table 1: Kempsey Regional Saleyards' Strategic Options

OPTION DESCRIPTOR	DEFINING FEATURES
Maintain	Council continues to own and operate the current Saleyards without significant capital investment
Upgrade	Council continues to own and operate and undertakes a significant capital works improvement program
Lease	Council enters a long-term lease of the Saleyards with an external party assuming operational management responsibility
Sell	Council enters into a Sale Agreement for the entirety of the Saleyards facility and business

New Facility	Council builds a new facility partially funded through assumed Government grants
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Financial modelling of each of these options has been conducted with assumptions informed through stakeholder consultation and analysis of the historical and current financial and operational performance of the Saleyards.

The Net Present Value (NPV) of each of these options, calculated over both 10 and 25 years, is presented below.

Table 2: Net Present Value of Strategic Options

OPTION	NPV - 10 Years \$'000	Financial Rank	NPV - 25 Years \$'000	Financial Rank
Maintain	(193)	3	(43)	2
Upgrade	(1,113)	4	(315)	4
Lease	(41)	2	(80)	3
Sell	567	1	567	1
New Facility	(6,337)	5	(5,395)	5

Sensitivity analysis of some of the assumptions results in a change in the calculated NPVs and the relative ranking of the options. These are detailed in the body of this report and its appendices. Assumptions tested include throughput, sale and lease contract values and percentage of capital expenditure that is grant-funded. This shows the possibility of significant change in the above values, however it did not alter the implication that the Sell option is projected to provide the best financial outcome for Council.

The financial analysis should be considered in conjunction with the operating environment, risks, strengths, weaknesses, opportunities and threats associated with each option in determining which option is likely to provide the best outcome for the community.

2. Purpose & Background

This report has been prepared to invite public feedback and ultimately to enable Council to make a fully informed decision as to the future of the Kempsey Regional Saleyards.

2.1 The Process so Far

At the May 2018 Council meeting Council moved that in relation to the Saleyards Strategic Options a workshop involving Councillors, Council management and key external stakeholders be held to discuss the available strategic options and further analysis be undertaken following the workshop and an Options Paper be prepared and reported back to Council.

To inform the preparation of the workshop and preliminary financial analysis, consultation with external stakeholders was conducted by way of:

- Separate meetings with each of the two primary livestock agents utilising the Saleyards (the third agent declined Council's invitation to meet or provide feedback via telephone);
- Attendance by Council staff at a series of livestock sales at the Saleyards during January 2019 inviting attendees to participate in a survey
- Inviting survey participation online from January to March 2019 via the Your Say Macleay website.

Saleyards users and other identified stakeholders were invited to the workshop along with Councillors, relevant Council management and staff. The financial and operational challenges facing the Saleyards were outlined along with the planned process for evaluating options in relation to the Saleyards. Workshop participants identified strengths, weaknesses, opportunities, threats and other relevant matters pertaining to each of the five articulated options.

This Saleyards Strategic Options paper has been prepared, supported by financial modelling incorporating the analysis and consultation conducted to date to be placed on public exhibition to invite community input. To encourage the drawing of independent conclusions and reduce the risk of unduly influencing readers, this paper has been prepared without recommendation or opinion.

Upon the receipt and assessment of community feedback, a final Strategic Options paper will be presented to Council that incorporates the public submissions and recommendation(s) for Council to consider.

2.2 Previous Analysis and Reviews

The historical operations and operating environment of the Saleyards have been the subject of a number of detailed reports. Whilst it is beyond the scope of this report to replicate these, it is worthwhile to consider performance in the context of historical decisions and projections to enable a more fully informed assessment of the opportunities and threats presently associated with the Saleyards. A summary of the previous analysis and reporting on the Saleyards follows, whilst specific observations and findings are referenced where relevant later in this paper.

Kempsey Regional Saleyards Infrastructure Review and Feasibility Study (Huefner & Associates Pty Ltd, 2005).

Huefner & Associates Pty Ltd conducted an infrastructure review and feasibility study. The project included an inspection of the Saleyards, as well as stakeholder consultation with staff, operators and vendors. The report highlighted the priority projects which helped shape the capital works program in subsequent years. The capital works program was driven by rehabilitation, OHS issues, animal welfare and expansion.

Huefner concluded that the Saleyards could become commercially viable but may require a short-term capital injection to fund around \$2.5m of rehabilitation works. This could be funded by external funds (borrowing), additional throughput and/or additional fees. The capital injection was proposed to be supplemented by increased fees and charges including a 25% increase in 2005/06, and steady annual throughput growth. Significant throughput growth was projected through the forecast closure of Macksville and Wauchope yards. Nonetheless profit projections were insufficient to fund the investment.

The report noted over this period that the Saleyards had the strongest growth trend line of the 7 saleyards they characterised as the mid north coast "coastal yards" (Kempsey, Taree, Grafton, Gloucester, Wauchope, Macksville and Dorrigo). It considered that the capital program was likely to prompt industry rationalisation "with major impacts on Macksville and Wauchope yards ... effects on Taree and perhaps on Grafton".

Wastewater Treatment Report (ERM 2011)

Environmental Resource Management Australia Pty Ltd (ERM) were engaged to undertake a site inspection of the saleyard wastewater treatment system (WWTS) and provide recommendations for system improvements and ongoing management. The study found that improving the maintenance program for the WWTS was one of the most cost-effective solutions for Council. The study identified roof construction as an effective long-term means of reducing wastewater and facilitating rainwater collection and use, however recommended a staged approach due to the high capital outlay required.

Kempsey Regional Saleyards, Market Analysis and Financial Modelling (GHD Pty Ltd, 2013)

This 2013 report provides an analysis of factors impacting on the long-term viability of the Kempsey Regional Saleyards, including local cattle numbers, changing selling trends, operating costs etc. The report

anticipated an increase in throughput to around 35,000 head and forecast a return to operating surplus after loan repayments in 2017/18, subject to capital expenditure levels. Projections from the report were used to inform the Saleyard Business Plan (below).

It noted further that:

- The proportion of cattle sales occurring outside of saleyards is increasing
- There is increasing privatisation and redevelopment of saleyards occurring as smaller yards struggle
- Closure of Macksville and Wauchope yards provide the greatest opportunity for the Saleyards
- Kempsey Regional Saleyards are the only saleyards in NSW owned and operated by a council with exclusive prime sale agent selling arrangements
- The Saleyards are susceptible to escalation in operational expenses above CPI and all revenues and expenses should be reviewed annually.



2013 Kempsey Regional Saleyards Business Plan

The Kempsey Regional Saleyards Business Plan highlights some major immediate challenges currently faced by Kempsey Regional Saleyards, including:

- acceleration of direct selling methods;
- changes to the operating environment;
- increasing regulations; and
- ongoing competition from larger neighbouring Saleyards (e.g. Armidale, Grafton, Taree), abattoirs and alternative sale methods.

The report detailed two investment scenarios (low and high investment). The high investment scenario incorporates a range of potential upgrades and improvements to the saleyard facilities which may be required into the future, and/or are likely to improve the facilities operations, throughput and profitability. Under the low investment scenario, a return to Operating Surplus was projected to occur in 2018/19, whilst under the high investment scenario it was projected that an additional \$2.4m in total additional Council funding would be required before the Saleyards returned to Operating Surplus in 2023/24.

Kempsey Regional Saleyards, Financial Plan (GHD Pty Ltd, 2016)

This report proposed an upgrade program totalling \$1.25m over 5 years after prioritising a broader pool of potential improvements. The largest components of this were roofing over delivery yards at an estimated cost of \$0.92m and a secondary effluent treatment system at \$0.14m. GHD estimated that apart from a short-term borrowing of \$0.2m when the roofing was to be installed, this could be funded by operating surpluses. Possible funding sources to be considered included increasing usage fees, Federal Government funding and the Environmental Levy (which had been used to fund \$0.4m of capital expenditure previously).

It also recommended planning commence for beyond the current licence agreement, considering the implications of multi-agent sales. Further that if Council is not fully committed to managing the facility to its full potential, that it should seek to outsource management or sell the facility.

2017 Kempsey Regional Saleyards Business Plan

This is a comprehensive document with several elements updated from the previous business plan. However, it is materially the same as the 2013 Business Plan, with the high and low investment scenarios rather than the more modest capital program proposed by GHD in 2016. Like the 2013 Business Plan document, this appears to be a document inviting decisions or direction that have not yet been made.

2.3 Summary of Operations 1999-2018

- Growth in capital expenditure and related borrowings in the period from July 1999 – June 2005 with \$1.1m of capital expenditure and \$0.9m of borrowings during this period.
- Average annual throughput 1995-2004 was 31,000 head of cattle.
- The period from July 2005 – June 2009 saw an additional \$1.2m in capital expenditure and \$1.1m of borrowings (and \$0.3m in interest expense). Whilst there were increases in fees and charges, this did not contribute significantly to the funding shortfall.
- This period included an increase in throughput in 2007/08 of 18% (6,000 head) against a fall of 0.3% (560 head) collectively for the remaining coastal yards. Otherwise throughput numbers trended consistently with the coastal yards and the average over the 4 years was around 35,000 cattle per annum.
- The rehabilitation capital program was terminated in 2009 as the level of additional funding required continued to exceed Huefner forecasts. There was negligible capital expenditure from 2009-2016. Cumulative operating cash surpluses* (before loan repayments) of \$0.7m were generated during this period. However, this did not include any costs for the Assets Officer managing the Saleyards nor any other management or administrative costs incurred by Council on the Saleyards behalf. Nor did it cover the \$1.2m in repayments made during this period toward the borrowings described previously.
- Throughput between 2009-2016 trended broadly consistently with other coastal facilities with dips in 2012-2014 subsequently recovered, averaging around 32,700 per annum across the period.

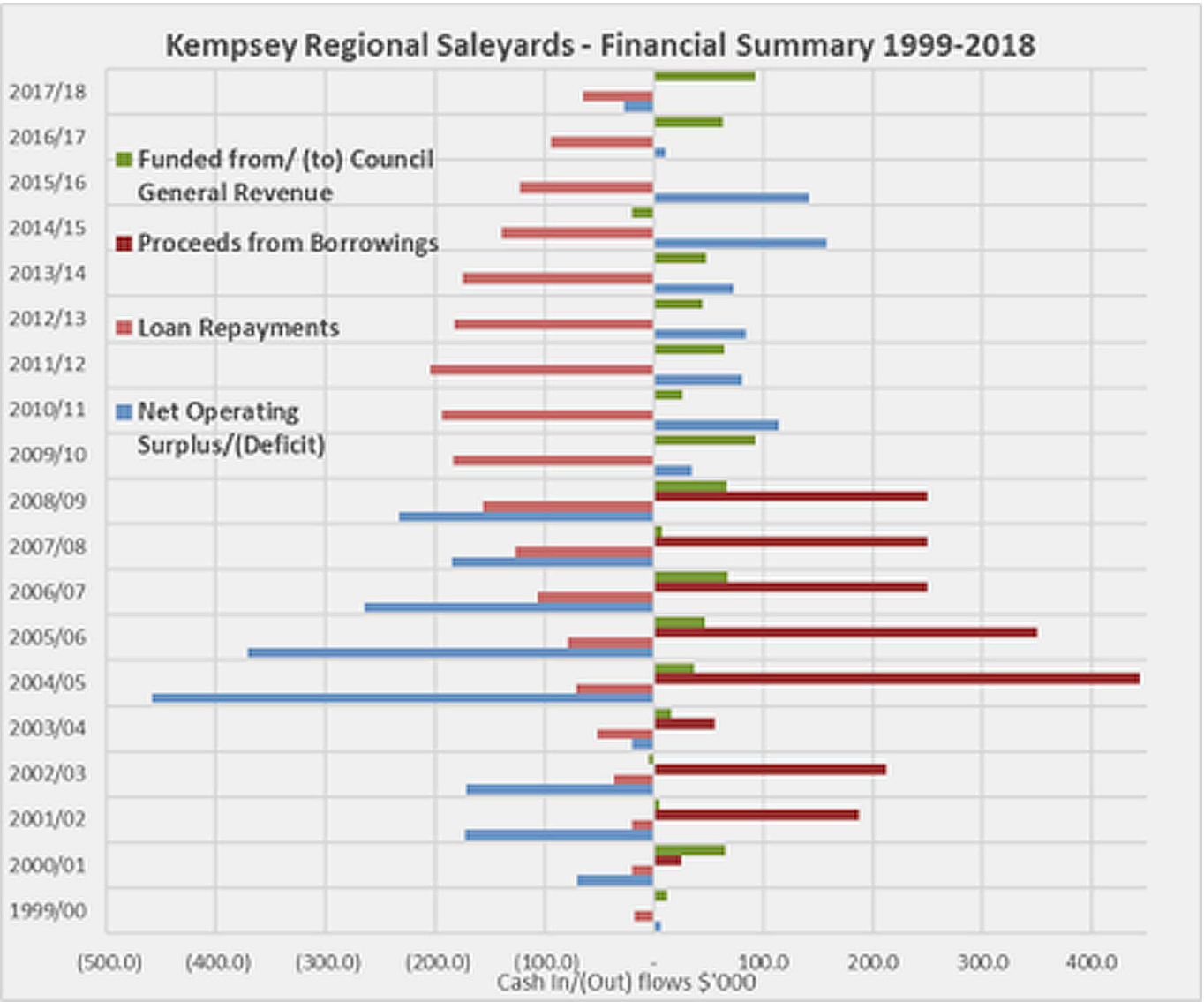
- The return to Operating cash surpluses after loan repayments in 2017/18 did not eventuate as forecast by GHD. Operating expenditures excluding depreciation and interest increased 77% in 2016/17, and another 31% in 2017/18. This is primarily attributable to increased maintenance.
- Average throughput over the period from 2016-2018 was approximately 34,800 cattle per annum.
- The first year of the 5-year capital works program proposed in GHD’s Financial Plan was largely implemented at a cost of \$0.1m. The remainder is either on hold or deferred due to the forecast

operating expenditures intended to largely fund this program not eventuating. Given the current level of operating costs, a return to operating surplus is not likely in the short to medium term.

- Figure 1 presents a summary of the cash flows over the period described above.

*For the purposes of this paper, Operating Surplus or Deficit describes total revenue less total cash expenses and capital expenditure. That is, the net cash position attributable to the Saleyards before considering the drawing down and repayment of loans, or the transfers to or from Reserves.

Figure 1: Saleyards’ Cashflow Summary 1999-2018



It is worth noting that the significant growth projected in these consultants’ reports has not eventuated, whilst recommended capital expenditure programs have not been fully implemented. Smaller surrounding saleyards still appear to have major threats to their ongoing operation, but generally remain in operation

as at the date of writing this report. Further, the operating cost base of the Saleyards has increased materially since previous analyses due to increased maintenance activity. This is despite there being a level of user dissatisfaction about the current level of maintenance at the Saleyards.

2.4 Summary of Current Operations

- The Saleyards have Licence agreements to sell livestock through the facility with three agents.
- The overwhelming majority of livestock sold is cattle.
- Based on FY18 cattle throughput, the split between the three agents is 81.9%, 17.9%, 0.2%.
- The licence agreement with the primary agent entitles the agent to exclusivity of access on 39 specific days each year for the purposes of running sales. All agents can apply for sale dates on other dates. There are presently 94 sale days specified in the 2019 Saleyards calendar, compared to 67 in 2015.
- This exclusive licence agreement expires at the end of 2019. It was initiated in 2010 following the invitation of Expressions of Interest. The remaining licence agreements are rolling annual agreements that are at or near expiry.
- Increase in usage has seen a modest increase in income, however any gains have been more than offset by the increased maintenance costs. Meanwhile the increased number of sale days has not translated to increased throughput.
- A single agent operates on any given sale day. The agent is responsible for providing staff to run the sales and manage cattle flow, and maintain the Saleyards in a clean and tidy fashion.
- Council employ an Asset Maintenance Officer to perform ongoing cleaning and maintenance of the facility who reports to a Commercial Assets Officer who is responsible for operational management of the Saleyards. The maintenance officer also has responsibilities at Kempsey Airport, whilst the assets officer also apportions her time between the Airport and Caravan Parks.
- These staff are supported by the Commercial Property and Facilities team, managed by the Manager Commercial Business and overseen by the Director Corporate and Commercial.
- Time spent by the Asset Maintenance Officer is costed to the Saleyards and included in its operating costs. Time spent by the Commercial Assets Officer, other staff or support functions such as finance, human resources and information technology is not directly costed to the saleyards.

- None of these costs are reflected in the Saleyards' operating results between 2010 and 2016. Prior to 2010 and from 1 July 2016 a monthly allocation of management expenses has occurred. However, at \$14,000-\$16,000 per annum for the past 3 financial years (including 2018/19), this significantly understates the true cost of additional Council resourcing provided to the Saleyards.
- Single agent sale days are opposed by some cattle owners and agents. Allowing multiple agents to sell on the same day would generally mean more cattle being sold on that day, thereby potentially attracting more buyers to that sale day. This would likely promote more market competition, improved sale prices and hence a better outcome for cattle sellers.
- Single agent sale days also mean that growth in Saleyards throughput can only be achieved through the existing licenced agents.
- The primary benefit of single agent sale days is that it allows Council to manage the Saleyards with a lower operating cost base, lower level of resources and hence lower risk.



2.5 SWOT ANALYSIS

The SWOT analysis in Figure 2 summarises the Strengths and Weaknesses of the Saleyards and the Opportunities and Threats with which it is presented. This is a consolidation of previous analyses prepared by the Saleyards Advisory Group, for the Business Plans, issues raised during stakeholder consultation and those observed during recent analysis. It is not intended as exhaustive lists, rather to assist in providing a snapshot of the Saleyards.

Figure 2: Saleyards' SWOT Analysis

STRENGTHS	WEAKNESSES
- Positioned as a 'regional' asset and facility that attracts stock from outside the Macleay Valley area - Superior quality facility compared to surrounding yards - Historically stable operations - Close proximity to highway and easy to access - Access to water (no sewerage) - Stable coastal climate overall - Close haulage to abattoir - Low staffing levels necessary enabled through single agent sale days - Maintained stable throughput numbers over past 12 years where other coastal yards have declined - Economic benefits to the Macleay economy - Good flood refuge – community service	- Abattoir and commission buyers for abattoirs who work out of this area (direct sells) - Yards being used by non-paying users - Income stream that could be available. - Ring selling labour intensive and slow - Inferior car parking - Location of public toilets – not under one roof - Kiosk facility not adequate in size, service (hot, dirty, flies, dust, tables & chairs etc.) - OHS grandstand and scale house - After-sale yards – better sun protection required, cattle overheating - Small troughs - Exclusive selling agent arrangements limits access by other agents and growth potential - Run-off issues/effluent - One-agent-one-sale-day model
OPPORTUNITIES	THREATS
- Increase market share from neighbouring districts' saleyards - Improve use of existing facilities (eg calf sheds) - Increase income through more active monitoring of asset usage and stricter application of fees and charges - Increased marketing/advertising/promotion - Pen selling (requiring construction of raised walkways) - Development of the kiosk into an asset - Improvement of facility to address OHS and animal welfare concerns, creating a further competitive advantage over neighbouring yards - New opportunities to align with other rural producing-type enterprises - Reshape business model upon expiry of long-term licencing agreement - Multi-agent sale days	- Loss of further market share to abattoir commission buyers - Public liability & OHS risks - Animal welfare – RSPCA, animal rights activists - Online selling - Breach of contract by agents or other contractors - Potential development of other Saleyards or the creation of a new regional facility outside of the Macleay - Reduction in cattle numbers in and around the Macleay due to local factors - Broader cattle industry threats such as drought and market changes - Improved road access to yards west of the Great Dividing Range

2.6 Current Performance

Highlights of the financial performance of the Saleyards in 2017/18 include:

- Total revenue of \$265,600, more than 95% coming through the three agents.
- Base operating costs of \$262,100. This includes the time spent at the Saleyards by the Asset Maintenance Officer who divides his time between the Airport and the Saleyards.
- Management charges of \$14,500, which is the extent of the allocation of costs from Council to cover one third of the cost of the Commercial Assets Officer and time spent by Council on the Saleyards in relation to Customer Service, Finance, Human Resources, Information Technology and Management. As noted previously, this charge significantly understates the costs incurred by Council on the Saleyards' behalf.
- Depreciation charges of \$78,100, interest expense of \$3,200 and capital expenditure of \$13,400
- Operating loss of \$92,300 and a net Operating deficit (cash) of \$27,600.
- In conjunction with loan repayments of \$64,400, total funding required by Council was \$92,000.
- The largest single operating cost element was external plant (and operator) hire of \$74,800, predominantly related to cleaning and sweeping of the Saleyards.
- Saleyard throughput was approximately 31,500 head of cattle

Council does not yet have formal month or quarter-end finance processes, so it is with caution that reliance is placed on year to date 2018/19 financial performance (because of delays in recognition of income or expenditure). Based on transactions recorded up to the end of February 2019, 2018/19 operating costs are tracking at 14% over budget, but more than 20% below 2017/18 levels. This reduction appears to reflect a distinct reduction in maintenance activity including a significant reduction in plant hire costs.

A decline in revenue has more than offset the fall in operating costs. Extrapolated February 2019 year to date income is 12% below 2017/18 levels and 28% below budget. Whilst some of this shortfall can be attributed to delayed filing of returns and settlement of obligations by some

agents, it is reflective of a fall in cattle sales. Reported throughput for July-December 2018 of 10,600 is more than 2,000 below the same period of the previous year.

A summary of the financial performance for 2017/18 and year to date 2018/19 is provided in Table 3. Despite deferring planned capital expenditure, the Saleyards have still required funding in both periods. Greater detail underpinning these figures is provided in Appendix A.

Table 3: Saleyards' Financial Performance Overview

All amounts \$'000	2017/18	2018/19*
Total Operating Revenue	265.6	216.9
Total Operating Expenditure	(357.8)	(326.9)
Operating Profit/(Loss)	(92.3)	(110.0)
Total Capital Expenditure	(13.4)	-
Add back Depreciation	78.1	101.8
Net Operating Surplus/(Deficit)	(27.6)	(8.2)
Loan Repayments	(64.4)	(22.7)
NET TOTAL CASH IN / (OUT)	(92.0)	(31.0)
FUNDING		
Funded from/ (to) Council General Revenue	92.0	31.0
TOTAL FUNDING	92.0	31.0

*Extrapolation of actual results from July 2018 – February 2019

2.7 Capital Expenditure

Each of the previous reports on the Saleyards referred to earlier identified a range of capital expenditure items recommended for the Saleyards, generally building on the report before it. The most recent assessment is contained in GHD's 2016 Financial Plan, whose prioritisation of the Saleyards' capital expenditure requirements is summarised in Table 4.

Table 4: Proposed Capital Works Program - GHD (2016)

Priority	Capital improvement	Estimated cost
High (short term)	CCTV	\$8,000
	Additional signage and other safety issues	\$2,000
	Fix/replace bent gates	\$2,000
	New scales and pneumatic gates	\$26,000
	Replace water troughs and cover copper piping	\$17,000
	WWTS maintenance works	\$50,000
	More frequent cleaning (x 6 per year)	\$6,400 per annum
High (longer term)	Add more gravel to loading yards	\$1,000 per annum
	New office building (scalars shed)	\$20,000
	Raised walkway	\$150,000
	Secondary effluent treatment system	\$140,000
Medium	Roofing over delivery yards	\$920,000
	Scour cleaning system	\$100,000
	Additional lighting	\$1,500
Low	Roofing over holding pens	\$470,000
	Shade membrane structure	\$414,400

The High (short term) improvements identified were largely implemented in 2016/17. The High (longer term) items formed the balance of GHD's

5 Year Capital Program previously mentioned, that has been deferred due to the absence of forecast operating cash surpluses.

Appendix B, derived heavily from GHD's 2016 Financial Plan, provides details of each improvement and the basis of the cost that they have estimated. It also provides explanation as to why the Medium and Low ranked improvements are so ranked and accordingly excluded from the proposed capital program.

One area of discrepancy with previous evaluations of improvement needs is the issue of soft flooring. GHD refers to soft flooring as sawdust over concrete floors which would naturally incur an ongoing maintenance cost but not a significant capital outlay.

Huefner (2005) recommended soft flooring be trialled at a cost of \$10,000 without articulating material or cost, simply referring to flooring "similar to those completed in the southern states of Australia". Meanwhile the Business Plans estimate 5,000 m2 of soft flooring would be required at a cost of \$80 per m2 totalling \$0.4m (in 2014 \$). They state further that soft flooring is now required in all new saleyards and is a requirement for MSA (Meat Standards Australia) accreditation. Many regional saleyards are in the process of, or have completed installation of, soft flooring including Dubbo and Roma.

This would need to be reviewed as part of a revised Saleyards capital program.

3. Market & Industry Analysis

3.1 International – Beef

The outlook for global beef consumption is positive, largely underpinned by growth in population and household wealth in developing markets, particularly Asia. Australia produces only 3% of global beef production, but accounts for around 17% of world trade and has remained one of the top-three largest exporters for over seven decades. While Australian beef faces a number of headwinds, particularly around remaining price competitive, there are many opportunities for targeted growth.

Global beef consumption is forecast to grow at 1.2% per annum out to 2022 (FAO-OECD) supported by population and economic growth, with eight of Australia's top 10 beef markets expecting gross domestic product growth over 2% in the coming year (IMF). However, beef's share of global meat consumption, at 21.5%, is expected to decline slightly due to a faster expansion of the poultry sector.

Forecast beef production growth in 2019, particularly in the US (3.6%), will place pressure on Australia's high value export markets, while growth in Brazil (3.0%) and India (0.7%) will compete with Australian manufacturing beef and live cattle exports in China, South-East Asia and Middle East & North Africa. While production trends paint part of the picture, market access changes, namely for Brazil and India, could have a far greater competitive impact on Australian beef in some markets.

3.2 Australia

3.2.1 Cattle numbers

Driven by volatile seasonal conditions, the Australian cattle herd has gone through a period of significant change over the last eight years, expanding to a three-decade high in 2013 and subsequently contracting to a two-decade low. This has had flow-on effects for the quantity and quality of beef coming through the supply chain.

Cattle slaughter is forecast to drop 3% to 7.6 million head in 2019, as persistent dry conditions in many key cattle producing regions have heavily reduced the size of the breeding herd and potential pool of available finished cattle. The national herd is

now expected to fall to its lowest levels since the mid-1990s – the dry conditions that swept across NSW and south-west Queensland have undone much of the rebuild achieved since the 2013–2015 drought. The prospect of another below average northern wet season and a largely negative three-month rainfall outlook will likely mean many producers that retained stock in 2018 will commence or continue destocking in the months ahead.

Compared to last year, many producers entered 2019 with depleted feed stockpiles, hoping for a turn-around in seasonal conditions to avoid mounting feed costs. The number of cattle on feed is expected to drop from the record levels reached in 2018 to around one million head, on average, in 2019. Lot feeders face similar feed cost pressures but remain incentivised by strong international demand for grainfed product and a lack of alternatives for finishing cattle in the current conditions. In line with the forecast decrease in slaughter, beef production is projected to drop 4% to 2.2 million tonnes in 2019.

Overall, the development of seasonal conditions in Australia will likely override global forces in the near-term. Any further destocking will see downward pressure on prices, particularly for store condition cattle. Finished cattle will likely remain supported to some degree, given lower supply and strong demand fundamentals. If there is a major improvement in seasonal conditions across eastern Australia, supplies will tighten sharply and fierce restocker competition may re-emerge, as was the case in 2016. The elevated level of female slaughter in 2018 means breeder cattle will remain in short supply and high demand if conditions improve. Many producers will be eager to hold onto breeders they still have to avoid the expensive exercise of restocking when conditions turnaround.

3.2.2 Saleyards

There were 91 saleyards who reported the sale of cattle in Australia in 2017/18. A total of 4.4m head of cattle sales were recorded, at an average per yard of 48,257. Of these, NSW contains 39 yards accounting for 40% of total sales. The yards with median sales Australia-wide was just below Kempsey with 30,722. In NSW the median yard

was much lower at 19,993. There were 7 yards in NSW and 18 Australia-wide with total 2017/18 cattle sales in excess of 80,000. Conversely there were 13 yards in NSW and 23 nationwide with total sales of less than 10,000. (This excludes any yards still listed as operating but not reporting any cattle sales, nor any of the 13.9m head of sheep transacted through 41 of the 91 yards.)

GHD (2013) noted in their diagram reprinted below that there had been a significant saleyards industry shift with a reduction in number of saleyards, fewer saleyards being council owned and an increasing proportion of total cattle sales occurring outside of saleyards. Increasing privatisation and redevelopment of saleyards is evident as increasing regulation has resulted in smaller yards not being able to fund the required infrastructure and technology investment.

Figure 3: Saleyards Trends - GHD (2013)



Whilst research into historical and current number of operational saleyards appears to be conflicting, the trends described above have continued with a number of new or significantly redeveloped livestock exchanges opening or being upgraded over the past five years. There have also been a number of smaller yards that have closed, mothballed, or transferred from public to private management and ownership.

Since 2013 no fewer than five new regional livestock exchanges have been opened in NSW and Victoria (Table 5). These have all been constructed by private enterprise. The owner of three of these facilities, and seven in total have indicated that a total annual throughput of 80,000 cattle is required to render a new regional facility commercially viable. Additional facilities have transferred from Council to private ownership during this time while a number of Councils struggle with the commercial viability of their saleyards.

Meanwhile there have been a significant number of upgrades to Saleyards in the same period that have been supported by State or Federal Government funding as can be seen in Table 6. This would support optimism that Council might explore grant funding opportunities further were it to embark on major capital upgrades. What needs to be noted however is that for all projects, Federal Government funding was for 50% or less of the total project value.



Table 5: New Saleyards Since 2013

Year Open	Project Cost	Name of Facility	Project Description	Owned	State	Town	FY18 Through-put
2013	\$17-\$20m	Tamworth Regional Livestock Exchange	Size of 4 rugby fields, includes 338 selling pens & 439 total	AIM	NSW	Tamworth	137,745 + 0.2m sheep
2015	\$15m	South Eastern Livestock Exchange	16 ha; roof 5 rugby fields 86km steel railing; 524 pens, daily capacity 3,800 cattle & 30k sheep	SELX	NSW	Yass	78,000 + 0.8m sheep
2015	\$24m	Northern Victoria Livestock Exchange	state-of-the-art soft-floor cattle selling complex, 296 selling pens, 1,77ha undercover facility	AIM	Vic	Wodonga	200,000
2018	\$15m	Western Victoria Livestock Exchange	12 ha, 8 mths complete, roof the size of MCG, 416 selling pens, daily capacity 3,000 cattle	SELX	Vic	Mortlake	66,000* * (Jan-Dec 18)
2018	\$30m	Central Victorian Livestock Exchange	3 ha, annual capacity 70,000 cattle & 1.6 million sheep, roof, soft floor, real-time online bidding	AIM	Vic	Miners Rest (Ballarat)	41,000 + 1.4m sheep

There were two projects that received state government funding of greater than 50% of the total value of the related upgrades – Northern Rivers Livestock Exchange and Singleton Regional Livestock Markets. In the case of Northern Rivers, the total \$7m of their Stage 2 upgrades was funded through NSW Government grants. However, this is after stage 1 required \$3.5m of funding that Richmond Valley Council is required to repay. In the case of Singleton, whilst receiving \$6m towards its upgrade (79%), Singleton Council still need to provide \$1.6m in funding.

Whilst Government assistance in funding capital upgrades would appear a realistic possibility in relation to the Saleyards, this will not circumvent the need for significant Council funding of such upgrades.



3.3 Regional

3.3.1 Cattle Numbers

NSW has Australia's second largest number of cattle. This is true both of beef and dairy cattle, although beef production is more adaptable to climate and is thus produced across more of the state's agricultural area. In the Kempsey Local Government Area based on cattle numbers published by the Australian Bureau of Statistics, 90% of the cattle being farmed is beef cattle. Across the Mid North Coast of NSW in total, this proportion falls to 80%.

Huefner (2005) noted that beef production on the NSW Coastal region had declined from 700,000 to 400,000 between 1993 and 2002 and that "there appears to be no decline in that decrease".

For the purposes of quantifying the current regional industry using consistently available data, the best available proxy is obtained by aggregating the two adjoining regions as defined under the Australian Statistical Geography Standard (ASGS) Areas 4 – Mid North Coast and Coffs-Grafton. This consolidated area covers over 200kms north of Kempsey, almost 200kms south and over 50kms west. Specifically,

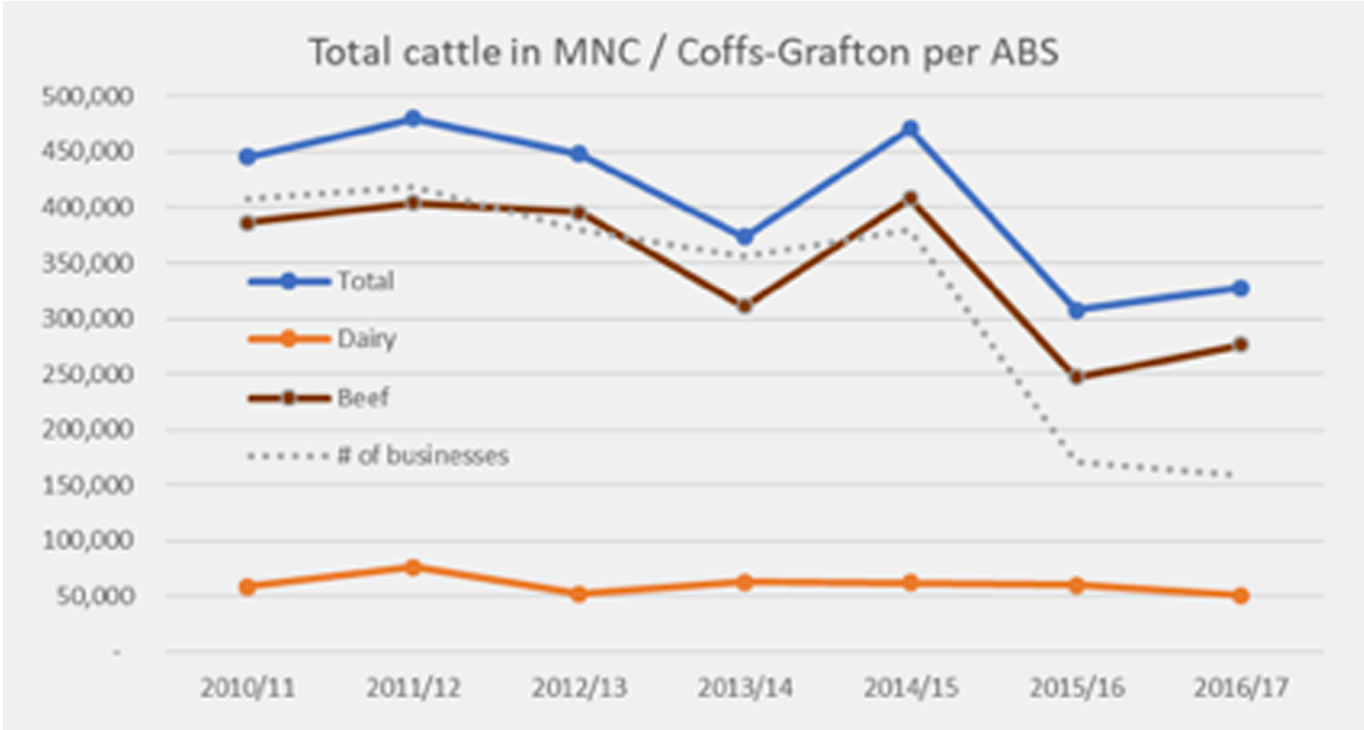
Yamba to the north, Bulahdelah to the South, and a little west of Gloucester and Bellbrook to the west. This area is approximated in Figure G in the following pages.

As at June 2017, these regions combined had total cattle of 327,600, consisting of 50,900 dairy and 276,700 beef cattle. This represents a decline of 26% or 117,700 from total cattle in the region in June 2011 (the first year that this data was published). This trend is more significant for beef cattle (28%) although consistent with dairy (13%). The reduction in number of cattle farming businesses has been even more significant, falling over 60% during this period from 3,260 to 1,276. These trends are represented in Figure 4. It is also noted that the total area of land holdings for agricultural industry generally in these regions has reduced by over 40%. (All data has been sourced from the Australian Bureau of Statistics' 7121 Agricultural Commodities series.)

Table 6: Identified Saleyards Projects with Government funding since 2013

START	APPL. ORG	PROJECT/ FACILITY NAME	PROJECT DESCRIPTION	TOWN	STATE	FUNDING DETAILS	FUNDING APPROVED	TOTAL PROJ COST	FY18 THROUGH
2013	Richmond Valley Council	Northern Rivers Live-stock Exchange (NRLX)	\$3m low interest loan guaranteed by NSW Govt announced 2013 but referred to in funding of Stage 1 redevelopment below.	Casino	NSW	NSW Government interest subsidy	N/A		92,010
2013	Richmond Valley Council	NRLX	installation of double-deck delivery ramps, non-slip concrete pens and race floor; all-weather roofing along the yards and gates and lighting	Casino	NSW	NSW Government	\$0.6m	\$0.8m	92,010
2017	Richmond Valley Council	NRLX Redevelopment Stage 1	grow its throughput by 40% and play its role as the premier selling centre in the Northern Rivers,	Casino	NSW	Federal – Nat. Stronger Regions	\$3.5m	\$7.0m	92,010
2018	Richmond Valley Council	NRLX – Stage 2	new roof, soft flooring, rails and gates, unloading ramp, new technology enabling online selling, buyers lounge, expansion of admin building	Casino	NSW	NSW Government	\$7.0m	\$7.0m	92,010
2017	Upper Hunter Council	Scone Regional Livestock Selling Centre	Major upgrade to the saleyards (total project value per council website \$11.8m starting mid 2018 – rest funded by Council)	Scone	NSW	Fed – Building Better Regions	\$2.8m	\$7.0m	73,085
2017	Upper Hunter Council	Scone Regional Livestock Selling Centre	Effluent management system upgrade	Scone	NSW	(Joint State/Federal)	\$0.33m	\$0.46m	73,085
2017	Forbes Council	Expansion Central West Livestock Exchange	lifting throughput from 1800 Cattle a day to 2600 a day. Take exchange to 105,000 cattle a year	Forbes	NSW	Federal – Nat. Stronger Regions	\$1.5m	\$3.4m	70,063 + 1.6m sheep
2019	Dubbo Council	New & Improved Truck Wash	Per Council website funded by NSW Govt (no program details provided)	Dubbo	NSW	NSW Government	\$1.2m	\$1.2m	
2015	Dubbo Council	Upgrade Dubbo Livestock Markets	Upgrade and expand the cattle sale facilities at the Dubbo Regional Livestock Markets (end 2017)	Dubbo	NSW	Federal – Nat. Stronger Regions	\$3.3m	\$6.6m	241,282 + 1.5m sheep

2014	Inverell Council on behalf of private	Inverell Livestock Exchange	amenities building, undercover selling pens, soft flooring, upgraded handling facilities, new feed yards, decoupling area & truck wash facilities.	Inverell	NSW	Fed – Building Better Regions	\$2.5m	\$7.5m	85,091
2014	Singleton Council	Livestock Market Upgrade	Incl new roof, fire & electrical svcs, water tanks, swinging gates, fences and walkways	Singleton	NSW	NSW Government	\$6.0m	\$7.7m	44,347
2014	Singleton Council	Livestock Market Kiosk Upgrade	refurbish Office/Kiosk building to improve the aesthetics of building & make more user friendly.	Singleton	NSW	Fed – Building Better Regions	\$0.3m	\$0.6m	44,347
2018	Maranoa Council	Roma Saleyard Multi-Purpose Facility	includes construction & fit-out of an interactive centre to showcase live-stock industry in Roma.	Roma	QLD	Fed – Building Better Regions	\$4.0m	\$7.9m	305,692
2017	Swan Hill Council	Upgrade Swan Hill Livestock Exchange	increase productivity, efficiency and safety. Mechanisation, better facilities and better layout.	Swan Hill	VIC	Federal – Nat. Stronger Regions	\$0.9m	\$1.8m	23,652
2016	Shire of Murrindindi	Upgrade Sale Yards at Yea - Stage Two	increase the capacity increasing live-stock throughput and the total value of cattle traded.	Yea	VIC	Federal – Nat. Stronger Regions	\$0.4m	\$0.7m	Closed
2016	Southern Grampians Council	The Hamilton Livestock Exchange Upgrade	through annual operating savings, increased throughput, compliance with industry standards.	Hamilton	VIC	Federal – Nat. Stronger Regions	\$2.0m	\$4.0m	29,986 + 1m sheep
2017	Northern Mid-lands Bus. Assoc.	Construction of a Truck Wash at Powranna	capable of cleaning agricultural vehicles up to the size of twin-decker B-doubles. remove barriers to expansion of sector	Powranna	TAS	Federal – Nat. Stronger Regions	\$0.2m	\$0.5m	4,612 + 81k sheep
2018	Macedon Ranges Council	Macedon Ranges Livestock Exchange	The project will upgrade the Macedon Ranges Livestock Exchange and Truck Park.	Kyneton	VIC	Fed – Building Better Regions	\$0.9m	\$1.8m	7,515 + 10k sheep
2018	Last Pastoral Co Pty Ltd	Biggenden Saleyards Upgrade	Redevelopment incl 384 selling, 61 holding pens, new weighbridge, overhead walkways, buyer's laneways, loading ramps and drafting facilities	Biggenden	Qld	Fed – Regional Jobs & Investment	\$1.2m	\$3.7m	35,024

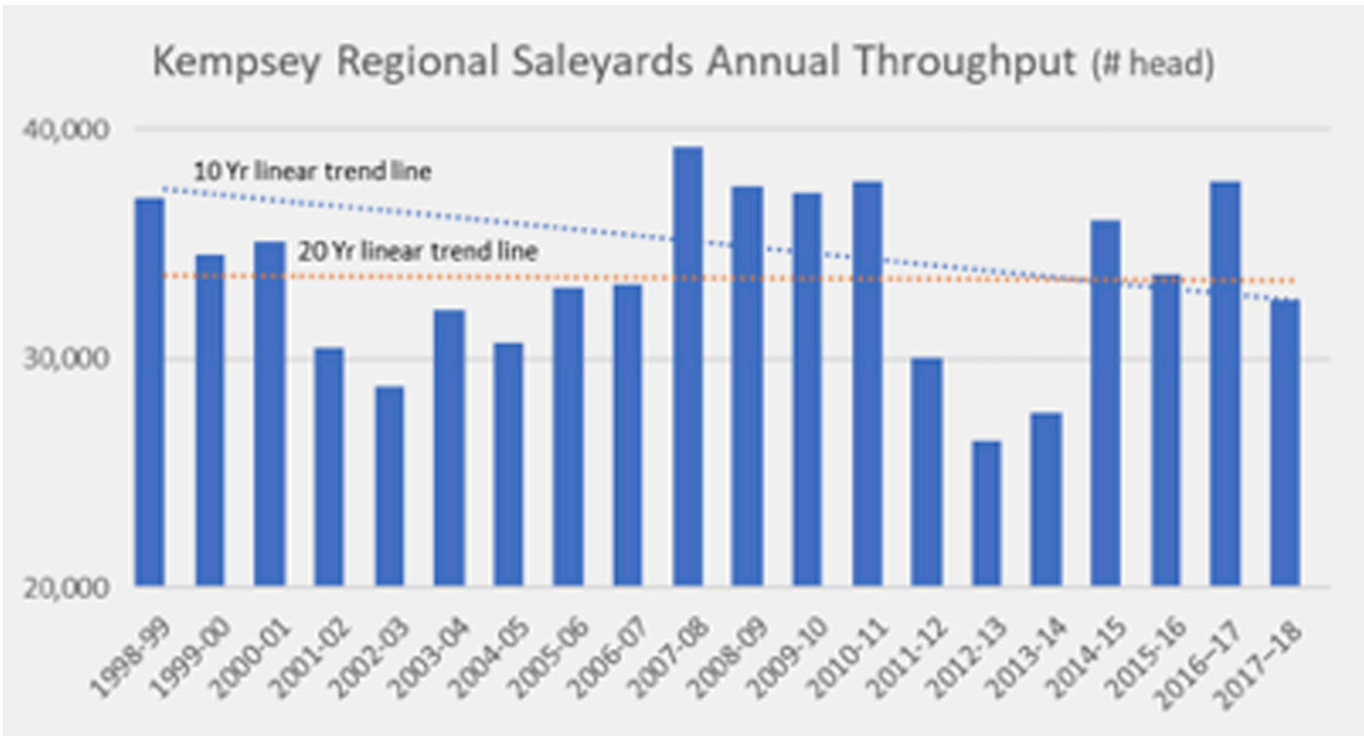


3.3.2 Competition (throughput and market share)

Kempsey

Figure 5 shows the annual throughput for the Saleyards for the 20 years up to June 2018, averaging 33,500 head of cattle per annum over this period.

Figure 5: Kempsey Saleyards Throughput 1998-2018



The graph demonstrates the cyclical nature of the industry, and how the period of analysis can alter the perspective on the trend in throughput volume. A linear trend line based on the last 10 years demonstrates a significant decline in volumes, whilst if that basis is extended to the past 20 years, the trend line appears essentially flat. Meanwhile if a trend was concluded based on 5-7 years, it would be indicating growth.

The most pressing challenge is to distinguish trends that are reflective of broader industry variables and those that demonstrate a change in local industry dynamics.

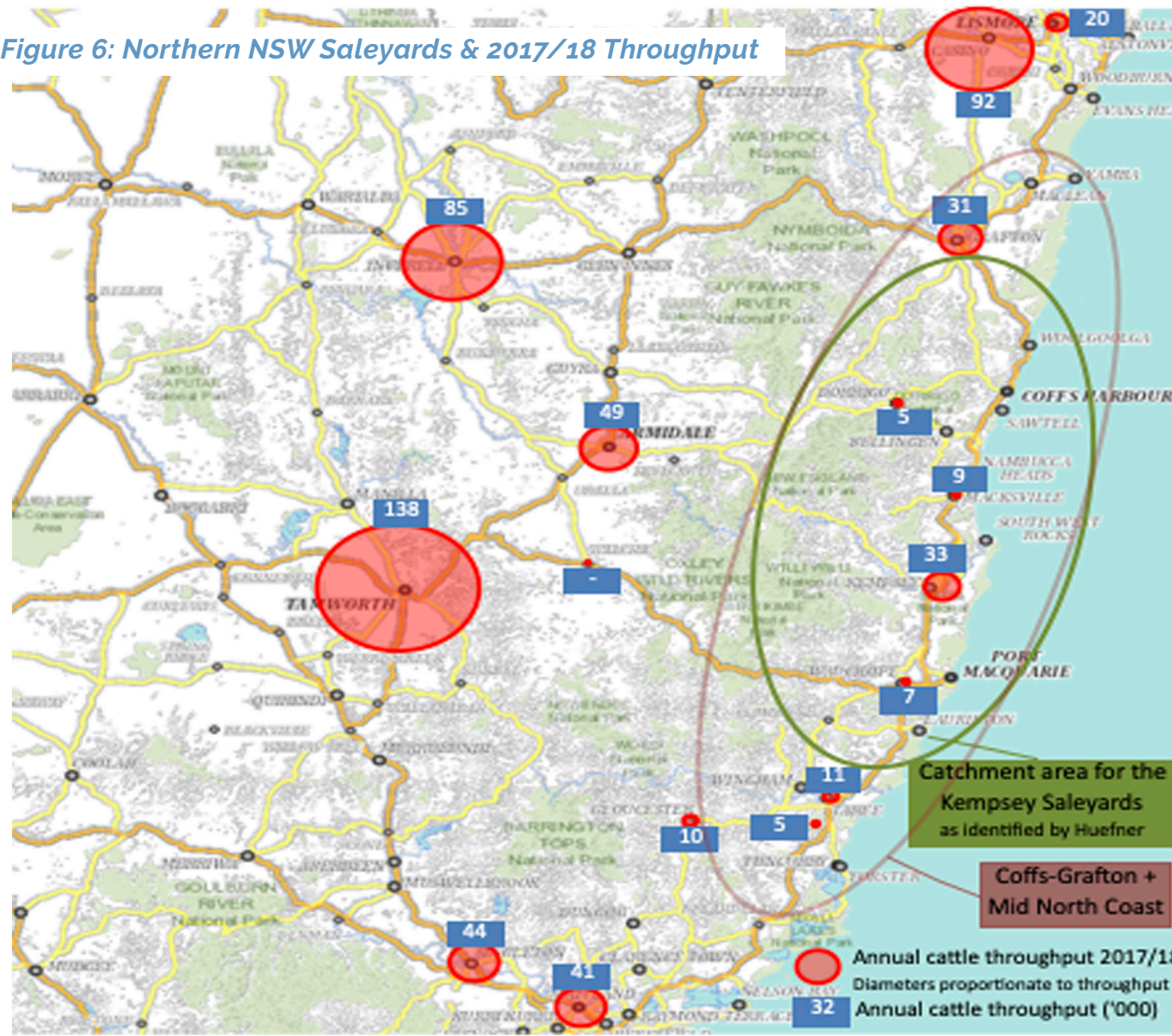
Surrounding Saleyards

Table 7 identifies the registered saleyards within 250kms of the Saleyards and their 2017/18 throughput as published by the National Livestock Reporting Service.

Table 7: Surrounding Saleyards - Distance & Throughput

Saleyard	Distance from Kempsey (kms)	FY18 Throughput
Kempsey	-	31,438
Macksville	53	8,829
Wauchope	55	6,652
Taree	119	11,000
Dorrigo	124	5,401
Nabiac	138	5,000
Armidale	181	48,951
Gloucester	187	9,582
Grafton	190	33,180

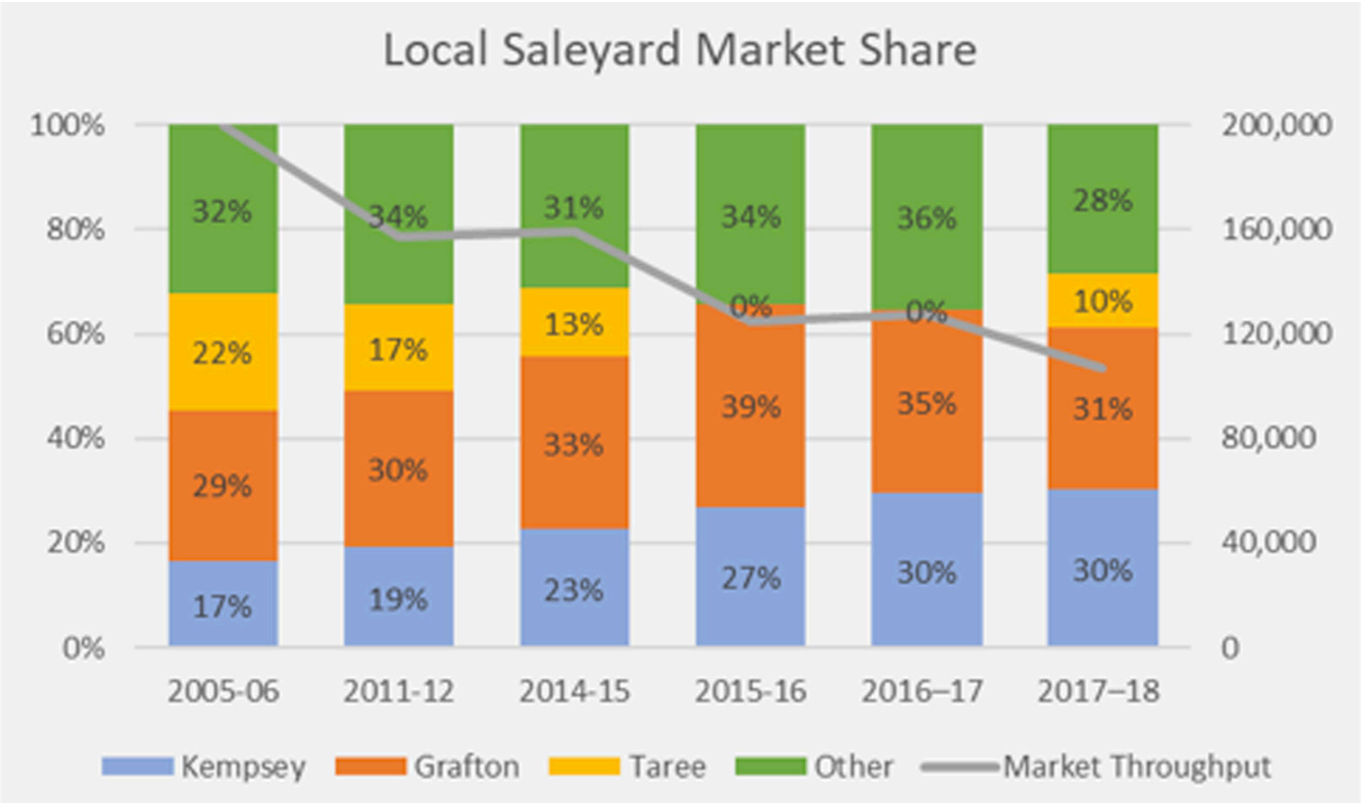
Figure 6: Northern NSW Saleyards & 2017/18 Throughput



Previous analyses have not included Armidale in their local market review, characterising the relevant region as Northern Coastal. The poor-quality road access to Armidale from east of the Great Dividing Range means that its distance in kilometres overstates its relative proximity. It is again excluded further here but remains relevant in the longer term as a threat to the market share of the Saleyards if road improvements are undertaken.

Figure 6 provides useful geographical context for where the saleyards in the north-east of NSW are located and the throughput that is being generated locally.

Figure 7: Northern Coastal NSW Saleyards Market Share 2005-2018



This perspective on the local market needs to be interpreted in the context of the market more broadly. Whilst Kempsey's share of total local saleyard throughput has nearly doubled over the past 13 years, the market itself has declined by almost 50% over this period from 199,535 in 2005/06 to 107,190 in 2017/18. This is also demonstrated in the preceding graph, represented by the grey line. This translates to Kempsey's 30% market share in 2018 representing less total cattle sold than its 17% share in 2006.

Given that this fall is not reflective of saleyard throughput trends state-wide, this either reflects local industry issues or that sales have moved to larger satellite regional selling facilities such as Tamworth, Casino and Singleton.

Figure 7 presents selected snapshots of the relative annual throughputs of 'local' saleyards since 2005/06. The standout observation is that Kempsey's share of the local market has steadily but significantly increased from 17% in 2005/06 to 30% in 2017/18. Grafton's share has also increased, however is on the decline. Taree has been the most volatile and seen the largest proportional decline, whilst the remaining yards have fluctuated, clearly benefiting from issues with Taree, whilst their decline is primarily attributable to a more significant decline for Gloucester Saleyards.

It is evident from the review of regional cattle numbers that reducing numbers locally are a factor. Anecdotal feedback from producers is that the incidence of direct transactions between buyer and seller circumventing saleyards has also increased. Trend analysis of peripheral regional facilities to examine whether they are a significant factor is complicated by major developments to these yards in recent years, however it is only Tamworth that has recorded sales volume growth over the past four years.

It is considered likely that all of these – declining regional herd, increased use of alternate selling methods, declining local catchment area due to surrounding large regional livestock exchanges – have contributed to declining throughput across the Northern Coastal saleyards.

4. Stakeholder feedback

4.1 Agents

Two of the agents licensed to sell at the Saleyards accepted Council's invitation to meet in December 2018. There was considerable divergence in the views of the agents on many aspects of the Saleyards' operations, and on the options presented.

- Themes common to both agents included:
- The highest priority improvement required is shade for the animals. This would potentially attract business from other saleyards. One advocated the use of shade-cloth, whilst the other proposed a combination of solid roofing (over selling yards) and shade-cloth.
- Feedlots (intensive farming operations finishing cattle prior to slaughter) are the largest competitor to the Saleyards, buying directly from cattle producers.
- Security and unauthorised access and usage of the Saleyards is an issue.
- Overall the facility is well regarded in a good location with easy access to the highway.

- The loss of the Saleyards would be detrimental to the local economy.

Issues on which the agents' opinions differed included:

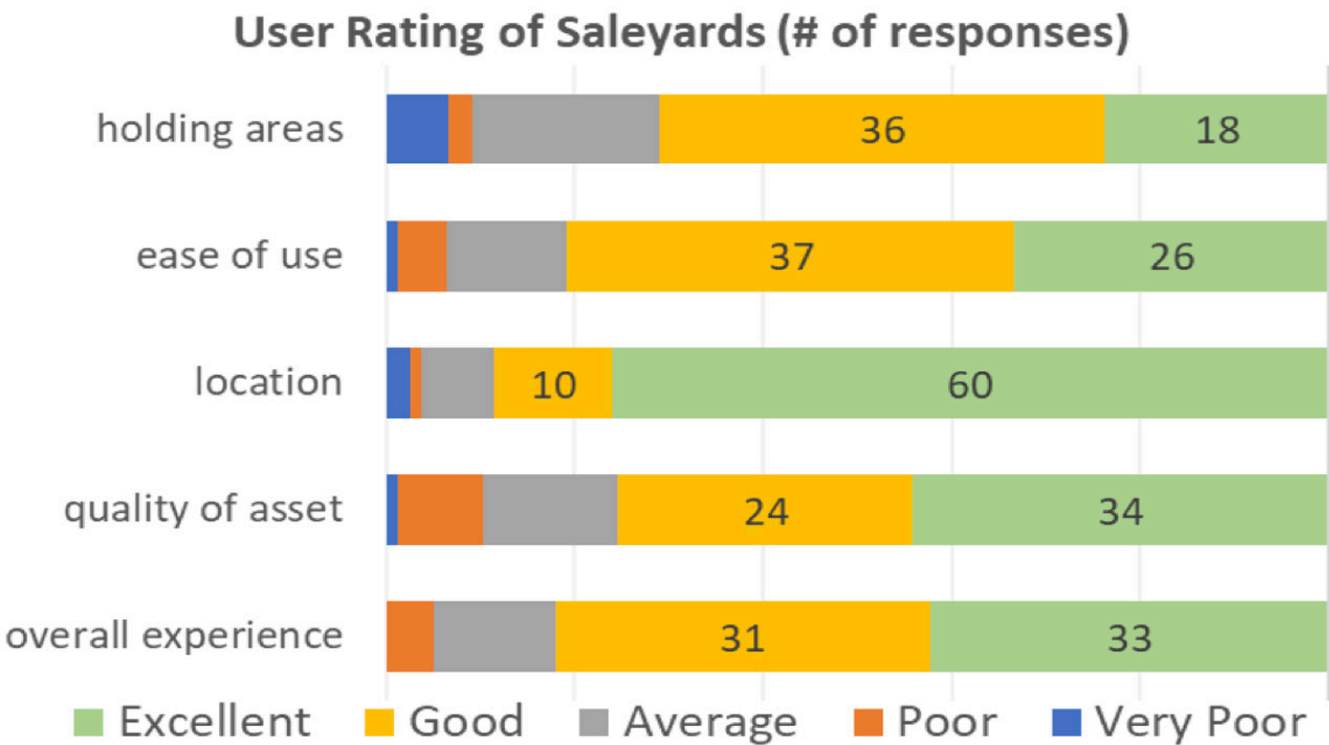
- Maintenance – one considered improvements were necessary, whilst the other did not.
- Macksville Saleyards – one considered that they are taking business from the Saleyards, whilst the other described them as an "OH&S issue waiting to happen".
- Preferred option – one considered that Council ownership and management the clearly preferred option, whilst the other argued that a new facility would attract more cattle.

4.2 User Survey

A total of 79 respondents completed the user survey. Greater detail and analysis of these responses are provided at Appendix C. In summary:

- Most users rated the Saleyards as good or excellent;

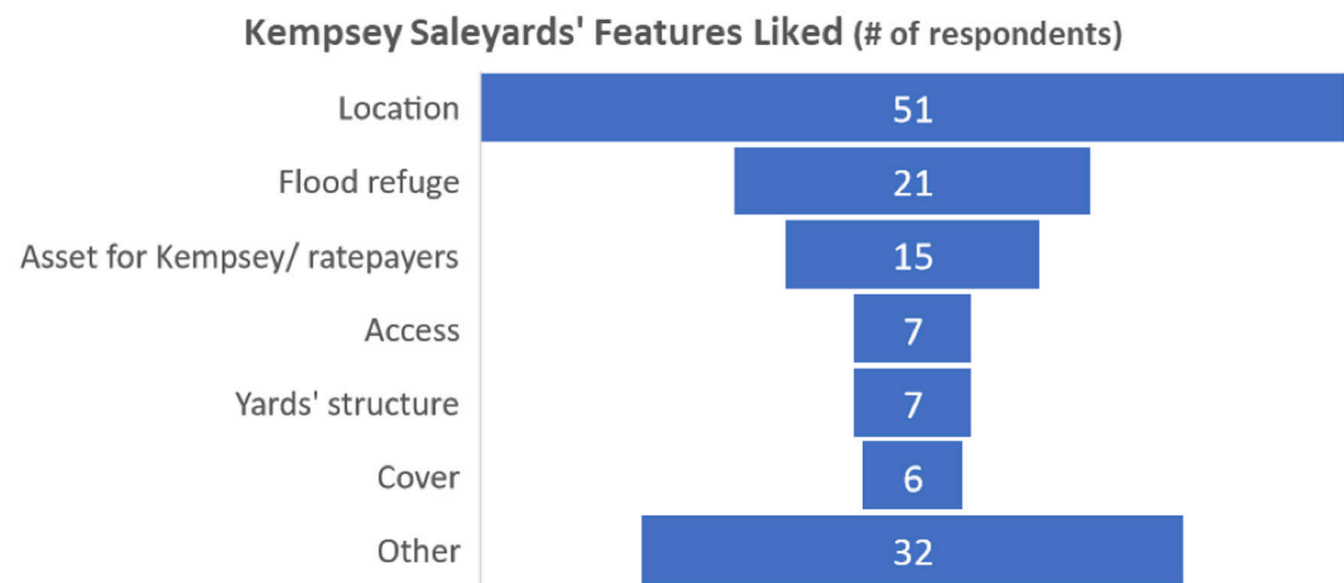
Figure 8: User Rating of Kempsey Regional Saleyards



- The most appreciated features of the Saleyards are its location, followed by its availability as a

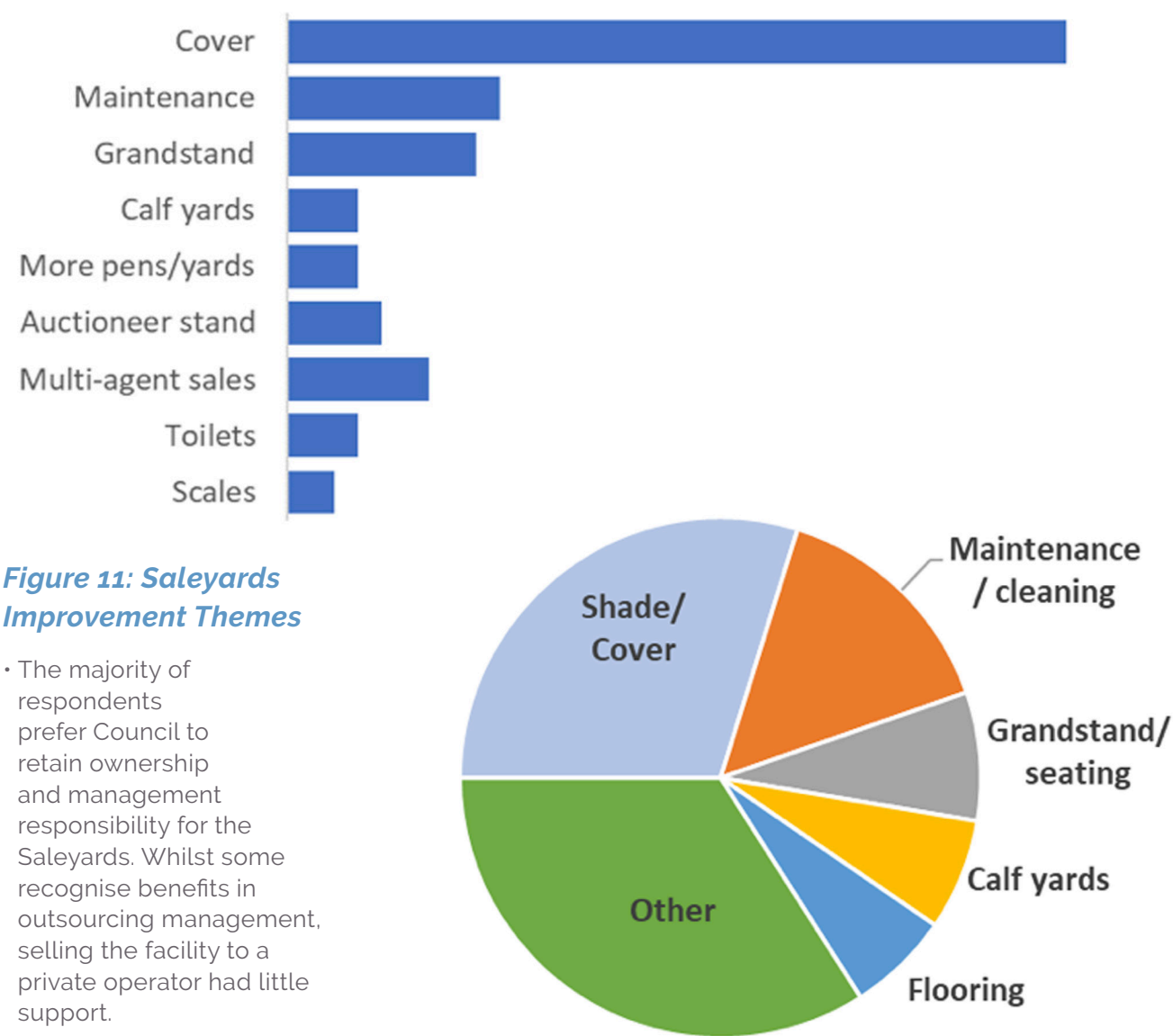
flood refuge for local farmers, and an asset for local ratepayers.

Figure 9: User Features Liked Kempsey Regional Saleyards



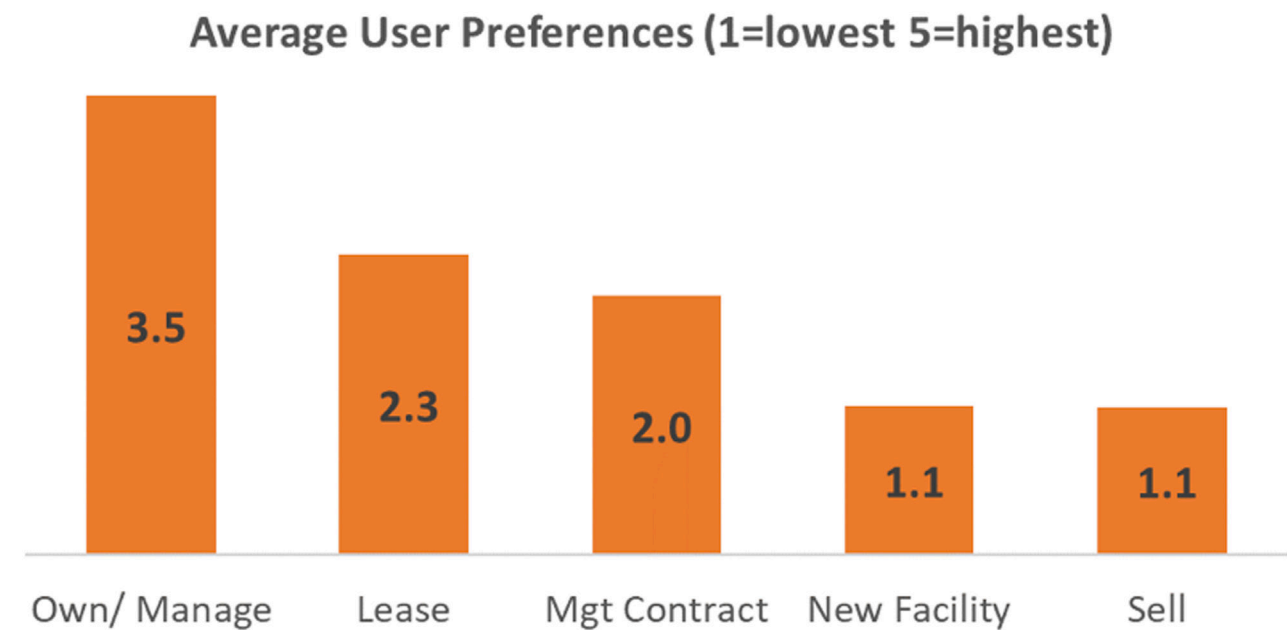
• The highest priority improvement is roofing or shade for the animals, followed by improved maintenance.

Figure 10: Priority Improvements Kempsey Saleyards



• The majority of respondents prefer Council to retain ownership and management responsibility for the Saleyards. Whilst some recognise benefits in outsourcing management, selling the facility to a private operator had little support.

Figure 12: User Ownership/Management Preferences Kempsey Regional Saleyards (5=Highest 1=Lowest)



4.3 Stakeholder Workshop

Saleyards Users, agents and other key stakeholders were invited along with Councillors and relevant Council management to participate in the Saleyards Strategic Options workshop in March 2019. Given a perception amongst elements of the community of being excluded from the process, attendance was opened to all interested parties and the proposed format of the workshop altered to accommodate the potentially significant increase in numbers.

The workshop was attended by more than 50 participants. The financial and operational challenges facing the Saleyards were outlined along with the planned process for evaluating options in relation to the Saleyards. Workshop participants identified strengths, weaknesses, opportunities, threats and other relevant matters pertaining to each of the five articulated options.

Summary tables for each option delivered out of this workshop are presented at Appendix D.

4.4 Community Engagement

The broader community have not previously been consulted in relation to the Saleyards Strategic Options.

Historically, Council have conducted community surveys in relation to services and facilities provided by Council. The last survey to specifically include the Saleyards was a Community Research Survey conducted by Micromex Research in 2008.

This survey, conducted by randomly selecting 300 residents via the White Pages, sought feedback on satisfaction and priority in relation to 39 Council facilities and services. The Saleyards were ranked 39th or considered the least important of the facilities and services, whilst ranked 5th out of 39 in terms of the level of satisfaction with the facility or service.

5. Strategic Options

To facilitate its decision analysis, Council has articulated five options for the future management and ownership of the Saleyards, summarised as follows:

Table 8: Kempsey Regional Saleyards Strategic Options Summary

OPTION DESCRIPTOR	DEFINING FEATURES
Maintain	Council continues to own and operate the current Saleyards without significant capital investment
Upgrade	Council continues to own and operate and undertakes a significant capital works improvement program
Lease	Council enters a long-term lease of the Saleyards with an external party assuming operational management responsibility
Sell	Council enters into a Sale Agreement for the entirety of the Saleyards facility and business
New Facility	Council builds a new facility partially funded through Government grants

Each option offers users, Council and the community certain benefits, whilst also carrying risks and issues. Some of these can be gleaned by the preceding SWOT analysis on the Saleyards as they presently operate. There are benefits and costs that can be estimated in financial terms, whilst others are less tangible. It is recognised that financial analysis plays an essential though incremental role in the analysis of options for the future direction of the Saleyards.

The definition of distinct options is necessary to perform meaningful financial analysis. The financial analysis has been performed with the objective of providing a like-for-like comparator across each option of the overall financial impact on Kempsey Shire Council in today's dollar terms.

This has been achieved by evaluating current and historical financial performance to prepare long term future cash flow projections in relation to the Saleyards. The net cash flow is calculated for each financial year, discounted from future dollar value to current dollar value, with the accumulation of these discounted annual cash flows representing the Net Present Value to Council of that option over a specified time period. Certain variables naturally require alteration under the different scenarios.

It is recognised that there are discretionary variables or decisions that are available and necessary within each option. Further, there are other variables and present unknowns (eg % of capital expenditure funded by grants, annual lease income, sale price) that may warrant an option being chosen conditional upon a certain threshold being met, or market testing of more than one option being conducted simultaneously before a specific option can be considered preferable.

Accordingly, the decision or decisions to result out of this process may well be conditional endorsement of more than one option subject to further investigation, or endorsement of an option subject to being able to satisfy a specific set of criteria. This options analysis and consultation process is necessary to enable the consequent investigation or investment of additional Council resources as is ultimately applicable.

Each option is described in further detail on the following pages, noting the major features and assumptions associated with the option and a summary of the related financial analysis.

OPTION: MAINTAIN - Council continues to own and operate the current Saleyards

Major Features & Assumptions • Modest increase in current staffing to address maintenance issues raised by key stakeholders and provide a more commercial focus to operations and management • Capital expenditure program is consistent with Council's current Long-Term Financial Plan (no significant capital expenditure beyond June 2019) • Price increases restricted to 2.5% per annum • Modest growth in saleyards throughput is forecast as a consequence of surrounding saleyard deterioration and/or closure over time despite no structural improvements to Kempsey Saleyards			
Benefits / Arguments For • No change to Council's current risk profile • No requirement for borrowing • Potential for future positive financial contribution to Council • Saleyards remain a community asset, flood refuge and source of economic activity • Likely to provide lowest selling costs		Issues / Arguments Against • Saleyards remain a drain on Council's/ rate-payers' resources • Council does not have the industry expertise nor the labour flexibility to optimise the operations and performance of the saleyards • Saleyards do not receive the upgrades necessary to address animal welfare and cattle seller concerns and asset condition deteriorates • Saleyards are not a core Council service	
Risks • New yards or improvements to surrounding yards result in reducing or static cattle throughput • An increase in online or direct selling reduces future throughput numbers • Asset deterioration necessitates additional capital expenditure • Projected operating cash surpluses do not eventuate			
Summary of Financial Impact on KSC	\$'000	Change from Maintain	Financial Rank
Discounted Net Cash In/(Out) flows over 10 Years	(193)	-	3
Net Present Value – 25 Years	(43)	-	2

OPTION: UPGRADE - Council continues to own and operate, undertaking major upgrades

Major Features & Assumptions			
• Modest increase in current staffing to address maintenance issues raised by key stakeholders and provide a more commercial focus to operations and management • Significant 10-year capital expenditure program incorporating roofing of delivery yards and holding pens, soft flooring, effluent management system, loader and raised walkways with partial government grant funding • Agent and seller fees are increased to contribute to capital expenditure funding requirements • Growth in saleyards throughput will be greater than for Maintain due to improved value for sellers providing acceleration in market share increase			
Benefits / Arguments For		Issues / Arguments Against	
• Better meet the needs of users – more comfortable; reduced cattle shrinkage • More comfortable conditions for animals • Potential for future positive financial contribution to Council • Creates a less attractive landscape for a new regional saleyards facility • Saleyards remain a community asset, flood refuge and source of economic activity		• Council would need to borrow funds to implement capital program • Saleyards remain a drain on Council's and hence ratepayers' resources in the medium term • Council does not have the industry expertise nor the labour flexibility to optimise the operations and performance of the saleyards • Increases costs for users • Creates a less attractive landscape for a new regional saleyards facility • Saleyards are not a core Council service	
Risks			
• New yards or improvements to surrounding yards result in a static cattle throughput numbers or even a reduction • An increase in online or direct selling reduces future throughput numbers • Price increases drive users to smaller cheaper yards • Projected operating cash surpluses do not eventuate after greater cost to ratepayers			
Summary of Financial Impact on KSC	\$'000	Change from Maintain	Financial Rank
Discounted Net Cash In/(Out) flows over 10 Years	(1,113)	(920)	4
Net Present Value – 25 Years	(315)	(272)	4

OPTION: LEASE - Council enters a long-term lease of the Saleyards

Major Features & Assumptions			
• Council enters a long-term lease with an external party to manage all operations in relation to the Saleyards • The Lessee is responsible for all operating costs including asset maintenance whilst Council retains responsibility for major capital expenditure (ideally the Lessee would take on this responsibility, however such an agreement is considered commercially unlikely) • Capital expenditure is limited to what is in Council's current Long-Term Financial Plan • Modest growth in saleyards throughput is forecast as a consequence of surrounding saleyard deterioration and/or closure over time despite no structural improvements to Kempsey Saleyards			
Benefits / Arguments For		Issues / Arguments Against	
• No requirement for borrowing • Reduces Council's labour resource requirements • Introduce improved industry expertise and operational efficiencies into management of Saleyards • Provide an increased on-site presence at the Saleyards • Potential for future positive financial contribution to Council • Saleyards remain a community asset, flood refuge and source of economic activity		• Saleyards remain a drain on Council's and hence ratepayers' resources in the short to medium term • Saleyards still do not receive the upgrades necessary to address animal welfare and cattle seller concerns and asset deteriorates • Council has reduced exposure to potential future financial upside • Saleyards are not a core Council service • Likely to result in increased costs for users - Concerns over potential loss of flood refuge access	
Risks			
• New yards or improvements to surrounding yards result in a static cattle throughput numbers or even a reduction • An increase in online or direct selling reduces future throughput numbers • Lessee does not promote equitable access for all agents • Lessee increases prices without a corresponding increase in services delivered Lessee defaults on financial or service level obligations under the lease agreement			
Summary of Financial Impact on KSC	\$'000	Change from Main-tain	Financial Rank
Discounted Net Cash In/(Out) flows over 10 Years	(41)	(153)	2
Net Present Value – 25 Years	(80)	(37)	3

OPTION: SELL - Council sells the Saleyards

Major Features & Assumptions			
• Council enters a Sale Agreement for the entirety of the Kempsey Saleyards facility and business, releasing all financial and equitable interest • The sale is caveated with some obligation as to continuing operation and restriction over alternative use			
Benefits / Arguments For		Issues / Arguments Against	
• No requirement for borrowing • Provides a cash inflow for Council/ratepayers • Removes the ongoing financial obligations and potential risks of operating the Saleyards • Introduce improved industry expertise and operational efficiencies • Improved commerciality to Saleyards operations • Capital improvements determined by commercial viability • Saleyards remain at existing site		• Future operating decisions regarding the Saleyards made on purely commercial considerations • May result in increased costs for users • Saleyards are no longer a community asset	
Risks			
• New owner does not promote equitable access for all agents • New owner increases prices without a corresponding increase in services delivered • Purchaser defaults on contractual obligations • New owner restricts flood refuge access • Capital improvements do not eventuate			
Summary of Financial Impact on KSC	\$'000	Change from Maintain	Financial Rank
Discounted Net Cash In/(Out) flows over 10 Years	567		1
	567	760	1
Net Present Value – 25 Years		610	

OPTION: NEW FACILITY - Council constructs and operates a new regional selling facility

Major Features & Assumptions			
• Council builds a new facility in the Macleay Valley on land currently held by Council • Construction is partially funded through State and/or Federal Government Grants • Existing Saleyards are closed and the property sold, caveated that it cannot be operated as a saleyard • Agent and seller fees are increased to contribute to capital expenditure funding requirements • Limited growth in throughput is likely to be achievable above what would be delivered by increased capital investment in the existing saleyards (Scenario 2)			
Benefits / Arguments For		Issues / Arguments Against	
• Pre-empt the establishment of a regional facility outside of the Macleay Valley • Increased economic benefits for the Macleay • Enhanced facility will better meet users' needs • More comfortable conditions for animals • The Macleay retains a community asset • Current Saleyards are not sufficient in the long term		• Council would need to borrow significant funds, creating an enduring interest cost burden • All ratepayers would be contributing significantly to an asset that is used by a minority • The Macleay Valley and surrounding regions simply do not have the total cattle numbers needed to make a new facility economically viable • The core operational issues related to earlier scenarios around lack of expertise and labour flexibility would remain • As a non-core service of local government, such a facility belongs in the domain of private enterprise	
Risks			
• Significant government grant funding is not achieved • Construction costs exceed estimates • Regional sellers continue using smaller yards due to lower fees			
Summary of Financial Impact on KSC	\$'000	Change from Maintain	Financial Rank
Discounted Net Cash In/(Out) flows over 10 Years	(6,337)		
Net Present Value – 25 Years	(5,395)	(6,144)	5
		(5,352)	5

6. Financial Modelling & Analysis

Detailed analysis is contained in Appendix E. Figures 13 and 14 summarise the discounted net cash flows over 10 years and 25 years that are referred to in the preceding options tables. In simplified terms the discounted net cash flow represents the net cash that would flow in or (out) of Council funds in relation to the Saleyards over these periods, converted into today's dollars (recognising that due to the cost of borrowing, inflation and opportunity cost that a dollar received in five years is worth less than a dollar received today).

Figure 13: Saleyards Discounted Cash Flows 10 yrs (\$m)

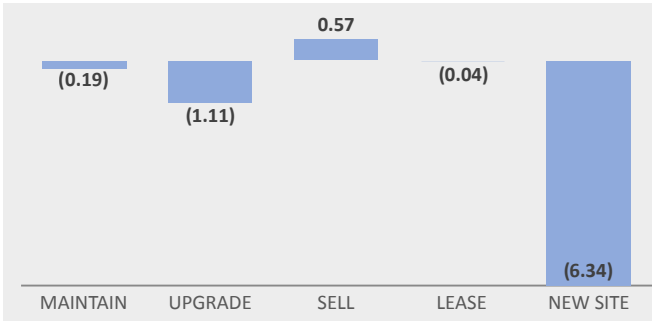
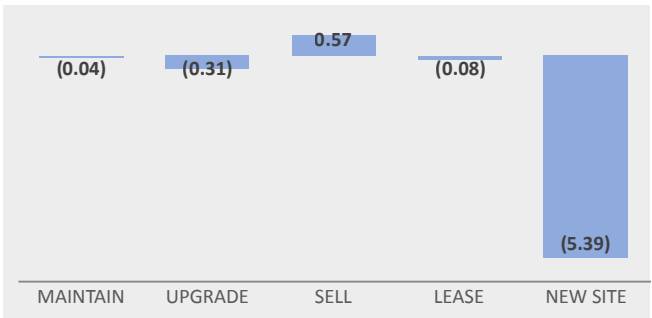


Figure 14: Saleyards Discounted Cash Flows 25 yrs (\$m)



Sell is the most financially advantageous option available to Council followed by Maintain and Lease. The importance of both the 10- and 25-year views is underlined by the change in relative cost of Upgrade and New Site.

To provide an insight into the assumptions and risks associated with each option, the total forecast operating income and expenditure over 25 years for each option is shown in figures 15 and 16.

Figure 15: Saleyards Total Operating Income 25 yrs (\$m)

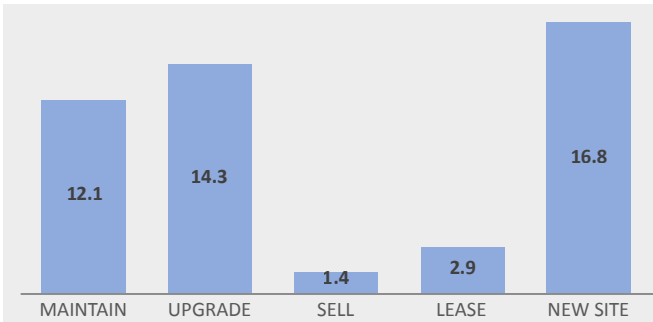
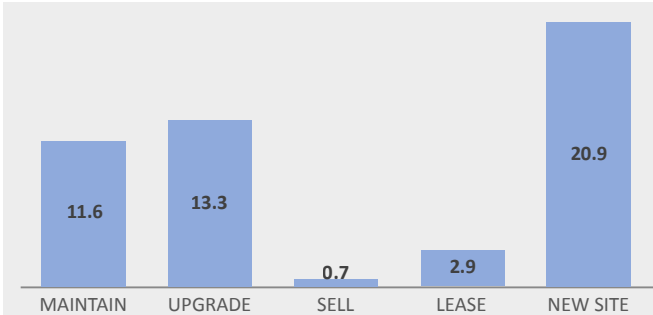


Figure 16: Saleyards Total Expenditure 25 yrs (\$m)



The above graphs demonstrate that Maintain and Upgrade are projected to generate greater income than expenditure over the next 25 years. The negative Net Present Values for these options are attributable to expenditure exceeding income in the earlier years, and the impact of funding that deficit. What it also demonstrates is that there is possibly greater upside in these scenarios if revenues were to exceed forecast or expenses fall below forecast. Conversely it also demonstrates that there is greater downside risk of a higher than forecast level of Council funding support being required if the variances in forecast income and expenditure go the other way.

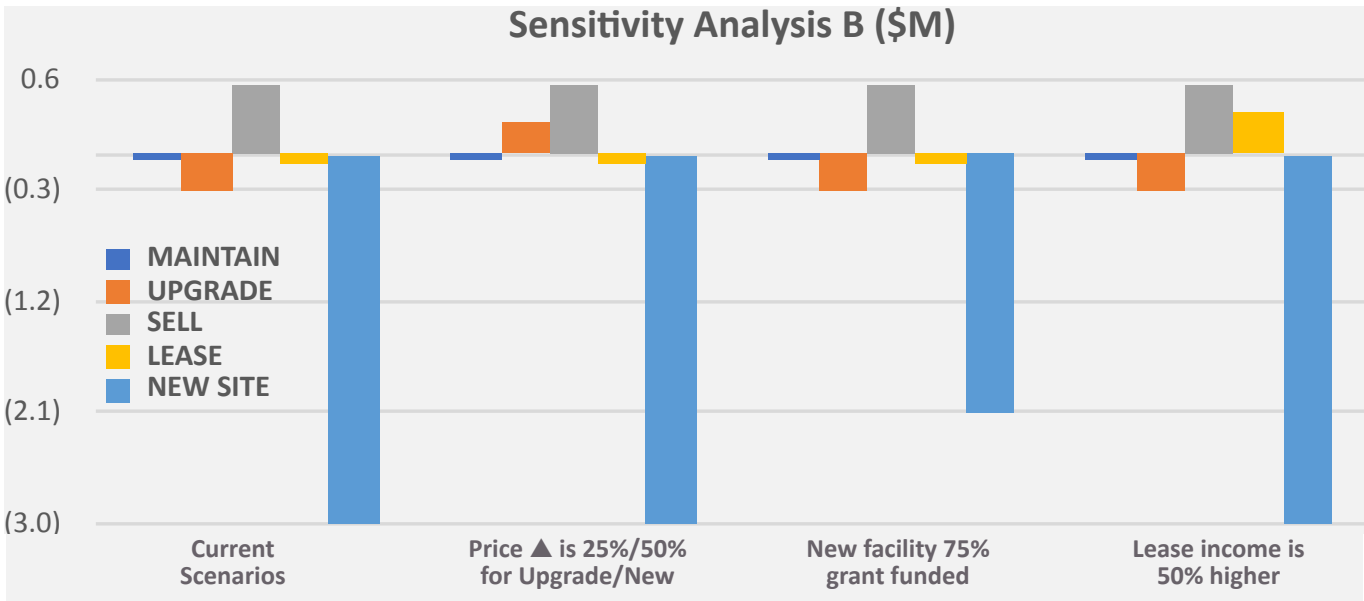
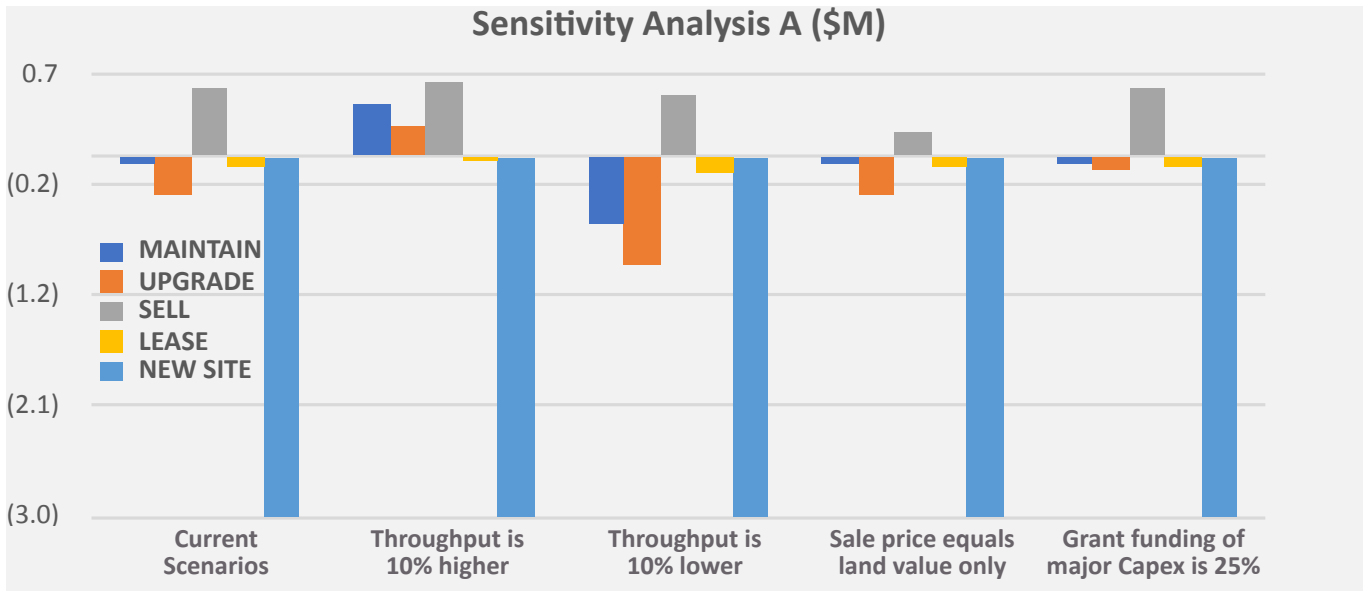
Sensitivity Analysis

This increased risk, both favourable and unfavourable, is underlined by a detailed review of Figure 17. These graphs compare the Net Present Value (NPV) over 25 years of the current scenarios when a single assumption is changed. It demonstrates positive NPVs for Maintain and Upgrade in the event of throughput being 10% higher than forecast, and for Upgrade in the event of a 25% increase in fees and charges to fund capital works. Conversely it demonstrates a more significant cost to Council in the event of a fall in throughput.

It also demonstrates that the value to Council of a leasing arrangement is forecast as superior to the Upgrade option and on par with the Maintain option. The income figure used for this analysis is conservative with limited relevant market data available. Accordingly, the Lease option should be caveated with the understanding that its financial value to Council relative to the other options will vary based on the level of lease income that can be negotiated.

There is a similar constraint on determining a likely price for the Saleyards in the event of a sale. Whilst a value for the business and its assets can be calculated, the sale price in the Sell option needed to factor in what a potential buyer would likely be willing to pay. What this analysis demonstrates is that the sale price is unlikely to impact the relative financial ranking of the scenarios. The Sell scenario is forecast to provide the best financial result to Council for each assumption sensitivity-tested, including the reduction in sale price to the value of the land only.

Figure 17: Financial Modelling - Saleyards Sensitivity Analysis



* NPV of New Facility under all assumptions tested apart from 75% funding is considerably below (\$3.0m). Graphs have been limited to that value to enable clear visibility of other values.

The final point worth highlighting is that an increase in the percentage of project costs for a new facility to be funded by government grants to 75% has little impact.

Whilst the cost to Council would be considerably reduced, it still represents a significantly greater cost to Council than any other option.

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