



City of Joondalup
PO Box 21
Joondalup
Perth
WA 6919

16th May, 2011

Dear Sirs,

**RE: ECONOMIC ANALYSIS OF RELOCATING TO THE ECU BUSINESS AND INNOVATION CENTRE (BIC)
FROM JULY 2011**

The Management Committee of the SBC North West Metro met on Wednesday 12th May to discuss the merits of the *Economic Analysis of Relocation to ECU Business and Innovation Centre*. A resolution was passed that SBCNWM should remain at 4/189 Lakeside Drive, Joondalup.

The SBC North West Metro Management Committee will review the situation beginning in April, 2012 with a view to possible relocation July, 2012.

Yours faithfully,

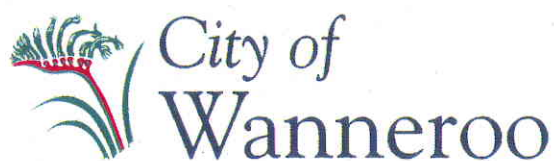
A handwritten signature in blue ink, appearing to read "Ewan McAllister".

Ewan McAllister

Chairperson

16th May 2011

Economic Analysis of relocating to the ECU Business and Innovation Centre (BIC) from 1 July 2011



Version 0.4 March 2011

Introduction

This report looks at the key factors requested by the City of Joondalup as laid out in Council minutes of the meeting dated 14 December 2011, as well as other pertinent factors involved with that particular proposed relocation.

It should be noted that whilst it is relatively easy to establish initial costs in relation to the relocation and also to compare ongoing costs at each premises, it is the potential benefits of the proposed location that are only possible to assess subjectively. The potential benefits of the proposed new location may well be clearer after the BIC is handed over to ECU, but at this stage ECU stress only 'business as usual' after the handover. These potential benefits should not be underestimated, but cannot be confirmed at this point in time and it may be beneficial to re-assess them at a more appropriate juncture.

The overall comparison between the two sites is therefore difficult to assess completely objectively, and any commentary around this topic is based largely on conjecture. For example the creation of a 'Small Business Hub' may well be better suited to the proposed location, but the potential benefits to the Small Business Community of any such initiative at this stage remain hard to quantify.

Scope

This report is limited in scope to the request made in point 5 of item: CJ218-12/10 Small Business Centre NWM request for funding 2010/11 from that meeting. Any other commentary contained within this document will be of a general nature unless otherwise indicated.

Point 5 is detailed below:

5 REQUESTS the Small Business Centre (North West Metro) Inc. undertake an economic analysis of relocating to the ECU Business and Innovation Centre from 1 July 2011, and submits a report to the City of Joondalup on its findings by 31 March 2011, incorporating, but not be limited to:

5.1 A financial analysis of the options, including an assessment of rental costs and outgoings; projected revenues; human resource requirements, and the like;

5.2 A cost-effectiveness analysis of the options;

5.3 An assessment of risk and sensitivities of the options;

5.4 An assessment of the social and environmental impact of the options.

A financial analysis of the options of the proposed relocation

There are inherent costs associated with any business relocation which should be balanced against the demonstrated and potential benefits of the move. The relative benefits of each location (current and proposed) will be identified later as will specific and potential costs but general business relocation costs would include impacts in the following areas:

TABLE 1 – AREA OF COST

Area of cost/impact	Item
Wages/Hours of work	Staff costs associated with the relocation (and downtime away from core activities)
KPIs	Limited downtime at each location prior to, during and after physical relocation
	Loss of available business hours during the move
Marketing	Advertising of relocation and of the new location. Creation of new materials.
Professional services	Removalists; Specialist IT Removalists; telecom connections; signage etc
Relocation advice / Stationery costs	Costs associated with the reprinting of internal and external stationery and marketing materials
Printing and photocopying	Costs associated with either the purchase/leasing or use of a photocopier (free at present site)
Client Impact	Loss of continuity for existing clients and referred clients

It is important not just to look at the financially definable costs but also to look at the less tangible impacts of relocation. These would include the impact upon clients, especially existing clients who use the services of the centre regularly and potential clients newly exposed to the range of services the SBC can offer.

Due to the relatively busy location of SBC, for example, there are a large number of enquiries and 'walk-ins' which allows the SBC the opportunity to promote its services. 'Walk-in' traffic at the BIC is greater than that at the SBC and is therefore likely that the numbers of potential clients and exposure may increase: however this needs to be off-set against the fact that much of the traffic at the BIC is specifically for residents of the Incubator.

Over the last month, the number of 'unnannounced' callers to the SBC has averaged 6.5 per day, the number of 'unannounced' callers to the centre (on non-SBC business) is between 16 and 32 and many of these visitors are converted into clients. Figures are not available for the BIC, though general traffic is approximately double that amount.

There are other potential benefits of the relocation too, but these are included in later sections.

Checklist of costs associated solely with initial relocation

Logistically any office relocation will require a number of pre-booked and pre-planned events to occur over the same weekend. Removalists, IT and Telecommunications providers will need to be booked well in advance and we will need to liaise with them to ensure that the new infrastructure is compatible with our existing hardware and software. This will need to be factored into the removal costs.

Removal and Relocation costs would include:

Physical Relocation of assets

- Signage
- Physical office furniture relocation
- Specialist IT equipment relocation
- IT setup at destination
- Phone set up at location
- Down time at both locations

Potential infrastructure costs

- Possible Phone hardware costs
- Potential purchase/Lease/use of photocopier
- Cabling expenses at new location

Relocation advice

- Relocation advice to suppliers
- Relocation advertising
- Relocation stationery
- Diversion of mail
- Advice and coordination of external materials containing SBC details
- Redirection of mail to street address

Additional (ongoing) costs

- Additional Joondalup Workshop costs (currently boardroom at the JBA is free)
- Additional board meeting costs associated with room rental
- Photocopying fees or hire of copier
- Removal of signage at existing site and new signage at new site

Financial Impact – set up and ongoing costs

The set up and ongoing costs have been separated and applied to the budget for 2011-2012. All quotes received so far are estimates, or are valid for one month only.

It is important that the set-up costs are considered separately to ongoing costs, as any relocation will involve such costs, irrespective of the benefits of any such move. Whilst any move would have a budgetary impact on the Centre's operational capacity (and therefore its ability to meet its yearly KPIs), it may be an option for the City to fund these expenses, effectively allowing the centre to perform its mandate unburdened by these additional expenses.

It is also important to note that whilst the quotes below are not firm quotes they are very much based on a 'worst case scenario' and may well reduce. The IT relocations cost for example, are based on our current hardware and phone set-up and there may be the possibility of reconfiguring this to further reduce the expenditure.

TABLE 2 – COST MATRIX

Cost Matrix		
Removalist	<i>Estimate of 5 hours – two people, including packing removal and relocation but not unpacking</i>	\$1200 ***
IT relocation costs*	<i>Estimate of 15 hours at \$130 per hour (Secure IT)</i>	\$1950
Phone service reconnection and reconfiguration*	<i>Estimate of 4 hours at \$150 per hour (engineer - no cost for redirection, no provider locked in yet)</i>	\$600
Research and collation of listings in external directories	<i>Unknown as no listings exist for the centre. Estimate of 1 day by centre staff</i>	\$500
Updating of official records (SBDC, ATO, Insurance etc)	<i>Staff wages at one day</i>	\$500
Stationery reorder	<i>Estimate until a relocation date is known to rundown stock (based on one year's supply)</i>	\$560
Advice of move costs	<i>Staff at ½ day</i>	\$250
Marketing advice of move	<i>Additional advertising and newsletters to promote new site (budget)</i>	\$2000
Outgoings	<i>After initial relocation costs outgoings are likely to remain constant</i>	\$0
Signage	<i>The existing sign at present location is too large for relocation at the proposed new site</i>	\$1000

Removal of signage	Removal of existing sign and cleaning of location	\$200
SUBTOTAL (set up costs only)		\$8,760
Photocopying	6 board meetings per year, 48 workshops, and general office copying etc No cost at present location. We average 2200 copies per month.	\$1742 per year @ 6.6c per copy** \$3840 per year (minimum if leased)
Additional costs of workshops and board meetings	In 2011-2012 the number of FREE workshops and meetings held in the boardroom at our current location is 24. These would incur costs at the new premises (average 2 hours)	\$1008 per year (24 x 2 x \$21/hour)
Increased leasing costs		\$1056
SUBTOTAL 2 (ongoing costs only)		\$3,806
ESTIMATED MINIMUM RELOCATION/ONGOING COST	\$12,566 (or \$10,824 plus photocopier option selected)	

*some items such as IT relocation and costs associated with moving phones cannot be confirmed at this stage – figures are estimates only

**there are many options in relation to photocopying including leasing and purchasing. Both bring into consideration space restrictions. Leasing may be an option but only 3 or 5 year terms are generally offered. A minimum cost of leasing a machine based on our existing volumes is \$320 per month or \$3840 per year (Datacom). Purchase of a new copier is prohibitive, and whilst leasing is a longer term option 'reconditioned' copiers start at \$4000 (these options have maintenance considerations and other associated ongoing costs).

***based on the cheapest quote by Adlam (a local Joondalup office removal company).

Budget impact 2011-2012

The table below shows the existing 2011-2012 agreed budget for the centre. The costs associated with the move have been applied to that budget for the next financial year (expenditure in relation to relocation and ongoing costs has been added to existing 2011-2012 figures as the 2011-2012 budget is not yet available).

It is important to note that were relocation costs to be funded from another source the impact to the budget would be limited to ongoing costs which may or may not be outweighed by the benefits associated with the new location.

TABLE 3 – BUDGET IMPACT

ITEM	2011-2012 Budget		2012-2013 Budget	
Income (total) <small>Includes funding from SBDC, Joondalup, Wanneroo, seminars and sponsorship</small>	\$286,167		\$286,167	
Expenditure (total)		\$287,792		\$300,258*
Marketing		\$20,718		\$20,718
• 'Relocation' marketing				\$2000
Systems		\$5,674		\$5,674
• Additional IT costs (inc phone)				\$2550
Telephones		\$11,169		\$11,169
Staff		\$211,806		\$211,806
• Additional staff costs				\$1250
Professional Services		\$10,597		\$10,597
• Signage costs				\$1200
• Removalists				\$1200
• Additional workshop costs				\$1008
Insurance		\$4,913		\$4,913
• Office accommodation		\$18,256		\$18,256
• Increased rent				\$1056
Office general		\$4,161		\$4,161
• Additional copier costs				\$1742
• Additional stationery				\$560
Postage		\$498		\$498

Estimated overspend 2011/2012	\$12,566
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* See table 2 – cost matrix (this figure includes photocopier costs (option 1))

Rental/Leasing Comparison

1. JBA Site: 20m² + 10m² (plus use of shared 8m² area at no cost)

Leasing cost: \$1,182.00pcm

Details: the premises comprises of two offices plus a shared reception area, all utilities are included and as are miscellaneous items such as use of the photocopier owned by the JBA and free use of the boardroom when not pre-booked.

2. BIC site

Leasing Cost: \$635.00pcm for each 15m² office (i.e. \$1,270.00) PLUS OUTGOINGS

Details: the premises comprises of individual offices each 15m². Whilst one office would be sufficient for SBC purposes the majority of the time the need to see clients privately and the fact that the Joondalup office will often be preferred to the Wanneroo office allows us to be flexible in bookings. Having just one office would not give any flexibility in this regard. There is the option to place our receptionist with the BICs receptionist which would halve costs but this busy area does not appear conducive to productive work.

3. Comparable alternate locations

Leasing Costs: generally between \$350 and \$450pcm (between \$875 and \$1125 for 30m²)

Details: Offices of this size are not generally available. They would not generally include outgoings and would only be available co-located within other premises. Finding a suitable business to locate with may prove difficult. Most would require the signing of a 3 year lease.

TABLE 4 - RENT

SITE	JBA site	BIC
Cost per month	\$1,182	\$1,270
Cost per year	\$14,184	\$15,240

\$1056 additional rent per year (*this amount could be reduced based on possible relocation of the reception/admin officer though at present this does not appear to be practical*)

Projected revenues at each site

As an initial starting point we have assumed that potential revenues at each location would remain largely constant but that due to the additional costs associated with running workshops (one of the SBC's main sources of income outside of funding) that revenue would actually decrease. This position is purely based on conjecture.

Revenue from workshops held at locations outside the centre would remain unchanged.

It is important to consider the impact of the relocation:

There is the potential for more 'existing business' workshop clients due to the BIC co-location.

There is the potential to build ties and work more closely with the BIC and ECU.

However as the majority of workshops are free or low cost it is particularly unlikely that even substantial increases in workshop attendees would facilitate greater income for the centre.

Revenues would decrease by \$1008 per year based on additional costs to hire rooms.

As the board does not support 'fee for service' activities the potential to increase revenue irrespective of location is curtailed. Any increase in revenue for the centre will be likely unaffected by location.

Human resource requirements at each site

HR requirements Likely to be unchanged subject to current staffing levels. However the Shire of Wanneroo has sought a commitment from the SBC to increase presence at the Wanneroo office which may affect operational requirements across the board.

A cost-effectiveness analysis of the options

This section looks at the ongoing costs and savings in relation to the BIC site as opposed to the existing JBA location. It does not consider set-up costs. Please refer to Tables 2 and 3 for additional information regarding set-up costs.

It is worth noting that the new location would offer additional benefits to clients and support staff in that it has free car parking – which at the current JBA location would cost clients \$1.00 per hour and support staff \$3.00 per day

To increase revenue or merely cover costs in organizing events at the new location there is the potential to charge 'administration fees' for workshops hosted, as the facilities will no longer be under our control (though this will depend on the board's position on this proposal).

It is worth noting that there is potential for the BIC site to attract greater volumes of clients from new sources, but that these potential gains need to be balanced against increased costs which may or may not be offset against greater income.

It is important to note that shortly the BIC will be handed over to ECU; this may well vary the pricing and conditions currently used for cost-effectiveness analysis in this report. It may also open the door for negotiations.

TABLE 5 – ONGOING COSTS

Ongoing costs		
Photocopying	Based on 6 board meetings per year, 48 workshops, and general office copying etc at the JBC location. We average 2200 copies per month (Feb 2011). The small costs we pay at the JBC (half paper) have been taken into consideration in this calculation	\$1742 per year (@ 6.6c per copy)**
Additional costs of workshops and board meetings	In 2011-2012 the number of 'free' workshops and meetings held in the boardroom at our current location is 24. These would incur costs at the new premises (average 2 hours) (24 x 2 x \$21/hour)	\$1008 per year
Rent	The BIC rental costs are higher than at the present location	\$1056 per year
Utilities	Unlikely to vary – all are included at each location	\$0

Phones	Ongoing requirements are the same at each location	\$0
Staff	unchanged	\$0
Total additional ongoing costs at new site		\$5904 per year

TABLE 6 – ONGOING COST EFFECTIVENESS OF OPTIONS

JBA Site
JBA refers existing clients to the SBC and advertises services for free (potential income and cost savings)
Reasonably visible location with a number of 'walk-in' clients (potential income)
Free use of Boardroom when not booked for consultations and unpaid workshops (reduced costs)
Paid Workshop room hire is free when available (reduced costs)
Free use of photocopier (reduced costs)
Paid parking for clients (increases client costs which may impact on centre)
Two offices allowing two sessions consultations concurrently if required (reduced costs)
Outgoings included in lease (reduced costs)
Rent less for existing area occupied (reduced costs)

BIC Site
After the handover of the BIC site to ECU it may be possible to renegotiate the current lease based on the value of the relocation to the BIC
JBA will still refer existing clients to the SBC and advertises services for free (potential income and cost savings)
Potentially more referrals and promotion of services from the BIC (potential income)
Potential for more referrals from ECU (potential income)
Potential to 'team up' with ECU Business students for joint activities/workshops (potential income)
Potential 'captive' clients for existing business focused workshops (potential income/exposure)
Free parking for clients (reduced client costs)
Less visible site, but more potential for walk-in clients (potential income)
Paid additional facilities (revenue)
Paid Workshop room hire at a cost and less likely to be available (revenue)
Paid copies at 6.6c per copy (revenue)
Potential to supply limited in-house mentoring to existing businesses (revenue)
Rent higher for comparable space

Assessment of risk and sensitivities of the options (including location analysis)

This section looks at each location and the inherent risks related to both the relocation itself and with the new location. At this stage the matrix below merely catalogues and rates the risks. A full risk analysis can be provided if required but would involve gathering additional statistics to quantify some of the items detailed.

In relation to the location of the SBC offices within the BIC it is vital that the SBC obtains a prime location near the entrance of the facility. None of these offices are vacant at present and the first of these offices is not available until January 2012 at the earliest. There is a greater risk of reduced exposure to the Small Business Community if the SBC offices are located away from the reception area.

TABLE 7 – RISKS & SENSITIVITIES

Risks	Likelihood	Impact
JBA refers existing clients directly to the SBC these numbers will decrease	L	L
Availability of office space at the BIC is low and no offices are free at present until 2012	M	M
BIC location is 'less visible' to clients	L	L
Available offices within BIC site will not be in prime location	M	M
SBC offices need to be located in a prime location within the BIC to maximize exposure to potential clients these offices may not be available	M	H
If prime location offices are not available SBC's effectiveness will be reduced	L	H
Number of 'walk-in' clients likely to fall	L	M
General relocation risks – potential short-term loss of clients,	H	L
General relocation risks – inconvenience to clients	H	L
Financial cost of the physical relocation curtailing other activities in the financial year	Yes	M
Increased ongoing costs at new location without increase in budget will mean that budgetary pressures increase	Yes	M
At the moment the location at JBA allows us an additional workstation. The reception location at the BIC lacks space	H	H

Greater non SBC Traffic through the BIC reception location will lead to interruptions and would reduce the effectiveness of that position	H	M
Poorer communication between staff due to office layout (two offices as opposed to a connected area)	M	L
Sensitivities		
Existing relationships with the JBA and current co-location brings benefits to both parties	M	L
Building a 'Business Hub' at the BIC site can create additional benefits	M	M

KEY	
Yes	will happen
H	Highly likely / High impact
M	Medium likelihood / Medium impact
L	Low likelihood / Low impact

Assessment of the social and environmental impact of the options

Due to the proximity of sites and similarity of structures, impact in these areas will be neutral.

The BIC is closer in proximity to the train station but on a route with less foot traffic.