



Regional
Development
Australia

SOUTHERN INLAND

TOWARDS A NEW WOOL SELLING FUTURE IN NSW

REGIONAL DEVELOPMENT AUSTRALIA SOUTHERN INLAND (RDASI)
WOOL SALES RELOCATION REPORT

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An Australian Government Initiative



A NSW Government Initiative



FOREWORD

I am pleased to present the RDA Southern Inland report ***Towards a New wool Selling Future in NSW***. This report aims to provide a balanced analysis to assist the NSW wool industry decision makers with an opportunity to consider the relocation of the wool selling centre.

My team and I have been proud to facilitate the discussion and collaborate with key industry stakeholders from brokers, buyer and producers, and Federal, State and Local Government on the opportunity to relocate the wool sales to a regional site, such as Goulburn NSW.

The relocation of the selling centre from Yennora in Sydney to Goulburn would see significant saving at each level of the wool sales process.

Towards a New Wool Selling Future in NSW provides a financial analysis of the savings from 1, 5 and 10 years, and the saving per bale to the producer. This provides a clear picture with real-time savings.

Along with the Wool Sales Centre, there is also the opportunity to co-locate a museum to tell the story of wool in Australia and a wool industry education, training and demonstration centre. Such a co-location would assist in ensuring the wool industry is at the forefront of new and emerging technology and provide access to real experience, all under the watchful eye of "Rambo" the Big Merino.

Wool is a part of Australia's history and its future. We need to be proud and show the world what we produce, and that we will remain world class and leaders in the industry, at all levels.

The RDA Southern Inland team and I hope to continue to play a key role in this exciting time for the NSW Wool Industry, and bring the wool sales back to the home of fine wool in Australia, Goulburn.

Mareeca Flannery
Executive Officer
Regional Development Australia Southern Inland

EXECUTIVE SUMMARY



Regional Development Australia Southern Inland (RDASI) is part of a national network of 55 Regional Development Australia committees across Australia. RDASI's role is to facilitate the regional development efforts of all levels of government, Southern Inland businesses and the broader communities with the aim of maximising economic development opportunities for the region. In 2016, RDASI engaged with the Inland Wool Brokers Association and other interested parties to progress the proposal to relocate NSW wool sales from Yennora, Sydney to an outer Sydney regional area such as Goulburn, NSW.

It's estimated between 85 and 90 per cent of all wool produced in Australia is traded through auction, with the remainder being sold privately. Wool auctions are held in three auction selling centres in Australia, Yennora Sydney, (Northern Region: QLD, NSW), Brooklyn Melbourne (Southern Region: VIC, SA, TAS) and Fremantle WA (Western Region WA). Yennora conducts an average of 45 sales over a 12-month selling season, with sales being conducted over 45 weeks each year from June to July the following year.

NSW is the largest wool producing state in Australia, with the largest volume of wool transported through it. Wool is stored at various inland warehouses, including the largest storage facility in Goulburn.

With the head lease due to expire at Yennora in December 2017, there is discussion on the potential for industry savings in relocating wool sales in NSW from Yennora. Goulburn is one such location that has been put forward as a potential NSW selling centre.

Towards a New Wool Selling Future in NSW aims to provide information and analysis to assist decision makers on the costs and benefits of relocating wool sales from Yennora to regional NSW. In compiling this report, RDASI has examined the concept benefits of relocation and included scenario analyses to inform on the feasibility of the proposal.

There are clear concept benefits to all segments of the wool industry in relocation of the wool sales. With the volume of wool produced per annum in NSW and Queensland continuing to decrease, industry participants have been questioning whether the current wool selling arrangements and facilities remain appropriate and the most cost effective option available. The amount of wool being offered through the existing Sydney complex based at Yennora is significantly less than in the past when the Brisbane, Goulburn and Newcastle sale centres were closed and centralised to Yennora during the 1990's and up to now.

For woolgrowers and their wool selling brokers, the real costs of the selling system have increased beyond expectations when closures and centralisation decisions were made previously. Show floor space for sale samples, sale day office rental, sale room fees, dining facilities for clients and transport and accommodation charges associated with attending wool sales in Yennora have continued to rise above and beyond what is considered a reasonable cost percentage of the total income received in the selling of a bale of wool. Of most significance is the fact that the current "Northern" sale centre location at Yennora is in one of the most expensive commercial property rental zones in NSW and possibly Australia.

Contained within the 2009 Australian Farm Institute costs and benefits of alternative selling arrangement for Australian wool report, and subsequent industry meetings, also brought to the surface an agenda by some industry participants to close the NSW based wool selling centre and amalgamate to Victoria. This would leave NSW and Queensland based wool growers and brokers without a readily accessible selling facility.

Research undertaken by the Tablelands Property Group in 2009 demonstrates sound economic conclusions why this agenda could easily be made possible based on simple costings alone, with the Melbourne centre being able to realise a lease rate of almost half that of the cost per square metre being paid in Sydney at that time. This situation exists to this day, with lease rates of around \$65 to \$80 per square metre commonly available in western Melbourne for the better sized and standard of warehouses.

If the NSW wool selling centre was to close, there would be serious implications for the wool growers, buyers and brokers operating from this centre, and additionally for the state of NSW in losing the benefits associated with the transaction of significant bales of wool through a northern region wool auction sale centre.

RDASI commissioned Deloitte Financial Advisory to model a number of options for broker offices, wool storage and showroom facilities located in an outer Sydney region. The purpose was to assess the potential cost savings to the wool industry, including to wool growers, from moving the current facilities from Yennora to Goulburn. The full Deloitte analysis is at ATTACHMENT A of this report however, in summary, the analysis shows significant cost savings to industry in relocating wool sales to an outer Sydney regional area, such as Goulburn. Cost savings in relocating broker offices and showroom facilities are below:

Scenario 1

Relocation of Broker Offices and Showroom Facilities Only

RANGE OF COST SAVINGS	LOWER BOUND	UPPER BOUND
Broker Office	\$0.89m	\$1.04m
Showroom	\$1.00m	\$1.00m
Broker Travel	\$0.55m	\$0.55m
Transportation		
Net Cost Savings	\$2.44m	\$2.60m
Net Savings (\$ per bale)	\$5.00	\$5.32
5year/ 10 year NPV	\$10m/\$17m	\$11m/\$18m

Relocation of wools sales from Yennora to a regional city such as Goulburn, also offers potential to establish a wool education and tourism facility on site with the wool sales. Combined with the wool sales, an education and wool industry tourism centre, may offer marketing and promotional opportunities for the wool industry generally, particularly at the consumer stage. Some costs to establish a wool museum and education facility are included in the Deloitte report at ATTACHMENT A.

Such a development could be undertaken in Phase 2 of the wool relocation proposal and could offer opportunities to educate, showcase and demonstrate technology and innovation in the agricultural and/or wool industry.

Relocation of the Yennora Wool Sales is a decision for industry, primarily brokers who currently lease the Yennora wool sale and show floor space from Australian Wool Handlers (AWH). As the Yennora head lease held by Australia Wool Handlers' is due to expire in 2017, cost effective options for relocation of the NSW sales to an outer Sydney region are timely.

RDASI's role is one of facilitation only, assisting the industry and other relevant partnerships such as Local Government, to consider options for relocation. However, any decision made to relocate must have the wide support of industry. To ensure a transparent decision-making process, this report recommends the formation of a Yennora Wool Sales Relocation Reference Group comprising industry membership across brokerage, growers, buyers and industry peak bodies. *Towards a New Wool Selling Future in NSW* recommends action beyond the tabling of this report to interested parties, and financial analysis of potential savings to industry in relocating the wool sales from Yennora to Goulburn or a nearby regional location.

Action Plan

Formation of a Reference Group –

to consider this report and accompanying financial analysis. Membership of the Group should be drawn from across the wool industry and consist of brokers, wool growers and relevant peak bodies. The Reference Group would be chaired and supported by RDASI with industry driving the proposal forward.

Facilitating industry consensus –

further action could be considered to assist the industry reach consensus of wool sales' relocation.

Partnerships –

Decentralisation provides opportunities for regional jobs growth and, as such, funding opportunities from the Australian and NSW governments could be investigated. Local Government assistance in the relevant locations should also be investigated to determine the best ways Local Government can assist a relocation proposal.

A summary of this report could be released to the public, for example, and media releases following formation of the Reference Group could be distributed to local and regional media.



IMPETUS FOR CHANGE

It's estimated between 85 and 90 per cent of all wool produced in Australia is traded through auction, with the remainder being sold privately. Wool auctions are held in three auction selling centres in Australia, Yennora Sydney, (Northern Region: QLD, NSW), Brooklyn Melbourne (Southern Region: VIC, SA, TAS) and Fremantle WA (Western Region WA).

Yennora conducts an average of 45 sales over a 12-month selling season, with sales being conducted over 45 weeks each year from June to July the following year. The number of sales is determined by the quantity of wool available in each centre, with auctions conducted on Tuesdays, Wednesdays and Thursdays.

In 2015, 515,590 bales of wool were sold at Yennora, 923,136 at Melbourne and 340,367 were sold at Fremantle.

The Australian Wool Exchange (AWEX) is responsible for establishing auction procedures, although individual brokers are responsible for the conduct of their individual auctions. Wool is sampled and tested by the Australian Wool Testing Authority (AWTA). AWTA has laboratories located in Melbourne, Fremantle and regional offices in many wool growing areas, including Goulburn.

NSW is the largest wool producing state in Australia, with the largest volume of wool transported through it. Fifty percent of Australian wool by volume travels through NSW before export. This includes wool from NSW, wool from Queensland for sale and export in NSW, as well as Queensland wool transported through NSW to Victoria and South Australia for processing and/or export.

Warehouse locations used by auction brokers are spread across NSW regions, including in the Southern Inland locations of Goulburn, Yass and Cooma.

Wool selling arrangements have remained largely unchanged in NSW for the past two decades, despite the volumes of wool available effectively halving. The industry showed some willingness to rationalise by closing down

the obsolete Newcastle centre in 2013. Even then, that decision was considered by many to be years later than the proper fiscal timing, with emotive issues said to be overruling proper business acumen.

A growing recognition of the need for adaptive change through the industry is becoming evident, with the commissioning by the NSW State Government in 2015 of the report NSW Wool Industry and Future Opportunities. Additionally, the grower R&D body, Australian Wool Innovation conducted the Wool Selling Systems Review in 2015/16 and, as a result of those findings, is now funding a viability investigation into the establishment of a Wool Exchange Portal (WEP). All prime examples of an industry looking to adjust to diminishing volumes and returns.

It is accepted that the transfer of ownership of wool is complex, comprising many different companies and organisations that primarily compete with each other. Consequently, extraordinary cooperation and consensus is required before any substantial change to industry can occur.

Decentralisation is definitively a seller issue with wool growers and their wool selling brokers acknowledged as the principal decision makers in this process.

Towards a New Wool Selling Future in NSW aims to provide information and analysis to assist decision makers on the costs and benefits of relocating wool sales from Yennora to regional NSW. In compiling this report, RDASI has examined the concept benefits of relocation and included scenario analyses to inform on the feasibility of the proposal.

If the NSW selling centre was to close there would be implications for growers, buyers and brokers and for NSW in losing the associated benefits of a selling centre. An option exists to relocate the NSW selling centre to a Southern Inland location, achieving efficiencies for the industry while still retaining NSW as the wool selling centre of Australia. Goulburn and Yass have already expressed active interest in a relocation proposal.

THE CASE FOR RELOCATION

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Consideration by all business owners involved in the NSW wool selling industry is sought to assess a move to decentralise to a more cost efficient region in which to transact the sale of all wool currently being exchanged at Yennora, whilst retaining the existing and mostly perceived effective transfer of ownership sale methods in place. No change to the manner which wool is exchanged is being proposed or is being sought under this document.

One of the most recent industry reports into the rationalisation of selling systems that became known as the "Keogh Report"¹ and subsequent industry wide meetings on the subject, provided a clear statement by wool buyers and exporters and other participating organisations, that the selling system is pre-eminently the domain of the sellers, i.e. the wool growers and their representatives, the wool selling brokers. The financial burden of providing and conducting wool auction sales is initially being financed by the wool brokers, so it is widely taken for granted, that for the benefit of this proposal, that NSW buying interests would under most reasonable circumstances abide by the decisions made by the wool selling broker business owners as to where they wish to conduct the transaction.

NSW wool production accounts for 38% of the national total, according to the Australian Wool Production Forecasting Committee (AWPFC). The NSW Government estimates that 83% of NSW-produced wool is delivered to warehouses within NSW, while 17% is transported interstate, mainly to Victoria from southern parts of NSW.

Sourced from:
NSW Wool Industry and Future Opportunities paper 2015

With the volume of wool produced per annum in NSW and Queensland continuing to decrease, industry participants have been questioning whether the current wool selling arrangements and facilities remain appropriate and the most cost effective vehicle available. The amount of wool being offered through the existing Sydney complex based at Yennora is significantly less than in the past when the Brisbane, Goulburn and Newcastle sale centres were closed and centralised to Yennora during the 1990's and up to now.

The recently completed 2015/16 wool selling season showed that 1,652,720 bales were sold nationally through Australian wool auction centres but just 483,577 bales were sold through the Yennora centre, representing just 29% of the national clip. So not only is NSW losing out on the warehousing of locally grown wool, it is also missing out transacting an even higher percentage of sales. Most of this leakage is flowing south to Victoria.

¹Australian Farm Institute – "Costs and Benefits of Alternative Selling Arrangements for Australian Wool."

The Yennora wool selling centre conducts 45 wool auction sales annually. The number of sale days is determined by the volume of lots offered for sale for that week. Predominantly, weekly auction sales of 2 days are held and usually on Wednesday and Thursday commencing 11am. When needed, the 3rd selling day for the week is on the Tuesday, commencing midday.

For woolgrowers and their wool selling brokers, the real costs of the selling system have increased beyond expectations when closures and centralisation decisions were made previously. Show floor space for sale samples, sale day office rental, sale room fees, dining facilities for clients and transport and accommodation charges associated with attending wool sales in Yennora have continued to rise above and beyond what is considered a reasonable cost percentage of the total income received in the selling of a bale of wool. Of most significance is the fact that the current "Northern" sale centre location at Yennora is in one of the most expensive commercial property rental zones in NSW and possibly Australia.

Contained within the 2009 Australian Farm Institute costs and benefits of alternative selling arrangement for Australian wool report and subsequent industry meetings also brought to the surface an agenda by some industry participants of a desire to close the NSW based wool selling centre and amalgamate to Victoria. This would leave NSW and Queensland based wool growers and brokers without a readily accessible selling facility.

Research undertaken by the Tablelands Property Group in 2009 demonstrates sound economic conclusions why this agenda could easily be made possible based on simple costings alone, with the Melbourne centre being able to realise a lease rate of almost half that of the cost per square metre being paid in Sydney at that time. This situation exists to this day, with lease rates of around \$65 to \$80 per square metre commonly available in western Melbourne for the better sized and standard of warehouses.

If the NSW wool selling centre was to close, there would be serious implications for the wool growers, buyers and brokers operating from this centre, and additionally for the state of NSW in losing the benefits associated with the transaction of significant vales of wool through a northern region wool auction sale centre.

The relocation of the Yennora facility to the Southern Inland offers potential opportunities that may not be fully discussed within this report. By representative groups exploring and investigating further, unstated benefits or potential hindrances may arise.



LOCATION

Goulburn – Location Option



During relocation proposal discussions, a potential proponent from Goulburn indicated interest in developing a site for the Goulburn relocation of the Yennora Wool Sales. Relocation proposals have also been strongly supported by Goulburn Mulwaree Council. The city of Goulburn is in the Southern Tablelands region of New South Wales and approximately 150kms south west of Southern Sydney and 90kms from Canberra city.

Goulburn is a vibrant, growing city ideally situated within easy drive of Sydney, Canberra, the South Coast and the Snowy Mountains. Goulburn is home to 23,000 people and is a major service centre for the 35,000 people who live within an hour's drive. The region is experiencing significant residential and commercial growth, but retains all the benefits and charm of a country lifestyle, in a City that celebrates its heritage.

Wool growing and handling has been big business in the Goulburn region since the mid-1800s. Over the following century, the city was characterised by many wool stores, tanneries, the wool scour, wool factories and associated businesses and regular wool sales. In the 1980s when stock and production numbers across the country declined, a rationalisation of services saw facilities close in Brisbane, Newcastle and Goulburn. Today, Goulburn remains the biggest receival centre for wool in NSW, with the value of Goulburn's wool production increasing by 37% from 2006 to 2011.

TOTAL POPULATION	2016	2021	2026	2031	2036
New South Wales	7,748,000	8,297,500	8,844,700	9,386,850	9,925,550
Sydney Metropolitan	4,681,950	5,106,300	5,537,850	5,975,550	6,421,850
Regional NSW	3,066,050	3,191,250	3,306,850	3,411,300	3,503,700

COMPARISON AREA					
Sydney - Parramatta	457,059	500,924	547,058	593,655	637,548
South East & Tablelands	275,650	288,450	300,500	311,450	321,050

ANNUAL GROWTH RATE (%)	2011-16	2016-21	2021-26	2026-31	2031-36
New South Wales	1.42	1.37	1.28	1.19	1.12
Sydney Metropolitan	1.77	1.74	1.62	1.52	1.44
Regional NSW	0.90	0.80	0.71	0.62	0.54

Source: NSW Dept. Planning & Environment and NSW Dept. Transport

Importantly, Goulburn has well established transport infrastructure and although a bypass was constructed in 1992, essentially Goulburn is on the major national road, the Hume Highway. The city is serviced by substantial freeway and rail. The Hume highway/freeway is the primary freight route between Sydney, Canberra and Melbourne and also the main route for intra-regional travel. Access by road to Goulburn from the Northern and Western plains, slopes and Tablelands districts of NSW and for all Queensland areas is relatively simple and eliminates the need of any travel through the congestion of the wider Sydney precinct.

The Goulburn area has a diverse workforce and since 2001, there has been an additional 2,000 people added to the regions available working population. The NSW Police academy and the Goulburn Correctional Facility singularly provide most the districts employment. Labour rates within the region are in line with other regional areas and are an average of around 15% below that of Sydney.

Travel Times from Goulburn by road



The Goulburn region has more than its fair share of young people with rural backgrounds, interests and experience. In speaking to industry participants about a potential relocation to Goulburn, many brokers and buyers mentioned that attraction and retention of the right staff was a key issue for industry. To that end, Council has contacted the local careers advisors to gauge the interest in wool careers should the NSW Wool Sales be re-established in Goulburn. Below is fairly typical of the responses:

We run Agriculture every year in the senior school and there are always students who are looking at careers in the rural industry. We also have sheep at school and junior classes do some wool classing. Having the wool sales back here would enable kids to actually see what goes on - and as we know, many kids choose paths of which they have a direct knowledge. The fact that Goulburn TAFE runs Wool related and Ag. courses to Diploma level also creates a clear and achievable career path.

The four high schools in the region all have active agricultural farms and a dedicated student cohort who are demonstrably keen to pursue careers in rural industries, including wool.

Goulburn enjoys a stable workforce of approximately 15,000 people with low levels of industrial dispute and unemployment (5.5%). 63% worked full time, 34% worked part time, and Goulburn is a net exporter of labour, with 15% of working residents being employed outside the area, primarily in Canberra, where 89 residents are employed in the Agriculture, Forestry & Fishing sector. Increasingly, these Canberra commuters are demonstrably interested in employment opportunities which arise in Goulburn, and could well be interested in positions connected with the wool industry.

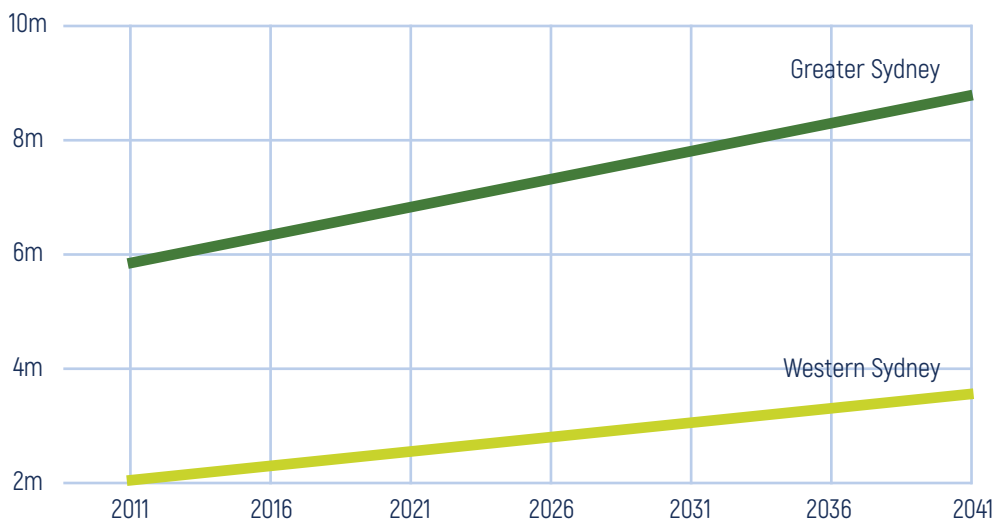
Goulburn TAFE delivers Certificate III in Wool Clip Preparation and Certificate IV in Wool Classing, plus Agriculture Certificate II, III, IV and Diploma and other industry relevant training including forklift and WHS. TAFE always has a few agriculture trainees on the go, mostly in Certificate II or III and is always happy to discuss training opportunities, to collaborate with industry and to develop and deliver short courses based on skill sets as required.

In terms of higher education, Goulburn is located within 1 hour's drive of 5 universities, all of which offer courses of relevance to the wool industry and professional development opportunities. The University of Canberra is currently considering a proposal to deliver some courses from Goulburn's Smart Work Hub - Workspace2580.

Cost of living pressures are considered partially responsible for the industry's anecdotally low staff retention levels. A significant factor in this is the attraction of junior staff to other jobs which pay even just a little more, in an effort to keep up with basic living expenses.

Potential lifestyle and housing choices surrounding and within Goulburn are many and diverse to attract relocation. To the east, you have the culturally rich areas of the Southern Highlands, the capital city environs of Canberra and the rural settings of Goulburn and its close by districts. All these options being within a comfortable and relatively stress free 5 minute to 1-hour drive of the proposed new selling centre site. Commercial accommodation options in Goulburn are plentiful and costs are considered more affordable than most regional areas of the state.

Forecast population growth, Greater Sydney and Western Sydney



Source: Western Sydney and Greater Sydney Population Forecasts, BTS

The ever-growing populations of the Western Sydney area combined with little road infrastructure development around the wool selling site at Yennora can only see congestion build into the future and ease of access diminish severely, hampering seller involvement in the process given the selling systems remain relevant to industry needs.

The analysis confirms that Sydney is once again growing at above the national average, and that the Western Sydney region is the city's primary driver of population growth. Greater Sydney has now reached a population of 4.84 million, up from 4.76 million in 2013. This represents an annual growth rate of 1.8%, and compares to the national average of 1.6%. [Source: http://www.westernsydney.edu.au/cws/gws_research]

Goulburn has a registered airport 7kms south east of central Goulburn and is available for private and commercial use. Canberra international airport is 95kms or less than a 1-hour drive south west of Goulburn. The Sydney International airport is 180kms to the North east and less than 2 hours travel by road, with not one set of traffic lights from the motorway in Sydney until you reach Goulburn. The rail link between Sydney and Goulburn was established in 1869 making Goulburn a major rail centre for both passengers and freight to this day.

Telecommunication services available at Goulburn are of the highest standard and very like that found in the major metropolitan centres. The city is serviced by fibre optic cabling and very advanced switching technologies. Decentralisation to Goulburn would also enable a reasonable commute opportunity for those buying and broking auction participants currently set up and residing in Sydney. Most of industry buyers currently have commutes ranging from 45 minutes to 90 minutes within Sydney and with 90 to 120 minutes to Goulburn, options are plentiful for either a weekly or daily commute.

Goulburn has an important agricultural history and linked inextricably with the globally renowned fine wool Merino. It is recognised as the home of some of Australia's leading pioneering families and hosts the internationally famous wool and sheep attraction known as "The Big Merino" on the western edge of the city. With adjacent sites available, a great opportunity would exist to attract a high percentage of these visitors to a development celebrating the history and place of wool in textiles. Marketing and educational prospects could be taken advantage of if the wool sales were relocated to Goulburn.

The city of Goulburn remains to this day, the largest warehousing, storage and handling centre for wool in NSW. There are two AWH (Australian Wool Handlers) owned and managed wool stores which can hold upwards of 25,000 bales at a time. During the 2014/15 financial year, more than 100,000 bales was transported through the Goulburn wool stores.

Relocation to Goulburn gives wool growers opportunities to shift their selling focus from Melbourne to Goulburn, particularly those from the Wagga/Riverina area. The location would give all wool growers a viable alternative to the travel to metropolitan Melbourne or Sydney and allow for a greater participation in the wool selling process.

It is acknowledged that Yennora currently has extremely good access to a rail intermodal terminal with large area of container hardstand storage. Proponents of a new rail freight handling facility at Goulburn have indicated a provision to the wool industry of seamless rail

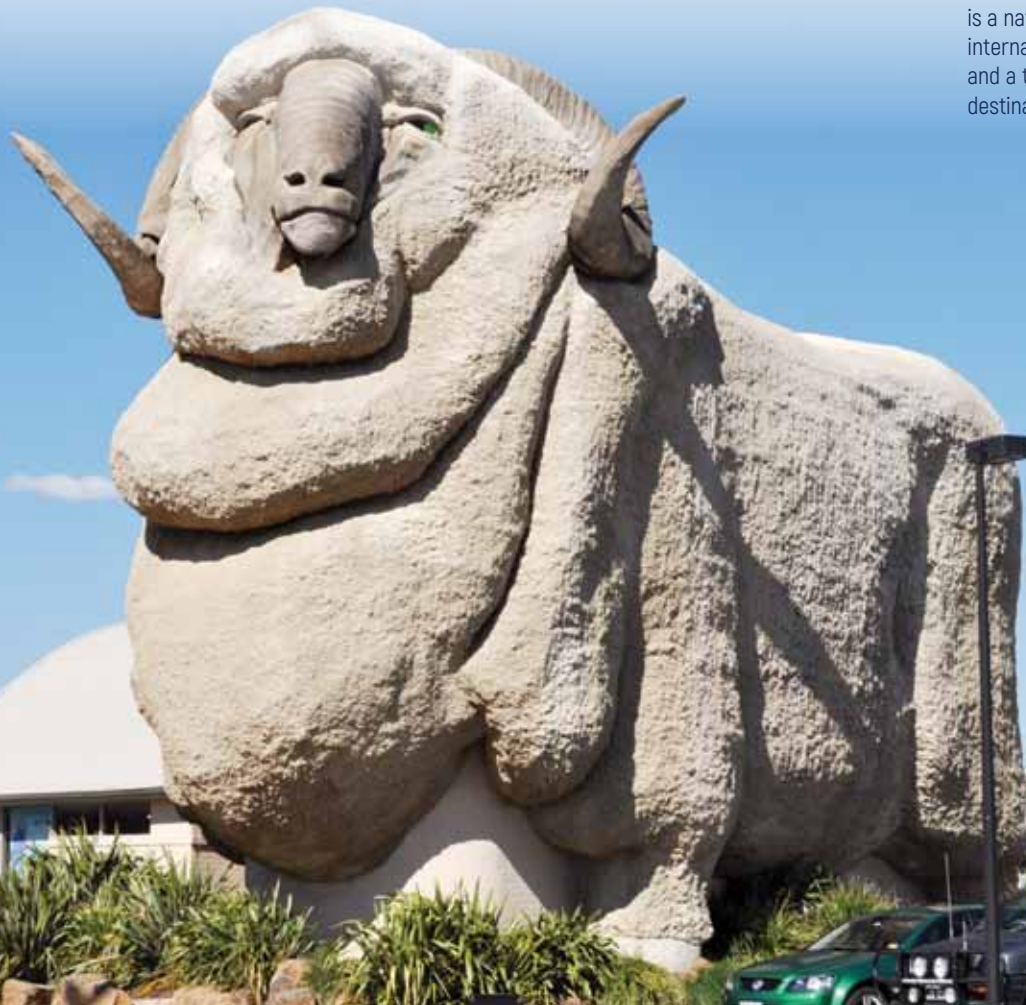
transport through to Port Botany or Port Kembla, should other broker interests look at using the Goulburn area for warehousing or indeed AWH look at consolidating storage and handling from other areas where they currently store wool.

Should the re-establishment proposal be successful, Goulburn Mulwaree Council and RDASI aim to work with industry to raise the profile of NSW wool. A “clean and green” location for NSW Wool Sales can help showcase wool’s desirability as a natural, sustainably-grown fibre, and be a platform from which to share the industry’s success stories. These are all necessary ingredients for marketing as consumers seek more provenance history and to make more ethical and informed purchases.

There is significant tourism and education potential with re-establishing the wool sales in Goulburn, including potential for wool industry education, school and tertiary excursions, a wool museum and profiling of the industry, café and retail facility. A dedicated and accessible wool precinct would not only attract visitors and raise the profile of wool industry careers, but may also encourage more growers to attend sales, enhancing the connections between growers, brokers and buyers.

Research indicates that the wool industry is increasingly moving towards automation, requiring the development of, or access to, new skills for many industry participants. Goulburn’s location in close proximity to 5 universities and the CSIRO will facilitate the sort of professional development and innovation required to drive the industry forward into the future. In addition, Goulburn is currently developing a partnership with University of Canberra to facilitate internships for senior students. These students often undertake special projects in local businesses for example, identifying supply chain efficiencies, new markets and marketing approaches, and would be a useful resource for the wool industry.

Goulburn’s Big Merino is a national and international icon and a thriving tourist destination



YASS - Location Option

During relocation proposal discussions, potential proponents from Yass indicated interest in a Yass location option for the Yennora Wool Sales relocation. While relocation is entirely a matter for industry, Yass presents similar advantages to Goulburn in its location and infrastructure.

The Yass Valley Local Government Area (LGA) has an area of 4,087 square kilometres, significantly larger than the neighbouring ACT (2,358sq km). Most of the region has an agricultural base, with cool climate wineries east of the Murrumbidgee River, and sheep and wool production in the north and west.

The Yass Valley Local Government Area (LGA) has a population of 16,270 (June 2013 ERP1) and has been growing at an average of 2.5% since 2003.

Yass Valley has enjoyed rapid population growth in recent years, well above the national and state averages, due to its proximity to Canberra. While this influence is expected to continue, and accelerate over time, Yass Valley also offers unique locational advantages of national significance, given that five major highways and the main Sydney to Melbourne rail line all converge within its boundaries.

The majority of local businesses are based on primary agricultural production, wine, food and tourism. (Source: Yass Economic Development Plan, 2014)

Like Goulburn, Yass has wool storage warehousing infrastructure and several established wool brokerages. It is located on the Hume Highway, some 3.5 hours' drive from Sydney. Detailed analysis in this report has been modelled on a Goulburn relocation plan for the sales however if industry wished to consider other locations, similar analysis could be extrapolated or undertaken by industry.

RELOCATION CONCEPT BENEFITS

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Decentralisation to a Goulburn based wool marketing centre provides all participants with a central, convenient and cost efficient destination for the orderly exchange of ownership of wool under the current selling system methods in place in the industry.

The Goulburn plan would enable a larger contribution by both brokers and buyers to the local marketing of wool in differing ways. Heightened awareness of wool through a greater public accessibility to the auction sales and show floors that the general public seem to find interesting as witnessed at events such as the sales held at Sydney Royal Easter show or the IWTO congress in Sydney recently is a possible advantage. Tucked away at Yennora, the industry is basically a private auction and event. A wool library, research education centre would be a key ingredient as would be opening the show floor and auction sales to all under the right circumstance and control.

A "centre of excellence" as proposed would assist winning the competition for the landholders' production to be devoted to wool sheep. A dedicated centre to wool would create an ongoing sense of the industry having a viable future and make wool growers confident in their industry.

Wool Growers

For wool growing producers and their selling agents not willing to take on the stress ridden trip to the congested Sydney location, a more readily accessible and less stressful environment will be made available in which to offer their or their clients product for sale.

Affordable accommodation, familiar and easier navigable roads, ample restaurants and club facilities, coupled with the all in one selling complex will assist to make the wool growers and selling agents business experience of selling their or their clients wool clips a more agreeable event. Those wool growers or wool agents residing in close proximity to Goulburn, of which there are many, have the added benefit of being able to reduce their costs spent away from home, office or farm.

Attendance at the wool auction sales by wool growers is anticipated to have a much greater participation rate due to location and all wool growers will be provided a highly professional and comfortable venue to conduct their business.

Easier access to view the wool show floor sale sample will also allow for greater comparative production, giving rise to a potential quality of clip improvement as growers can pit their own clip against many others on any given day.

An increased closeness or access to the wool buyers and overseas users visiting, will give enhanced information flow in regards to the demand situation of wool type and the processing trends of consumer goods made from wool. Improved planning of production could be gained leading to more efficient and profitable wool growing.

The Goulburn plan in place would potentially enable many more growers the opportunity to see the value of their investment dollar through the exposure to some of the R&D and marketing undertaken by AWI on their behalf.

Wool Selling Brokers

The key benefit of decentralisation to Goulburn is the significant annual cost reductions to all wool selling brokers currently operating out of the Yennora distribution centre and surrounds. Having shouldered the rising and proportionately higher lease and operating costs of the Sydney rental and labour markets, all brokers will have the ability to potentially reduce their operational lease fees per annum in half, with the cost of show floor space making up a large portion of the total expenditure required to conduct their business. A fiscal beneficiary of course could be their wool growing clients achieving lower selling costs.

Greater and more personal contacts with their wool growing clients, with higher attendance rates at auction sales by wool growers is an expected result of decentralisation.

Amalgamation to a single site at Goulburn allows wool selling brokers beneficial cost saving synergies by shared labour costs for the work force required for sale sample receipt, handling and display.

The independence provided may lead to further cost saving measures for wool sellers such as shared sale administration and post-sale delivery instructions if participants so choose.

Relocation to Goulburn may aid in a chance for NSW wool selling brokers to retrieve or add market share by attracting wool growers from the Western and Riverina areas of NSW whom may consider the Goulburn centre proposed as a more attractive and accessible option in disposing of their clip.

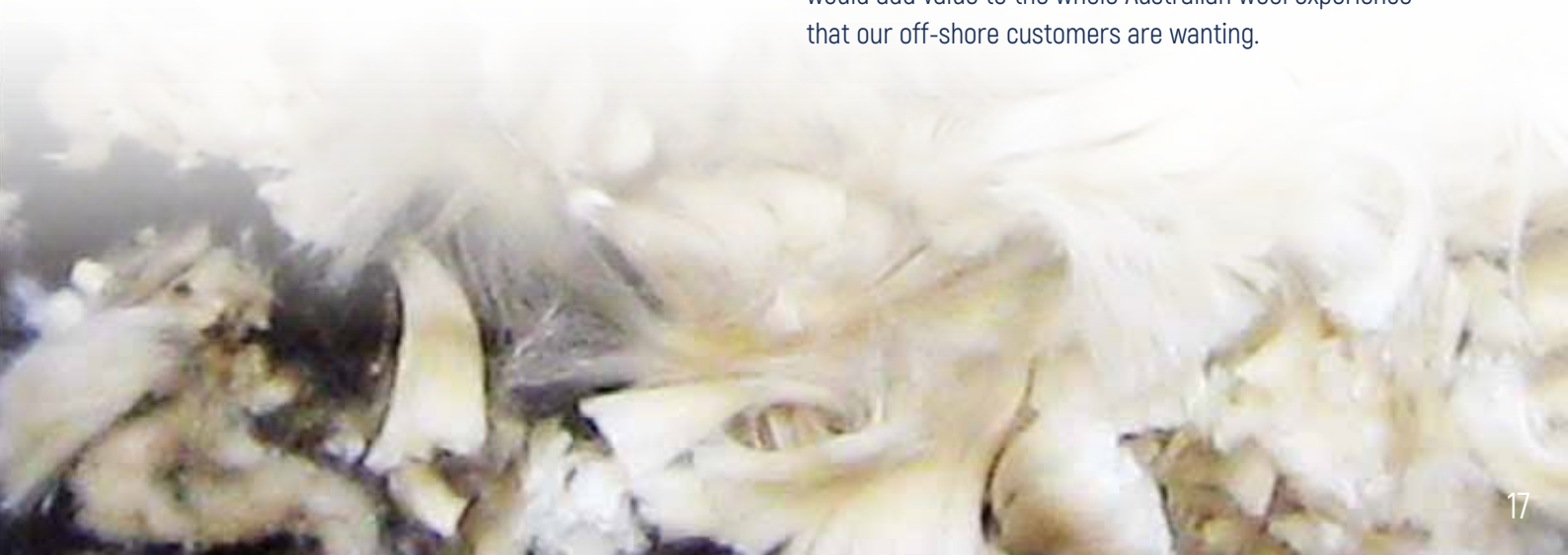
Wool Buyers and Exporters

Wool buying and export companies will have the convenience of a cost and time efficient single site area in which to evaluate and accumulate the sale lots necessary for their primary business function. By relocation to Goulburn under a potential one roof site, inter wool store travel is eliminated, as are the daily commutes through the congestion of Sydney's traffic to reach the current site in the middle of Fairfield in the heart of greater western Sydney. This would transfer to immediate cost saving and create more timely business results for buying customers.

The new build of modern sale rooms would allow for digital integration and upgrades to facilities at the point of exchange. Wider scope to auction participation from potential off site viewers by use of modern live stream web technologies would be enabled, with live decision making by growers and sellers a possibility of being enabled.

In addition to the ease of access to attend wool auctions and meet with their suppliers, visiting overseas customers of wool buyers and exporters would have a far greater interactive experience with the sale process itself and gain confidence in the transparency and professionalism of the conduct of such sales.

The visiting customers of exporters would also have greater access to farms and shearing shed and in a much more time friendly manner. Such visits to rural areas are often a prerequisite featured in itineraries of the companies that ultimately purchase wool, both processors and retailers. The Big Merino attraction would add value to the whole Australian wool experience that our off-shore customers are wanting.



Wool Industry Bodies

Relocation to Goulburn may also entice our wool industry bodies to be actively involved. AWI, AWEX, AWTA and WPA may see benefits in the centre to further their own businesses and possibly see synergy advantages by coming closer to industry.

AWI – Australian Wool Innovation

Consideration and an offer should be made for Australian Wool Innovation Limited (AWI Ltd) to become involved on the education, marketing and extension roles that they hold in the industry and on wool sheep production and harvesting strategies, currently part of the recently released strategic plan for the next 3 years.

A Goulburn centre may provide an opportunity for AWI to showcase the latest innovations to their wool growing shareholders, industry participants and overseas visitors, whilst potential earnings from tourist entry fees to the centres may be charged, along with other attractions provided under the Goulburn plan.

The centre could provide a site for a wool research and development centre and library may be beneficial and the closer situated physical site to their growers may enable sheep productivity workshop venues and shearer and wool handler training opportunities.

The Goulburn concept plan would enable AWI to showcase to more growers and industry participants the R&D and marketing efforts undertaken by AWI on behalf of their wool grower shareholders.

AWEX – Australian Wool Exchange

AWEX sale catalogue auditors would have greater access to wool classers and wool growers to help maintain, develop and improve industry standards.

State of the art, new build sale rooms would enable AWEX to introduce and implement modern technology options into wool selling and the process if needed.

AWTA – Australian Wool Testing Authority

Lease cost reductions compared Yennora operations for sampling.

Consolidation of staffing as AWTA has staff in both Yennora and Goulburn.

WPA – Wool Producers of Australia

Opportunity to become closer to industry and trade. Possible relocation of offices from Canberra may be a consideration?

6

REQUIREMENTS FOR
RELOCATION

Approx. 12,000 sq/m show floor space for sale day showing of samples.

- Specific lighting specifications required
- Approx. 1,000 sq/m for sample racking/storage
- 2 sale rooms of equal dimensions of approx. 150 sq/m each
- 2 sale viewing galleries of equal dimensions of approx. 45 sq/m each
- 4 large sale room office accommodation for "big 4" wool selling brokers at approx. 80 sq/m each including plumbed catering areas
- 1 large sale room office accommodation for Inland Wool Brokers at 100 sq/m including plumbed catering area
- 1 large sale room office for AWEX at approx. 80 sq/m
- 12 Sale room offices at approx. 15 to 20 sq/m for wool buyers and exporters and others
- 1 communal buyers catering / dining area of approx. 80 sq/m
- Dedicated parking bays numbering approx. 50 spaces
- High speed fibre telecommunication capability
- Heating and cooling
- Bathroom facilities



SAMPLE SITE PLAN

7



*Goulburn developer and farmer Mike Agnew has put forward a proposal to redevelop an existing wool warehouse to accommodate wool sales, a wool museum and education and training facilities in Goulburn, located on Hume Street and within close proximity to Goulburn's Big Merino complex.

RELOCATION OPTIONS

Option 1

AWH DECENTRALISATION – HEAD LEASE AGREEMENT

As per AWH proposal with agreement from Wool selling Brokers and Wool growers. It is anticipated the proposal will revolve around very limited capital works or development expenditure.,

- AWH will manage and set fees for all sub-lease agreements
- AWH will provide contract labour, management and finance of all centre running costs and maintenance to sub lease tenants.
- AWH managed centre 100% on site at current AWH buildings.
- Sale rooms, broker and buyer offices would need to be addressed.
- Upgrade and overhaul of facility to acceptable standards.
- Accessibility wheelchair ramps.
- It is anticipated that other options under consideration away from wool auctions and showing of samples would not come under this option.

Option 2

PART AWH/PART GREENFIELD SITE DEVELOPMENT – PART HEAD LEASE/PART STANDARD LEASE AGREEMENT

Relocation with show floor placed at either of the AWH owned property in Goulburn. Sale room and other planned wool related operational facilities such as library, museum, resource / development centre, shearer and wool handler training centre etc. to be new build/ new fitout near as possible to Big Merino tourist precinct ! Show floor to be provided by AWH and sub leased as per Yennora arrangements.

- AWH lease directly to individual wool brokers or broker groups. The tenant nominates the show floor area required.

- AWH will provide all show floor and sample management.
- Developer / Council / AWH acquire land parcel and construct new build adjacent to Big Merino or within precinct that allows for full exposure to passing traffic to ensure best possible chance of success for other riskier ventures. As outlined above whereby income is somewhat indiscernible for such investment.

Option 3

STANDARD LEASE AGREEMENT

Through the RDASI, facilitate the reference group's consideration of site development for the entire centre's requirements. The successful tenderer:

- Leases show floor space directly to individual wool brokers or broker groups. The tenant nominates the show floor required of the total area available.
- Leases sale rooms directly to the sale room operator. Show floor tenants to negotiate fee for use directly with the sale room lease holder.
- Office space leased directly to tenants. Office fit out at the lessors cost and lease fees subsequently negotiated directly at all in basis.
- All outgoing costs of the show floor are additional to the tenant and will be calculated proportionately by area of tenancy.
- Catering area costs are additional to the tenant and calculated proportionately by area of tenancy, Tenants to stock, manage and maintain common catering area by collective agreement.
- Tenants to organize, maintain, manage and finance the complete running of their handling, sample security and show floor.
- After-hours access, building security and amenities maintenance to be managed and financed by collective agreement amongst tenants.
- Building and surrounds maintenance to be at the cost and management of the lessor.

Option 4

OPERATIONS AND MANAGEMENT LEASE AGREEMENT

Through the RDASI, facilitate the reference group's consideration of site development for the entire centre's requirements. The successful tenderer then offers lease options whereby all show floor, office space, sale room and additional development areas plus the management and handling are totally inclusive in a set fee for service agreement.

Inclusions are and not limited to:

- Show floor, office, sale room and additional facility space
- Building outgoing of electricity and water
- Building security
- Fire protection
- Percentage share of common areas and catering facility based on total show floor space commitment
- Lessee can extend to private catering area with notice in advance of development
- All labour and costs associated from the services stated below
 - Sample receipt and placement to and from show-floor
 - Pre and post-sale sample security and storage
 - Pressing of sale samples into packs for delivery back to wool selling broker or bulk classing and pressing for sale lot batches.
NB: Delivery to and fees for testing will be additional
 - Maintenance of show floor fixtures and equipment used
 - Maintenance and supply of amenities blocks
 - Maintenance of catering area

Under the operations and management lease agreement, tenants are to provide the following:

- Equipment
 - Sale sample display trestles
 - Sale sample display boxes
 - Display cages for traditionally shown lots
 - Signage (limited by collective lessee agreement)
 - Office space fit out
 - All insurances
- Services
 - Delivery of sale samples to and from AWTA
 - Pre-sale evaluation of their own sale lots
 - Ex-store delivery charges for post-sale samples/bales
 - Office space cleaning
 - All telecommunication costs
 - Catering supplies
- Sale rooms
 - Sale rooms leased to nominated sale room operator. Show floor tenant then to negotiate fee for use directly with that nominated sale room lessee
 - The lessor leases sale room use directly with all show floor tenants based on pro rata use of total show floor space
- Additional handling charges
 - Re-offer handling fee per sale lot per each occasion reoffer is requested
 - Cost of traditional shown show floor set up bales

9

SCENARIO ANALYSES

RDASI commissioned Deloitte Financial Advisory to model a number of options for broker offices, wool storage and showroom facilities located in outer Sydney regions. The purpose was to assess the potential cost savings to the wool industry from moving the current facilities from Yennora to Goulburn. The full Deloitte analysis is at ATTACHMENT A of this report however, in summary, the analysis shows significant cost savings to industry in relocating wool sales to an outer Sydney regional area, such as Goulburn.

Scenario 1

Relocation of Broker Offices and Showroom Facilities Only

RANGE OF COST SAVINGS	LOWER BOUND	UPPER BOUND
Broker Office	\$0.89m	\$1.04m
Showroom	\$1.00m	\$1.00m
Broker Travel	\$0.55m	\$0.55m
Transportation		
Net Cost Savings	\$2.44m	\$2.60m
Net Savings (\$ per bale)	\$5.00	\$5.32
5year/ 10 year NPV	\$10m/\$17m	\$11m/\$18m

Scenario 2

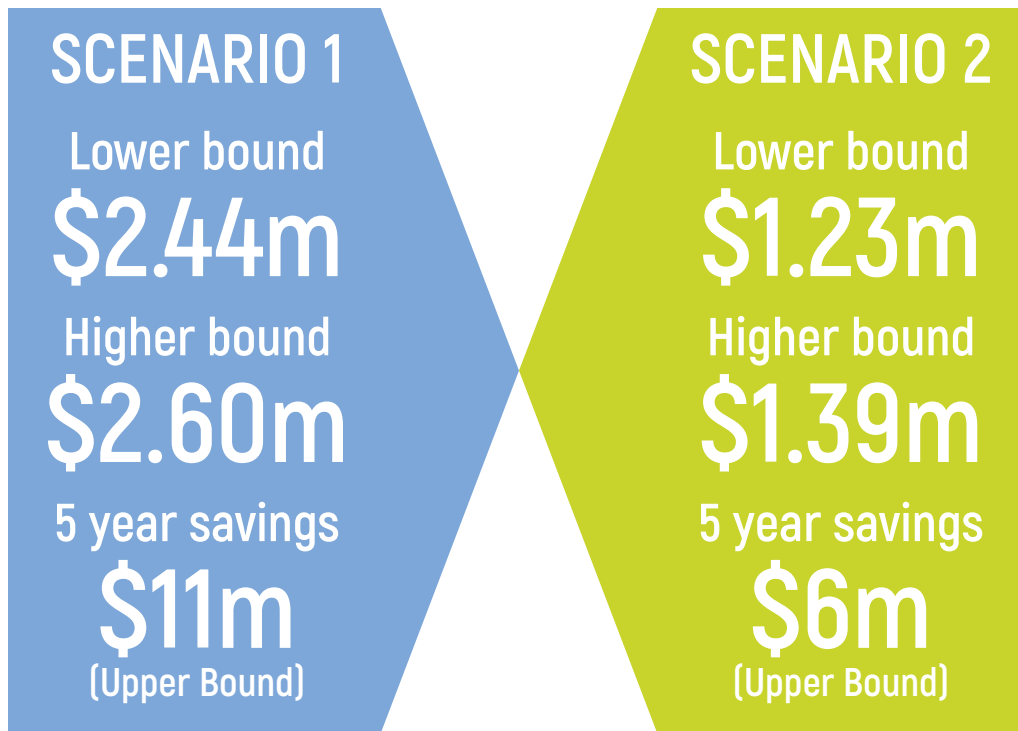
Relocation of Broker Offices, Showroom and Storage Facilities

RANGE OF COST SAVINGS	LOWER BOUND	UPPER BOUND
Broker Office	\$0.89m	\$1.04m
Showroom	\$1.00m	\$1.00m
Broker Travel	\$0.55m	\$0.55m
Transportation	-\$1.21m	-\$1.21m
Net Cost Savings	\$1.23m	\$1.39m
Net Savings (\$ per bale)	\$2.52	\$2.84
5year/ 10 year NPV	\$5m/\$9m	\$6m/\$10m

* Scenario 1: Relocation of wool broker offices and showroom facilities

* Scenario 2: Relocation of broker offices, showroom and storage facilities

Scenario Analysis Summary



The analysis shows that the only cost component expected to increase is transportation costs under Scenario 2 (includes wool storage at Goulburn). Broker and buyer transportation costs are expected to increase by \$1.2million per annum. This is due to an increase in the average distance travelled when transiting through a regional location to the port compared to transporting from Yennora. This increase to costs partly offset the savings generated by relocating the facilities, resulting in net cost savings of \$0.8million less than Scenario 1.

The figures above show the expected cost savings which incrementally increase across Scenario 1 but decrease in Scenario 2 due to the inclusion of wool storage in this scenario. Each additional facility relocated adds further benefits as the cost of operating the broker offices, showroom and storage facilities are lower in Goulburn compared to Yennora. However, the transportation cost incurred due to an increase in the average distance travelled when transiting through Goulburn to the port compared to transporting from Yennora. Therefore, the greatest cost savings is generated by relocating broker offices and showroom facilities only from Yennora to Goulburn, which is Scenario 1.

10 WOOL STORAGE

NSW is the largest wool producing state in Australia, with the largest volume of wool transported through it. Fifty percent of Australian wool by volume travels through NSW before export.² This includes wool from NSW, wool from Queensland for sale and export in NSW, as well as Queensland wool transported through NSW to Victoria and South Australia for processing and/or export.

In 2015, 515,590 bales of wool were sold at Yennora, 923,136 at Melbourne and 340,367 were sold at Fremantle³. Not all wool produced on farm in NSW is transported to broker and private treaty merchant stores in NSW. The NSW Government estimates that 83% of NSW-produced wool is delivered from NSW farms to warehouses within NSW, while 17% of this wool is transported interstate, mainly to Victoria (often from the Riverina). After sale, some wool is transported from regional warehouses to ports outside NSW for export or to mills for processing before export (as there is no processing capacity in NSW)⁴.

There were 20 warehouse locations used by auction brokers in 2014. AWH (Australia's largest wool handlers) indicates that there has been a shift away from storage of wool in Sydney to storage in major regional centres, such as Wagga Wagga and Dubbo.⁵ This has been confirmed by desktop research which indicates that no wool is now stored at Yennora in 2016, rather warehouses are receipt and distribution points for multiple products including wool. This means that all NSW wool is now stored in regional and rural NSW.

² NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries 2015.

³ Australian Wool at a Glance, AWEX, <http://www.awex.com.au/media/1518/australian-wool-at-a-glance-2015.pdf>

⁴ NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries 2015.

⁵ NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries 2015.



Wool warehouse locations NSW

Australian Wool Handlers (AWH) holds the head lease on the Yennora wool stores and selling centre. It also owns and controls the bulk of the wool storage warehouses across NSW including warehouses at Bathurst, Goulburn, Cooma, Wagga, Rutherford and Dubbo.

Storage locations across NSW are as follows:

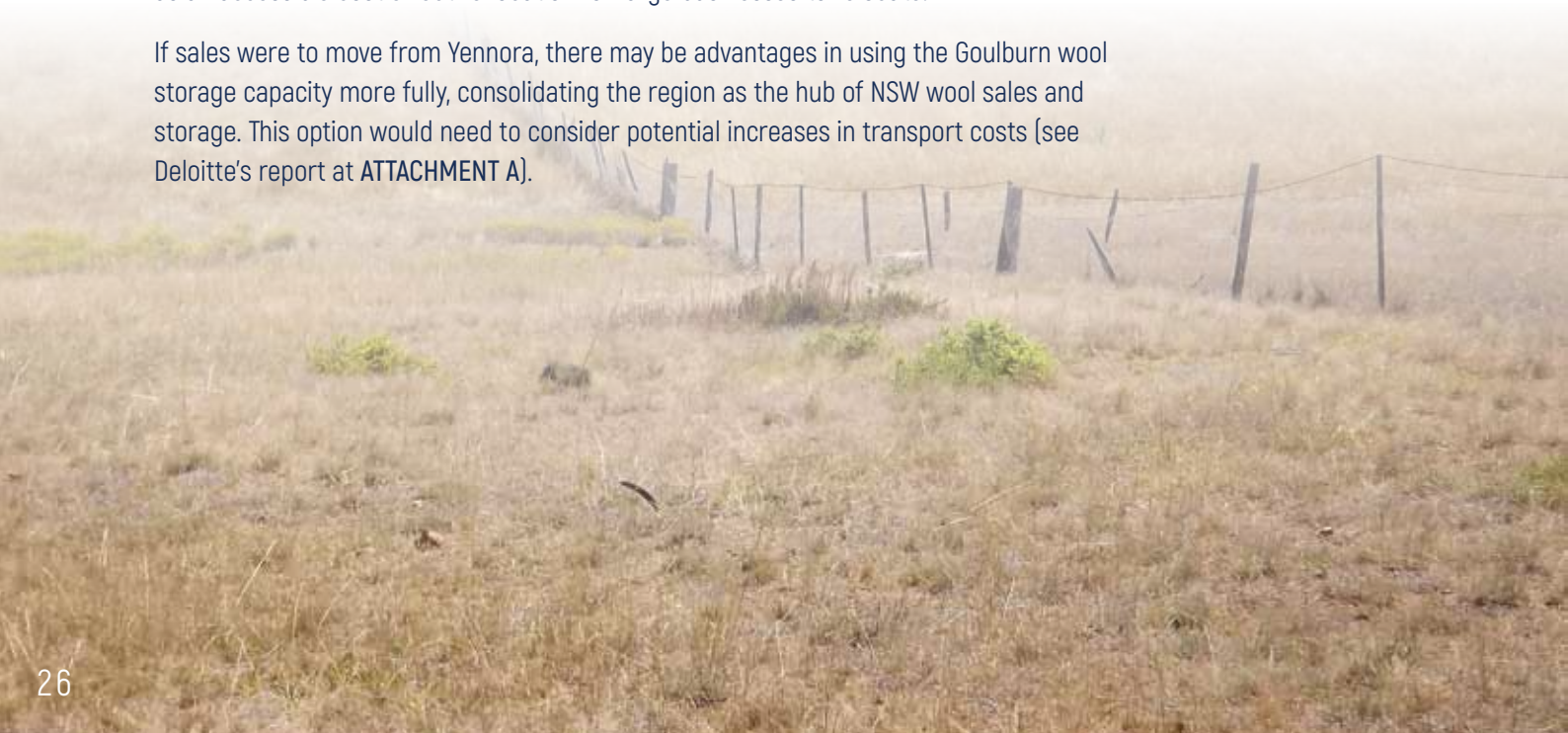
The 2015 NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries report submits that a change in the selling location away from Sydney would probably not have significant effects on the transport, handling, storage and shipping of the wool bales produced in NSW.

Goulburn is the largest wool storage centre in NSW. Wool is sent from across State for storage in Goulburn warehouses where it is tested for micron, yield, length and strength, before it is exported. Australian Wool Handlers' warehouse, one of two in Goulburn, holds approximately 25,000 bales and, in 2014-15, moved more than 100,000 bales.

ALBURY	BATHURST	CANOWINDRA	COOMA
CONDOBOLIN	COWRA	DUBBO	FORBES
GOULBURN	GRENFELL	GRIFFITH	INVERELL
PARKES	RUTHERFORD	SYDNEY (YENNORA)	TAMWORTH
TEMORA	WAGGA WAGGA	WEST WYALONG	YASS

While the Yennora wool selling centre has access to a railway intermodal terminal, there are moves by CF Rail Services [based in Goulburn] and Qube Logistics Rail Services to offer rail freight handling facilities in Goulburn. The initiative has the potential to offer seamless rail freight transport through to Port Botany or Port Kembla for wool merchants, increasing the Goulburn location's potential as a wool selling, storage and distribution centre. Additionally, Canberra Airport has now opened to international freight, adding to the viability of Goulburn as an accessible cost effective location for large businesses to relocate.

If sales were to move from Yennora, there may be advantages in using the Goulburn wool storage capacity more fully, consolidating the region as the hub of NSW wool sales and storage. This option would need to consider potential increases in transport costs (see Deloitte's report at **ATTACHMENT A**).



11 WOOL INDUSTRY EDUCATION AND TOURISM – PHASE 2

As stated in this report, NSW is currently Australia's largest wool-producing state, producing 9% of world wool production however production in NSW has also been declining steadily, in line with declining national and world wool production.⁶

Despite the drop-in production due to the low wool prices in the 1990s and competition from other agricultural enterprises, Australia is still the world's largest wool producing country and, for Merino wool, Australia produces an estimated 80% of the world's wool production of 20 microns or finer. Given Australia's domination of the commodity, any increases in the demand for wool, particularly at the consumer stage, will benefit Australian wool growers.⁷

Relocation of wools sales from Yennora to a regional city such as Goulburn, offers potential to establish a wool education and tourism facility. Combined with the wool sales, an education and wool industry tourism centre, may offer marketing and promotional opportunities for the wool industry generally, particularly at the consumer stage. Some costs to establish a wool museum and education facility are included in the Deloitte's report at **ATTACHMENT A**.

Such a development could be undertaken in Phase 2 of the wool relocation proposal and could offer opportunities for wool industry education, training and demonstration. Change the second sentence to read - Similar to New Zealand's Agrodome which offers tourism, demonstration and an agricultural education curriculum, this development could be undertaken in a not-for-profit partnership between Local Government and the wool industry, peak farmer groups such as the NSW Farmers Association and Australian Wool Growers Association, the Australian Wool Innovation (AWI) and with potential funding assistance from the Australian and NSW governments. Educational institutions such as Sydney University may also seek involvement if such a centre were to deliver educational short courses.

Goulburn is a vibrant tourism destination for many visitors, with tourism an important contributor to the local economy. In 2014-15, 135,243 international visitors and 530,820 domestic visitors stayed overnight in the Goulburn Mulwaree region. A Goulburn relocation of the Yennora wool selling centre could offer 'spin off' benefits for the local and regional tourism industry.

⁶ NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries 2015.

⁷ NSW Wool Industry and Future Opportunities, NSW Department of Primary Industries 2015.

ACHIEVING YENNORA RELOCATION CONSENSUS

12

Relocation of the Yennora Wool Sales is a decision for industry, primarily brokers who currently lease the Yennora wool sale and show floor space from Australian Wool Handlers (AWH). As the Yennora head lease held by Australia Wool Handlers' expires at Yennora in December 2017, cost effective options for relocation of the NSW sales to an outer Sydney region are timely.

RDASI's role is one of facilitation only, assisting the industry and other relevant partnerships such as Local Government, to consider options for relocation. However, any decision made to relocate must have the wide support of industry. To ensure a transparent decision-making process, this report recommends the formation of a Yennora Wool Sales Relocation Reference Group comprising industry membership across brokerage, growers, buyers and industry peak bodies.

There has been significant interest from developers seeking to become involved in any wool sale complex in Goulburn and Yass. Industry can take advantage of this momentum to achieve either fit out of existing facilities or development of a purpose-built site. Taking development proposals further would be a matter for the future Yennora Wool Sales Relocation Reference Group.

RDASI would chair such a reference group, with the aim of achieving industry consensus on wool sale relocation from Yennora, and to assist with any future activities supporting consensus such as grower and/or broker surveys.



13 ACTION PLAN

Towards a New Wool Selling Future in NSW recommends action beyond the tabling of this report, and financial analysis of potential savings to industry in relocating the wool sales from Yennora to Goulburn or a nearby regional location. Specifically:

1 Formation of a Reference Group to consider this report and financial analysis. Membership of the Group would be drawn from across the wool industry and consist of brokers, wool growers and relevant peak bodies. The Reference Group would be chaired by RDASI.

2 Facilitating industry consensus – further action could be considered to assist the industry reach consensus of wool sales' relocation.

3 Partnerships – Decentralisation provides opportunities for regional jobs growth and, as such, funding opportunities from the Australian and NSW governments could be investigated. Local Government assistance in the relevant locations should also be investigated to determine the best ways Local Government can assist a relocation proposal.

4 A summary of this report could be released to the public, for example, and media releases following formation of the Reference Group could be distributed to local and regional media.

PROPOSAL SUMMARY

14

The wool sale relocation proposal presents to the NSW industry two critical objectives to consider, significant cost saving benefits and solidifying the future for a wool selling system in the state on NSW.

The proposed relocation with single site operations will aid in productivity gains for all and a professional outlook and image of the wool selling industry will be resultant.

By the establishment of a more user friendly and efficient selling system at Goulburn or a nearby regional centre, confidence will be enhanced with current wool growers enabling them to continue, and perhaps enlarge their wool production. The centre will assist in attracting fellow land holders to consider converting some or all of their on-farm enterprise to wool growing and sheep production.

Decentralisation to Goulburn or a nearby regional location widens the access to the sale days and selling facilities for most of participants. The importance of maintaining and improving wool preparation and quality standards by wool growers and their employees attending the sales can never be under estimated. First hand visual production comparisons have long been an important tool for discerning wool growers, wool classers and the standards regulators.

Towards a New Wool Selling Future in NSW presents a feasible case for relocating the wool sales from Yennora to Goulburn or a nearby regional location. Financial analysis reveals considerable savings to industry and potential opportunities to expand a regional wool sales centre into an industry education and tourism facility – opportunities which are not available in a Sydney location.

This report presents scenario analysis by Deloitte. All scenarios examined demonstrate financial savings to the wool industry in relocation. In particular, Scenario 1; relocation of wool broker offices and showroom facilities, would yield savings to industry of \$2.5million.

This scenario could be realistically achieved in Phase 1 of the relocation.



15 ABOUT RDA SOUTHERN INLAND

RDA Southern Inland is a State and Federally funded non-government body encompassing 7 Local Government Areas – Hilltops, Upper Lachlan, Yass Valley, Wingecarribee, Goulburn Mulwaree, Queanbeyan Palerang and Snowy Monaro.

RDASI's role is to facilitate the regional development efforts of all levels of government, Southern Inland businesses and the broader communities. Our aim is to maximise economic development opportunities for the region by attracting new businesses, individuals and investment to the region, growing our local businesses and encouraging innovation.

Our role is

- advocate on behalf of the region
- facilitate community and economic development and discussions regarding regional priorities
- endorse initiatives and projects that promote development
- inform businesses and governments of the opportunities available for regional development
- act as a partnership broker bringing government and business together
- build alliances with many of the other organisations who are also seeking to improve the economic and social outcomes for the region

RDASI's role in relation to the Yennora Wool Sales Relocation proposal is to facilitate further information and research on relocation and to assist industry decision making. Any such relocation would bring resulting economic development benefits to the Southern Inland region.



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SOUTHERN INLAND

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Cost Analysis for the Relocation of Wool Storage and Showroom Facilities from Yennora to inner regional NSW

Regional Development Australia
Southern Inland

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1 Introduction

Regional Development of Australia Southern Inland (RDASI) commissioned Deloitte Financial Advisory to model a number of options for wool broker offices, wool storage and showroom facilities located in an inner regional NSW area such as Goulburn. The purpose of this exercise was to assess the potential cost savings to the wool industry from moving the current facilities from Yennora.

Background

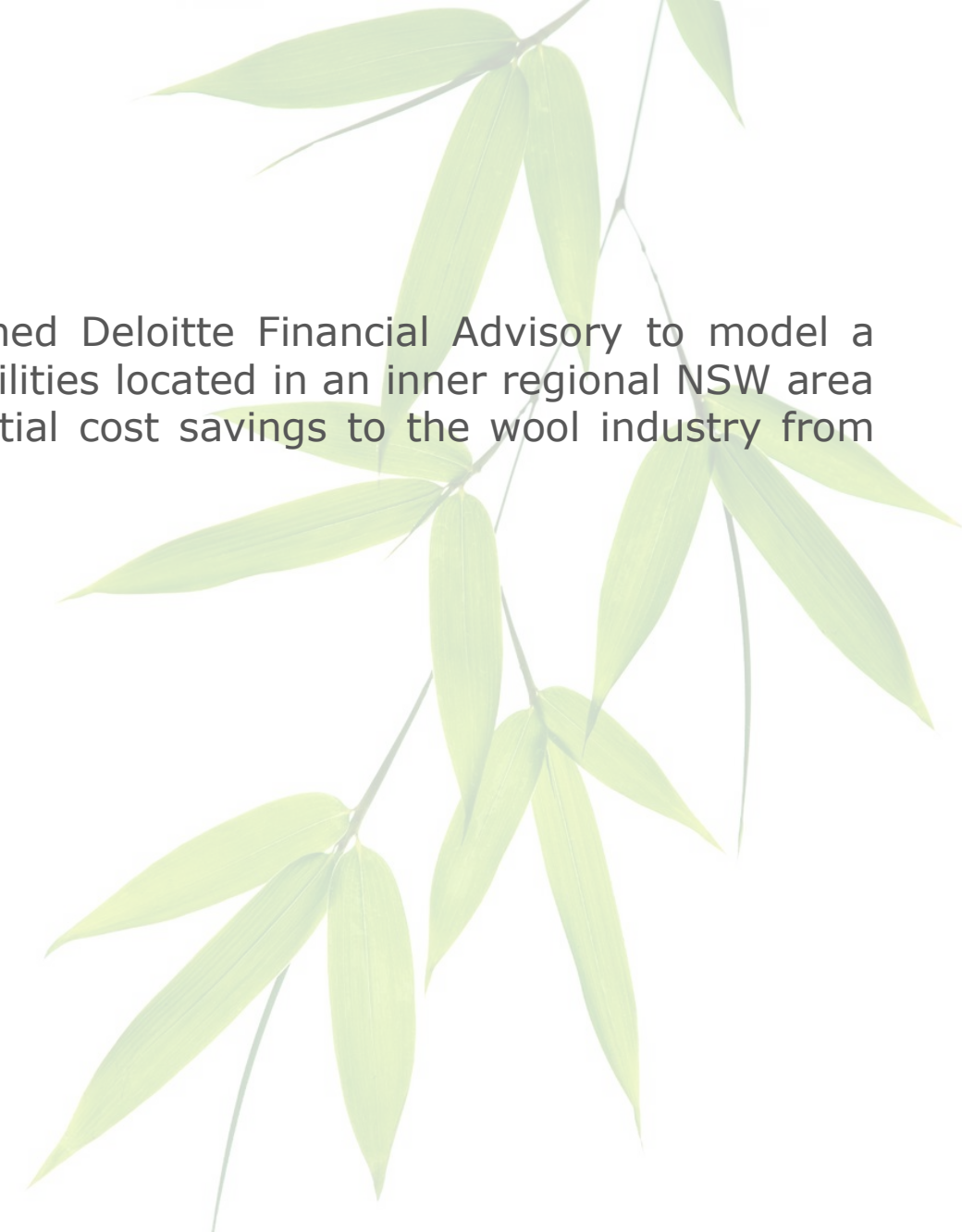
Currently, the Australian wool market is divided into three geographic locations: North (wool sourced from NSW/QLD), South (VIC/SA/TAS/NZ) and West (WA). Auctions are conducted in three selling centres: Sydney (Yennora), Melbourne (Brooklyn) and Fremantle (Bibra Lake).

New South Wales is the largest wool producing state in Australia, producing 123 million kg greasy in 2015/16, accounting for 38% of Australia's wool production. 50% of Australian wool by volume is also transported through NSW prior to export.

The facilities for NSW Southern Inland wool growers are located in Yennora. These facilities have been used for a number of years, however they have not seen any significant investment in recent times. The head lease for Yennora facilities is expiring in December 2017. This together with relatively higher rental costs in a city location and ageing facilities is moving the industry, facilitated by RDASI, to consider relocating to an outer Sydney regional area such as Goulburn.

The RDASI has recently consulted with various stakeholders in the wool industry across NSW regarding the potential relocation of wool facilities from Yennora to a regional location. The expectation was that the new facilities would be closer to growers and have improved showroom and office facilities.

These new facilities would also potentially include a collocated accommodation and/or education centre. Relocation of wool sales from Yennora to a regional city offers the potential to establish a wool education and tourism facility. Combined with wool sales, a wool museum and an education and wool industry tourism centre may offer marketing and promotional opportunities for the wool industry, particularly at the consumer stage. This would provide benefits to the decentralized wool sales location in generating tourism potential.



2 Approach

Approach to Costing

To estimate the cost of the various available options, Deloitte has largely relied upon data provided by the RDASI and other publicly available sources.

The approach involved costing the business as usual operations at Yennora, then identifying and costing two options for relocating all or part of the facilities to a regional location which could include Goulburn or Yass. The scenarios are listed as follows:

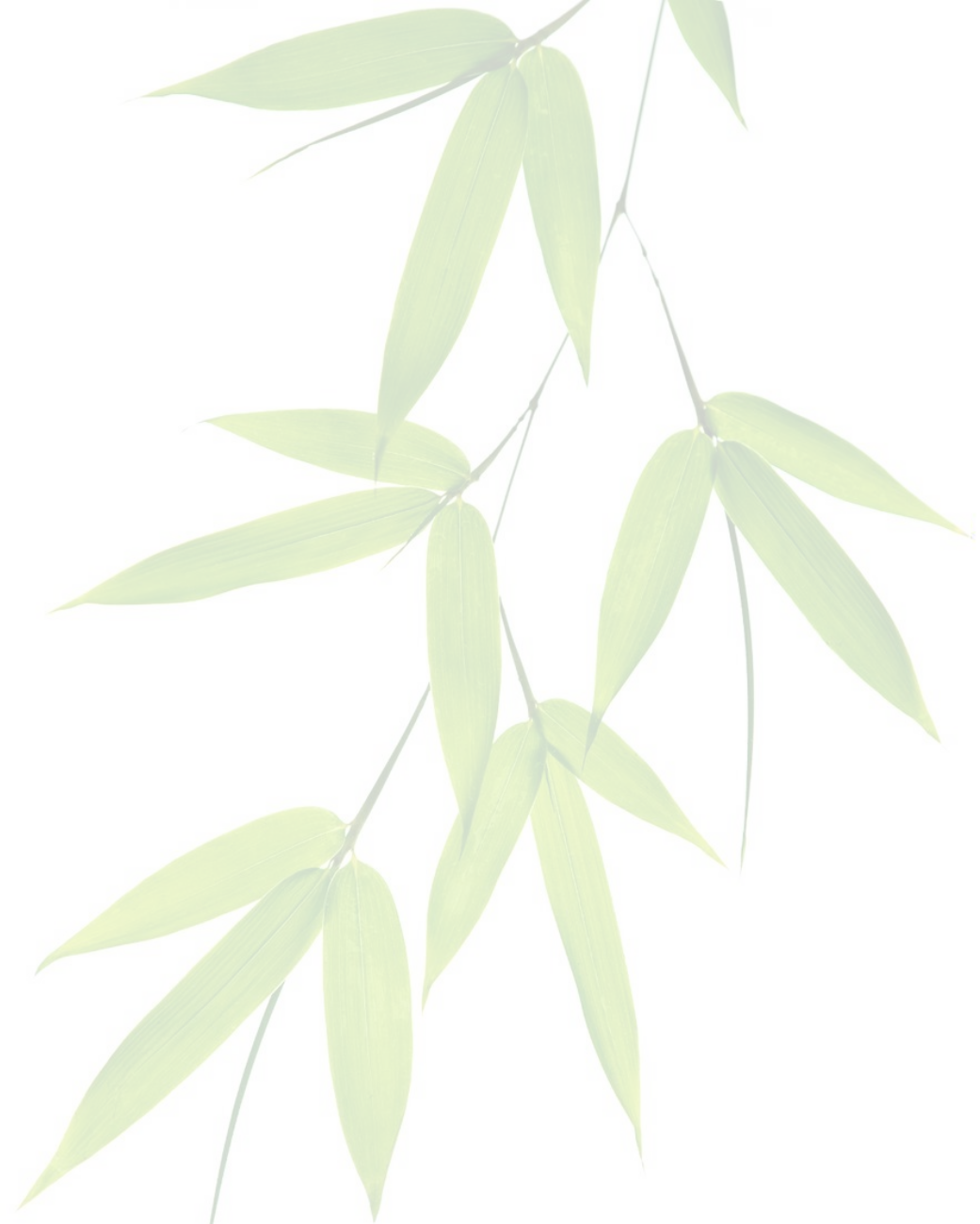
- Scenario 1 – Relocation of broker office and showroom facilities only.
- Scenario 2 – Relocation of broker office, showroom and storage facilities.

The results for each scenario are presented as total annual benefits relative to the base case.

Assumptions and Limitations

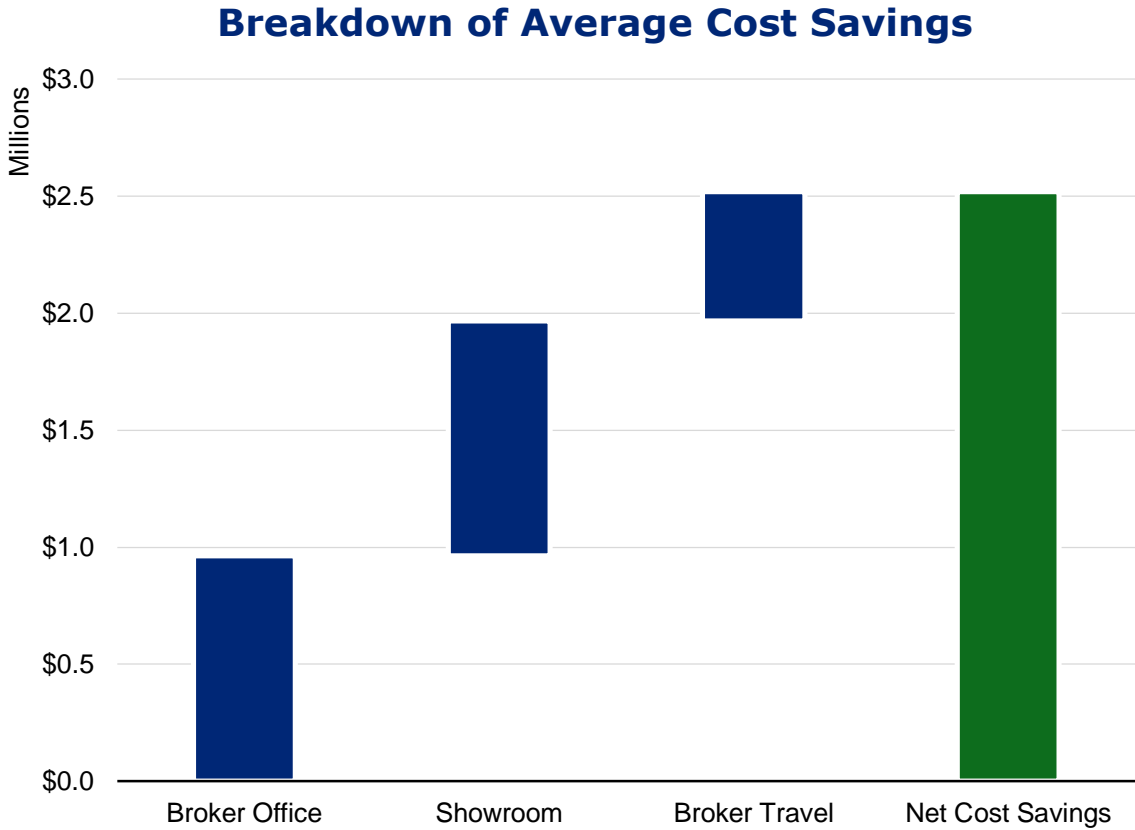
A number of assumptions were applied to the costing model, as listed below:

- Historical costing data was adjusted to 2016 prices assuming Australian Bureau of Statistics CPI inflation figures.
- Due to varying lease rates for the sales offices, a lower and upper bound for office rental costs was accounted for at the rates of \$140 per square metre to \$175 per square metre for office facilities.
- Due to limited information around the inventory levels at each NSW storage location, the transportation distance of wool bales for sale to both Yennora and Goulburn has been determined using the Goulburn, Wagga, Dubbo and Cooma warehouse locations.
- The change in broker travel costs has been estimated based on the location of broker agencies and whether brokers operate across NSW or in individual locations.
- Modelling excludes any costs associated with closing facilities at Yennora, and any additional setup costs for broker offices or sales rooms.
- Modelling also excludes the costing and design of any museums, accommodation and/or educational facilities which may be collocated at the new facility.
- Wool sales were assumed to be conducted over 45 weeks of the year, with brokers travelling one return trip per sale event.
- If a regional wool facility is established, it is assumed that wool for transport to port would flow through the new facility rather than through Yennora.
- A 7% discount rate was used to estimate 5 and 10 year net present value estimates.



3 Options Assessment

Scenario 1: Relocation of Broker Offices and Showroom Facilities Only



Broker Office

\$0.89m

\$1.04m



Showroom

\$1.00m

\$1.00m



Broker Travel

\$0.55m

\$0.55m



Transportation



Net Cost Savings

\$2.44m

\$2.60m

Net Savings (\$ per bale)

\$5.00

\$5.32

5 year/ 10 year NPV

\$10m/\$17m

\$11m/\$18m

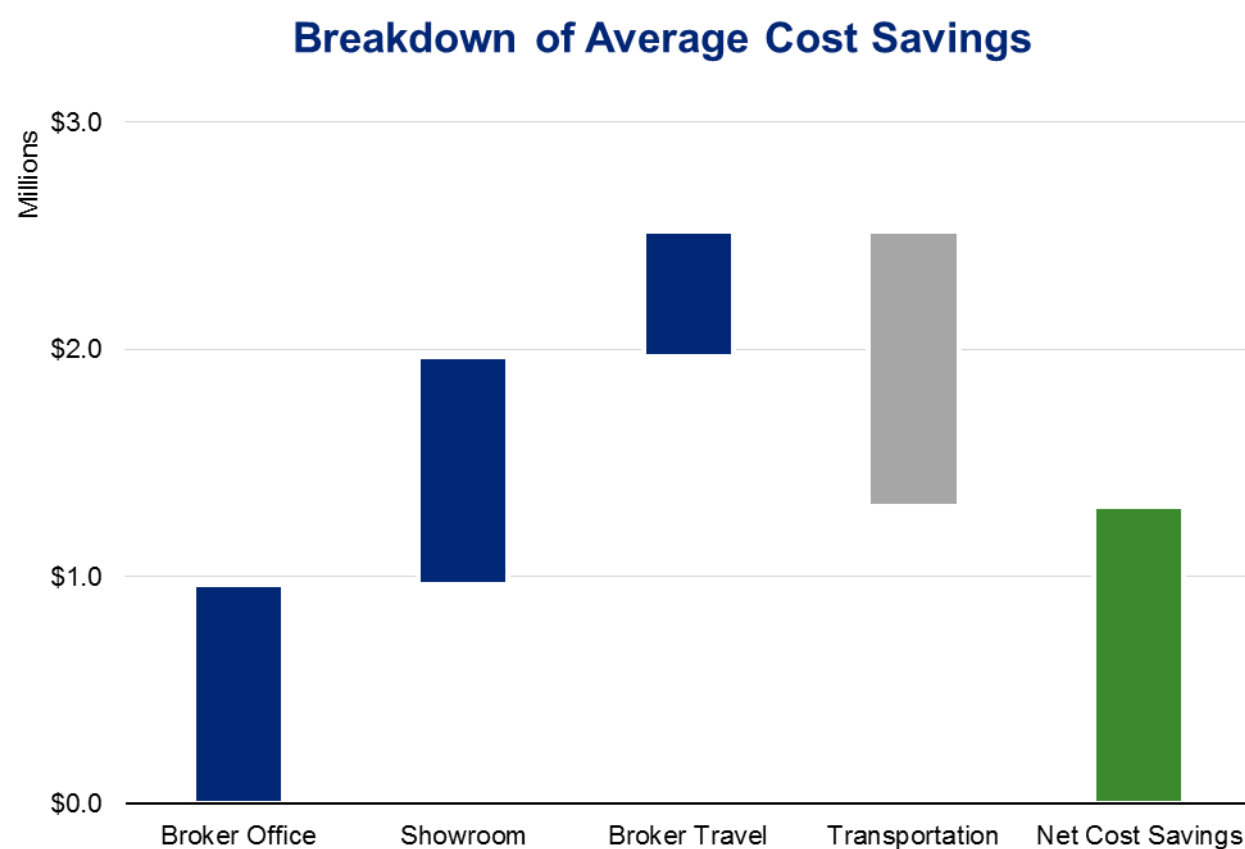
Discussion of Results

The expected annual cost savings of relocating the wool broker offices and showroom facilities ranges between \$2.4 million and \$2.6 million per annum, or \$5.00 to \$5.32 per bale. This corresponds to a net present value of between \$10 million and \$11 million over a 5 years, and between \$17 million and \$18 million over 10 years.

- The broker office cost savings are expected to range between \$0.9 million and \$1.0 million per annum based on lower per square metre costs relative to Yennora.
- The costs saved from relocating the showroom facilities are expected to be \$1.0 million per annum. This cost saving arises from the lower cost of leasing the showfloor space (\$40 per square metre compared to \$117 per square metre at Yennora).
- Broker and buyer transportation costs remain unchanged under this scenario.
- Broker travelling costs decrease by \$0.55 million per annum and is constant across the upper and lower bound scenarios.

3 Options Assessment

Scenario 2: Relocation of Broker Offices, Showroom and Storage Facilities



Range of Cost Savings	Lower Bound	Upper Bound
Broker Office	\$0.89m	\$1.04m
Showroom	\$1.00m	\$1.00m
Broker Travel	\$0.55m	\$0.55m
Transportation	-\$1.21m	-\$1.21m
Net Cost Savings	\$1.23m	\$1.39m
Net Savings (\$ per bale)	\$2.52	\$2.84
5 year/ 10 year NPV	\$5m/\$9m	\$6m/\$10m

Discussion of Results



The expected annual cost saving of relocating the wool broker offices, showroom and storage facilities ranges between \$1.2 million and \$1.4 million per annum, or \$2.52 to \$2.84 per bale. This corresponds to a net present value of between \$5 million and \$6 million over a 5 years, and between \$9 million and \$10 million over 10 years.

- The broker office cost savings are the same as for *Scenario 1*.
- The costs saved from relocating the showroom facilities are the same as for *Scenario 1*.
- As in *Scenario 1*, broker travelling costs will decrease by \$0.55 million per annum and is constant across the upper and lower bound scenarios.
- Broker and buyer transportation costs are expected to increase by \$1.2 million per annum. This is due to an increase in the average distance travelled when transiting through a regional location to the port compared to transporting from Yennora. This increase to costs partly offset the savings generated by relocating the facilities, resulting in net cost savings of \$0.8 million less than *Scenario 1*.


4 Summary

Overview of cost savings

Key Cost Saving Components

	Yennora	Regional	Change
 Showfloor lease rate	\$117 per sqm	\$40 per sqm	-66%
 Viewing and broker offices lease rate	\$300 per sqm	\$140 per sqm	-53%

Summary of Average Cost Savings

	Scenario 1	Scenario 2
 Broker Office	\$0.96m	\$0.96m
 Showroom	\$1.00m	\$1.00m
 Broker Travel	\$0.55m	\$0.55m
 Transportation		-\$1.21m
 Net Cost Savings	\$2.52m	\$1.31m
Net Savings (\$ per bale)	\$5.16	\$2.68
5 year/ 10 year NPV	\$10m/\$18m	\$5m/\$9m

Summary Discussion

Scenario 1: Relocation of broker offices and showroom facilities only.
Scenario 2: Relocation of broker offices, showroom and storage facilities.

- As seen in the *Key Cost Saving Components*, relocating facilities from Yennora to an outer Sydney region is expected to generate savings due to lower leasing costs. The per square metre cost of the showfloor lease rate is 66% lower compared to Yennora, with viewing offices and broker offices per square metre costs 53% lower.
- The analysis shows an expected increase in transportation costs under *Scenario 2*, which offsets cost savings by \$1.2 million per annum. This cost increase is attributable to the additional distance required to travel to Port Botany (estimated at 190km compared to 40km from Yennora). The net cost savings for this *Scenario 2* is \$1.2 million per annum lower than under *Scenario 1*.
- The *Summary of Average Cost Savings* shows that the expected cost saving for four categories. Savings are predominantly attributed to the lower cost per square metre for showroom and broker offices with savings of around \$1 million for each component. A decrease in broker travel adds an additional \$0.6 million in savings due to less travel requirements, offset by an estimated \$1.2 million increase in transport costs for *Scenario 2*.
- In conclusion, the greater cost saving is generated by implementing *Scenario 1*: Relocation of broker offices and showroom facilities, with no change to the existing wool storage facilities. This is expected to generate net cost savings of \$2.5 million per annum (\$5.16 per bale) to the Australian wool industry. This is equivalent to a net present value of \$10 million over five years and \$18 million over ten years.

5 Parameters

The table below details the key parameters which were used for the analysis.

Parameters	Total no.	Goulburn		Yennora	Source
		Head Lessee	Head and Independent Lessee	Lessee	
		\$ per sqm	\$ per sqm	\$ per sqm	
<u>Showfloor</u>					
Cost of: Show floor space	11,709 sqm	\$40	\$40	\$117	RDASI
<u>Office</u>					
Cost of: Viewing offices	2	\$140	\$140	\$300	RDASI
Sales offices	12	\$140	\$175	\$300	RDASI
Big 4 sales offices	4	\$140	\$175	\$300	RDASI
AWEX sales offices	1	\$140	\$175	\$300	RDASI
Broker offices	2	\$140	\$140	\$300	RDASI
Common area	1	\$140	\$140	\$300	RDASI
<u>Upper floor training area</u>					
WC		20	20	20	RDASI
Training area		167	167	167	RDASI

Note: Rates per square metre exclude outgoings & agents fees

Limitation of our work

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