

Discussion Paper

**Three integrated “cottage industry” businesses
to contribute to economic development in
the indigenous community of Numbulwar**

Prepared for:

**Numbulwar-Numburindi Community
Government Council**

April 2008



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Summary

The discussion paper describes an exciting, practical opportunity to establish three new integrated businesses – incorporating 15 projects – in the remote indigenous community of Numbulwar in east Arnhem Land. The businesses are:

- A **construction business** that includes a mobile concrete batching plant; a block-making plant for both cavity and foam concrete blocks; and provision of contract labour for laying concrete and blocks for new buildings.
- A **food production and processing business** with six component projects: fishing; food processing; fish fertiliser; a market garden; Australian native food; potable water and ice production. Crab farming is another possibility.
- A **services business** comprising motel-style accommodation for visitors (with permits); accompanying hospitality services and café; a bus transport service to Katherine; a travel agency; and a call centre. Many additions are possible, eg a fishing tourism business would complement other projects.

Planning

A feasibility study and a business plan were prepared for the construction business. It estimated that concrete for new houses could be produced for \$224 a cubic metre, compared with \$1,000 at present. Both cavity and foam concrete blocks could also be produced below present landed cost and sold at competitive prices.

The business could earn profit before tax of \$1.25 million over five years. Jobs for local people would increase from two in Year 1 to 15 in Year 5. Investment of \$1.8 million over two years shows an estimated pre-tax return of 22.7% pa in five years.

Results are highly dependent on both productivity and prices. If employees worked 40 hours a week for 40 weeks, with incentives to earn \$42,000, profit would increase by 18%. If prices – set at 75% of market rates – vary by 20%, profit varies by 100%.

Two other businesses – food production and processing; and services – also appear sustainable, but more work is needed. It is estimated that the three businesses might create up to 15 new jobs in Year 1, increasing to 60 by Year 5, of which 52 are new permanent positions for local people and eight for management and supervision.

Strategy

The strategy combines projects into businesses that can really offer continual employment. It assumes workers are paid \$36,000 pa to work 30 hours a week for 35 weeks a year. It is based on a discussion paper by Gunya Australia and its chairman, Mr Bill Moss AM.

The strategy also assumes that investment is fully costed to build sustainable businesses including capital expenditure, working capital and early-year losses. The three integrated businesses require investment of \$9 million over three years. Additional projects, and investment costs, may lead to \$15 million over five years.

This represents an important difference from attracting government funding for, say, a concrete batching plant that uses casual CDEP workers who earn only \$12,800 pa.

Management, Structure and Risks

This proposal, like any new business, depends on good management. It assumes that managers will be paid \$72,000 a year plus benefits to attract the best applicants. It features a high level of management and supervision, particularly in early years.

The project should be structured as an investment fund, as in the Gunya paper, which also urges financial incentives. Ownership of up to 50% by the local community would confer many advantages on its establishment and operation.

The proposal includes only projects and businesses of low commercial risk (though others may be attractive in the future). The main risks are associated with operating in a remote indigenous community. The risks have been reduced in several ways:

- Most individual projects serve markets that are well-understood and easily accessible, and all projects are reasonably independent of each other
- The three businesses also have relatively “un-correlated” cash flows, but can achieve synergies (cost sharing) in products, services, assets and overheads
- Location in one community leads to better oversight by community leaders and savings between owners, local managers and investment management.

The remaining risk lies in delays, but could be offset by good portfolio management.

Fiscal and Economic Benefits

It has been estimated that each new full-time job leads to savings of \$24K in fiscal impacts and \$39K per annum in economic impacts. Applying those numbers (which we have not been able to attribute) to our model results in total economic impacts from the three integrated businesses of \$11 million over five years.

Conclusion

This paper provides support for the concept of providing “a hand up, and not a hand out” for practical, sustainable economic development in one indigenous community. The CEO of the Numbulwar Community Council, Alistair Price, said how wonderful it would be if kids could look over the school fence at projects that might motivate them to complete their education, and then provide them with employment.

In his Apology to Australia’s Indigenous Peoples in February 2008 the Prime Minister said, “The truth is: a business as usual approach to Indigenous Australians is not working. Most old approaches are not working. We need a new beginning.”

Our discussion paper is submitted in that spirit.

1 Introduction

Gordon Pender and Company Pty Limited, business planning consultants of Sydney, were engaged to undertake feasibility studies for two projects for the Numbulwar-Numburindi Community Government Council. The work was funded by the federal Department of Employment and Workplace Relations (then DEWR, since renamed).

During the consultant's visit to the Community a number of potential "cottage industry" projects were discussed. The result was a list of 26 projects that appeared to have potential for economic development. Most were suggested and described by local people and managers; others were identified by the consultants based on our extensive experience working with small and medium size businesses.

A draft discussion paper was prepared by the consultants at no charge. Following its consideration by the Council and elders of the Community, the Council decided to fund further work to quantify some of the projects.

At the same time the Council and DEWR commissioned a business plan for one of the projects – a concrete batching plant and concrete block-making facility – following the positive findings of the feasibility study. The business plan has been completed, and extended to making both cavity and foam concrete blocks, as well as providing contract labour for laying concrete and blocks. The integrated business was further extended – from products and services only for new construction in the Community – to those for "export" to other Communities and regional areas.

The financial model for this "construction" business estimated it would require investment of \$1.8 million over two years. In addition to a full-time, hands-on manager it would employ two local indigenous workers in Year 1 and four in Year 2, rising to 15 in Year 5 plus a supervisor. Based on the Gunya model (discussed in this report), local people would be paid \$36,000 a year for full-time employment. Despite these and high capital costs, it estimated the business could show a pre-tax return on investment of 22.7% pa over five years.

The details of this and the other projects and businesses are set out in a separate volume of Appendices to this Discussion Paper. That is because they are confidential and contain important commercial information paid for by the Council and DEWR.

The draft discussion paper (dated October 2007) divided the 26 potential projects into five integrated business opportunities. Several projects were taken out on the advice of the Council, and a few more included. They are now divided into three new businesses: construction; seafood, agriculture and food processing; and services.

This discussion paper provides information on the Numbulwar community and the various government departments and programs that support it, most of which are currently subject to changes that will affect all remote indigenous communities. It also refers to the Gunya discussion paper that illustrates how private investment may help to build new cottage industries with potential economic benefit to communities.

It describes how it may be possible to establish three integrated, sustainable businesses over a period of years; a rough estimate of their capital cost; the level of employment they might generate; and how a portfolio approach could reduce the inherent risks associated with this new type of investment.

2 Background

2.1 The Numbulwar Community and Government Council

Numbulwar is a remote aboriginal community in East Arnhem Land in the Northern Territory of Australia. It is located on the western shore of the Gulf of Carpentaria, near the mouth of the Rose River, 400km east of Katherine by air (5 to 6 hours by road), 570 km ESE of Darwin and 250km south of Nhulunbuy (Gove).

The population is about 1,100 mainly indigenous people with less than 100 white residents working as teachers, nurses, Council staff, police, pilots and staff of some other federal and state government agencies. About 300 children attend the local school to Year 10 (age 16), which is soon to be extended to Year 12. Further interesting information is on the Council's website at www.numbulwar.nt.gov.au.

Until 2008 the Council has had 20 members, elected every three years, with a Chairman and Vice-Chairman. It employed 13 full-time staff including a CEO and CDEP/Projects Officer and administered 15 areas of responsibility. A number of local people have been employed in various administration and management roles.

Numbulwar is a dry community and all forms of alcohol are prohibited. A former problem with petrol sniffing has been overcome. Most vehicles use diesel, and a small number of two-stroke engines run on Opal unleaded petrol, both of which have been controlled by the Council.

All visitors to the community must have had an entry permit approved by aboriginal elders. However, the future operation of the "permit system" is under review.

The town has reticulated bore water, a sewerage system, and power from a diesel generation plant.

Of about 300 people able to work, many have been employed within the community under the federal government's Community Development Employment Projects (CDEP) program, administered by the Council. However, that program is also under review by the federal Labor government which came to power in November 2007.

The future of the Council itself is subject to change, which is also discussed below. The Northern Territory (NT) government is planning to amalgamate councils throughout the territory. Under that proposal Numbulwar would become part of a much larger Roper Gulf Shire Council administered from Katherine.

In terms of transport, the community is served by two flights a week from Gove (one hour) and several to and from Groote Eylandt (30 minutes) with connections to flights to and from Darwin, as well as charter flights. A "Night Hawke" truck with two containers brings food and supplies from Katherine once a week during the dry season (March to November). A barge from Darwin brings supplies, diesel fuel and heavy equipment approximately once a fortnight throughout the year.

Communication systems within the town area (but not the wider community) include landline and mobile telephone and broadband internet access.

During the wet season the community is isolated by floodwaters across the road to Katherine at a river crossing 30 km west of the town.

2.2 Changes to Government Programs

The Community is dependent on government funding from several sources and programs, both state and federal. Following the 2007 federal election, a number of changes are being made by the new government. They apply especially to provision of housing, the CDEP scheme and the “NT intervention” initiated by the previous federal government in 2007. Considerable uncertainty remains about these and other programs. The position at the time of preparing this paper is set out below.

Northern Territory Government Funding

The Council is directly funded by the NT government through the Department of Local Government Housing and Sport (DLGHS). That department has responsibility for housing, local government, governance, sport & recreation, libraries & indigenous services, water safety and animal welfare. It therefore has a major impact on the welfare and viability of all NT communities, including Numbulwar-Numburindi.

The Department (DLGHS) has directly funded the operations of the Council, its 15 areas of responsibility and its permanent staff. Many other members of the community are “employed” by the Council to deliver services to the community under other government programs such as CDEP. The Council has effectively acted as “agent” to administer these NT and Australian government programs.

The same department is responsible for providing housing in the Northern Territory. Under an agreement with the federal government in 2004, funds from both governments were to be pooled from 2005 to 2008 and administered by DLGHS. Most new housing is built by the Indigenous Housing Authority of NT (IHANT). However, the Council is responsible for maintaining and repairing the houses – which is a significant undertaking – and also for collecting nominal rents from all residents.

The NT government provides funding and services to the community through other departments such as health, education and police. These departments also provide some housing for their employees. Because the community owns all the land, there is no private ownership of housing in indigenous communities, and no private rental.

NT Local Government Amalgamations

In 2007 the NT government announced that all the Councils in the Territory – including community government councils such as Numbulwar-Numburindi – are to be amalgamated into nine much larger shire councils, effective from July 2008. Numbulwar will become part of the Roper Gulf Shire Council, administered from Katherine (but separate from the Katherine Municipal Council).

Administration functions such as accounting and payroll (including CDEP payments), currently handled by local Council staff, will then be made from Katherine. However, the need will remain for a local management team and employees to deliver local government services in each community. For instance, weekly payroll payments depend upon collection of time sheets from local employees.

It has been confirmed that the CEO, CDEP Officer and all other local staff will be retained after the amalgamation takes effect, though positions and responsibilities may change. However the existing elected Council will be disbanded.

Federal Government Programs

The federal government announced in 2007 that it would take over responsibility for indigenous affairs in the NT from the Territory government – the so-called NT intervention strategy. Dramatic changes were announced to the way that services such as health and security will be managed. Police numbers are to increase and the army was involved in implementing changes. All communities are affected, but “dry” communities such as Numbulwar are likely to be affected less than those where alcoholism and child abuse are greater problems.

As part of its restructuring, the former government planned to scrap the CDEP scheme. The program has provided significant paid employment for people in indigenous communities, particularly those like Numbulwar that have had no commercial activity apart from retailing. The new government plans to retain CDEP, subject to its review of the intervention in mid-2008, but the position remains unclear.

The federal Minister for Indigenous Affairs announced on September 18 an increase of \$514 million in the federal contribution to indigenous housing, bringing the total contribution to \$793 million over four years. By comparison the combined budget for housing from both governments for 2006-07 was \$69 million.

In 2004 the former ATSIC said a minimum of \$850 million was needed to build 5,000 new homes in the Territory – an average cost of \$170,000. The amount needed is now said to be more than \$1 billion. Note also that the cost of building houses in Numbulwar is about double the above estimate.

The new federal government plans to continue the policy and implement a significant increase in provision of housing to remote Aboriginal communities in NT and other areas of Australia. It is anticipated that will result in the building of about 40 new homes in Numbulwar over a period of years. However, that depends on the release by the Northern Land Council – which owns and administers all land in the Territory – of land for a new subdivision in Numbulwar.

There is presently little land available within the Community for new housing. However, there are about 20 houses – amounting to some 25% of the present housing stock – damaged beyond repair. Many have been condemned. There is therefore scope to build 20 or more new houses before the new subdivision is approved.

The expectation that the federal and NT governments will build a substantial number of new houses is what underpins the viability of the proposed construction business for Numbulwar. That has been shown to be the case in other communities such as Wadeye. The business plan for the proposed new “construction” business provides for establishing a mobile concrete batching plant together with two new concrete block-making plants to service the anticipated demand. It goes further and suggests that these products – plus services to lay both concrete and blocks – could be “exported” to other communities as well. For instance, the community of Ngukurr – about 150 km west of Numbulwar and about twice the size – is closer to Numbulwar than to Katherine. There are also other more isolated opportunities for construction.

2.3 Gunya Discussion Paper

In preparing this report the consultants have been influenced by a discussion paper¹ released in August 2007 by Gunya Australia, a private company that has invested in a successful tourism and hospitality venture at an indigenous community in NT. The project is at Titjikala, a remote community of 300 people 120 km south-east of Alice Springs, on the outskirts of the Simpson Desert.

The founder and Chairman of Gunya Australia is Mr Bill Moss AM, former group head and CEO of the banking and property group of Macquarie Bank, who was also the driving force behind the discussion paper. The author of the paper, Mr Paul Conlon, Managing Director of Gunya Australia, kindly met with the authors of this paper and provided advice on its possible application to the Numbulwar community.

The quotations that follow are copied from the report, with Mr Conlon's consent.

In his "Forward" Mr Moss states,

The basic underlying theme of the paper is the concept of providing Indigenous communities and individuals with "a hand up and not a hand out". The proposed scheme seeks to enhance community development outcomes through encouraging private sector engagement and investment.

....

Cottage industry development and incubation I believe is a proven strategy in generating localised economic activity and employment opportunities.

The paper describes the "Challenge" it sees. The summary begins:

Unemployment within Aboriginal communities is a chronic problem that debilitates the community's abilities and capacities to address social issues.

The "Solution" proposed is described in the Executive Summary as follows.

This paper provides a way to address the challenge by introducing a government supported "Indigenous Economic Development Scheme".

The Indigenous Economic Development Scheme (IEDS) is a program of incentives to stimulate much needed investment in economic development within Indigenous communities from both individuals and corporate investors.

IEDS investors can achieve both a return on investment whilst also improving social and community environmental conditions, and at the same time reduce reliance on long term government funding.

Cottage industry in the short term usually will not be economic and viable, but in the longer term will create skills and knowledge that will lead to economic sustainability. It is in the short term that political leadership and support needs to encourage investment.

¹ "Gunya Discussion Paper – Indigenous Economic Development Scheme: a solution to create employment opportunities within indigenous communities", Gunya Australia, August 2007

The financial modelling of IEDS highlights the direct net savings to government of \$24,000 for every full time job created within an aboriginal community. The modelling also highlights the extended economic impact within that community through the creation of a single job as being \$39,000.

The paper includes details of the real and practical example of the development of a tourist resort and hospitality business at Titjikala by Gunya Tourism.

Gunya has grown from its humble beginnings including only one safari tent to today when it operates a five tented safari resort constructed and operating in a very environmentally and culturally sensitive manner.

....

In its early planning Gunya forecasted operating losses of \$75K to \$100K per year, with a break even position to be attained within 5 years. 3 years in the business operates at near break even and is forecasted to make a marginal profit next year.

....

The major outcomes delivered through the Gunya model are, education and employment. In 2003 the year before Gunya was established only 1 high school student from the community was attending school, today there are 29 students attending high school. Their motivation is the opportunity to work within the tourism operations and to do so the students have recognised that they require an education.

The proposed Indigenous Economic Development Scheme includes the following financial elements:

- Tax concessions to investors in Accredited Management companies, similar to concessions that have supported development of other Australian industries including film, agriculture and venture capital
- Accreditation of management companies by the government and approval for individual projects by an Advisory Council
- 150% tax credits for individual projects for all set-up and capital costs (treated as expenses), and on operating losses for five years
- Equity levels to the community of at least 25%. [Note that this further dilutes returns to investors. The Gunya venture has a higher community equity level.]

The discussion paper was circulated widely to politicians, bureaucrats and the media. An editorial in the *Weekend Australian* after its publication sang its praises, particularly in relation to the education result.

Copies of the 37-page report are available from Mr Paul Conlon, Managing Director of Gunya Australia, at admin@gunya.com.au.

It is understood that the paper is being revised for further consideration, and may be presented by Mr Moss at the Prime Minister's 2020 Summit in April 2008, to be attended by 1000 of Australia's "best and brightest", of whom he is one.

2.4 Cultural Considerations

Cultural considerations are clearly important in the assessment of the financial feasibility of “cottage industries” and other commercial projects.

Many aspects of indigenous culture can affect commercial operations. For instance:

- Aboriginal custom provides that one person’s assets and income are shared between relatives and the wider community. This means that salary income is not as important a motivator for individuals as in some other societies. Nevertheless, the Gunya proposal to pay employees of IEDS projects much more than they receive under CDEP must have a beneficial effect on both individual employees and the wider community.
- Training is an important part of all government employment support programs. It appears to be effectively delivered in most cases. Numbulwar has its own training facility which is in regular use. Problems arise when there is no continuity of employment after the training program finishes. For instance, those trained in construction by housing contractors are not employed when no new houses are built. A project such as a concrete batching plant must be planned to provide continual employment, even during the wet season. The idea that the concrete plant could be used to make concrete blocks for future construction is a good example of a practical solution.
- A major commercial initiative in Numbulwar was the establishment of a market garden on fertile soil close to the township. Vegetable crops and citrus trees were planted, and prospered. However, an accidental fire destroyed the whole market garden and its irrigation system. A better security system was needed. In another case security problems at the equipment compound were overcome by providing accommodation for the manager to live on the site.
- Mr Conlon provided an excellent example of the application of “commercial” requirements in a culturally sensitive way. The successful licensing and operation of the Titjikala project required a quality assurance program. A clever solution in the area of housekeeping was to get an aboriginal woman to produce a “manual” of best practice in simple illustrations, rather than words.
- The plan for the construction business shows that profitability is highly dependent on the productivity of the workers. This may create problems in a community not accustomed to full-time employment, particularly for young men. The plan assumes that local people will work 1050 hours a year – 30 hours a week for 35 weeks a year – and be paid \$36,000 a year. Profit would be increased by offering an incentive of, say, an extra \$1,000 a year for each extra 100 hours a year worked – probably paid monthly or quarterly. The model shows that profit would increase by \$221,000 (18%) over five years if people worked 40 hours a week for 40 weeks a year, earning \$42,000 pa.
- The three proposed businesses each need to employ a manager, presumably from outside the community. The three businesses would also need a Project Officer and eventually a General Manager. Managers in remote communities get six to ten weeks paid holiday a year. This will require innovation to ensure continual management cover for each business. Clearly, the whole proposal benefits from covering three businesses rather than one or two. There are other advantages – or “synergies” – in planning for three new businesses.

3 Three new business opportunities

The original draft of this discussion paper identified 26 potential “cottage industry” opportunities. It ranked them by five qualitative measures of community economic development, and divided them into five businesses groupings. The original analysis tables are set out in Appendix 2.

The original list was modified by local community members in discussion with the Council CEO and Project Officer. The main change was that three projects for a “transport services business” – an airline and charter service; airport terminal and services; and a food delivery and taxi service – were eliminated. A fourth business – road transport service – was changed to concentrate on just buying a bus to provide regular transport to Katherine. It is now included in the “services” business.

The original “retail services” business has also been eliminated. It was based on privatising the local shop – nominally owned by the Council – and expanding it to a café, catering and hospitality service, and a new bakery. The key project – privatising the shop – has since been eliminated. The shop is owned by the NT Department of Local Government which has decided that it should be sold to an experienced commercial operator and not to a local community group. That transition is now happening. The remaining projects are included in the proposed “services” business.

The “construction” business in the original proposal included five projects. Three of them – a concrete batching plant; concrete block-making; and laying concrete and blocks – became the subject of a business plan for a new construction business. That plan now underpins this paper. A fourth project – to establish a sub-contract labour business – has been eliminated. The fifth project – accommodation for visitors – is now part of the project that underpins the proposed “services” business.

The original proposal was for a “seafood and agriculture” business incorporating six projects. Five of these have now been subject to further analysis, funded by the Council, described below and in Appendix 1. The sixth project – crab farming – is considered a high-risk project, and is not included. The remaining projects now make up the “food production and processing” business described in this paper.

The third business in this revised paper is a combined “services” business. It includes a project to build and operate a small motel with associated hospitality services; a bus transport project; travel agency; and call centre. These are the most appealing of the remaining projects from the original analysis. Given the demand for accommodation from (accredited) visitors to Numbulwar, they constitute what we believe to be a sustainable business with considerable growth potential. A new project – fishing tourism – could be included in this business in the future with economic benefit.

The resulting projects are briefly described below under the three proposed new business categories: construction; food production and processing; and services.

They are described in more detail in Appendix 1 to this paper, which was funded by the Council to quantify some projects, in response to the original draft paper.

Descriptions of projects that have been since eliminated are set out in Appendix 3.

3.1 Construction Business

The establishment of a new “construction” business underpins the proposal for three new businesses to contribute to the economic development of the community. One project – a concrete batching plant – was initially the subject of a Feasibility Study commissioned by the Council and funded by DEWR. It was expanded, on the suggestion of CEO Alistair Brice, to include a concrete block-making facility as well.

The Feasibility Study found the project was financially viable and, after consideration by the Council and DEWR, a business plan was commissioned. The plan included a detailed financial model of operations and resulting financials. It was expanded to include block-making plants for both Besser blocks (in Year 1) and foam concrete blocks (in Year 2), plus the provision of labour for laying both concrete and blocks.

The plan resulted in required investment of \$1.8 million over two years to build a sustainable business. It estimated a return on investment of 22.7% pa over five years, based on a conservative sales forecast for providing products and services for houses to be built under government programs in Numbulwar and surrounding areas.

The business plan remains confidential to the Council and DEWR but some further details are provided in Appendix 1.

The three projects that make up the proposed construction business are as follows.

CONCRETE BATCHING PLANT

Building contractors charge \$1,000 per cubic metre (cu m) for concrete to build houses in Numbulwar. The price in metropolitan areas, including Darwin, is \$200 or less, depending on transport. A feasibility study estimated it could be produced by a concrete batching plant in the Community for \$251 per cu m. On that basis a business plan was commissioned for the project. It estimated a slightly lower cost due to ready availability of sand and aggregate in the area. Based on an assumed selling price of \$750, the product was forecast to be profitable over five years and create 17 new jobs.

The plan used a mobile batching plant which could also service other communities, and assumed it would also produce concrete for making blocks. The plant would allow cheaper construction for other community projects such as paths, steps, kerbs, driveways and retaining walls. It would reduce the capital cost of many other projects.

CONCRETE BLOCK PRODUCTION

The addition of a concrete block production plant to the batching plant would greatly enhance the viability of both. Blocks could be produced when concrete is not being poured, and stored for use when needed. This would provide greater continuity of employment, especially during the wet season. It would also reduce the cost of production for both processes on one site by sharing overheads.

The feasibility study estimated that foam blocks – blocks produced with foamed concrete – could be produced for \$2,894 per ‘000 blocks compared with the existing landed cost of \$4,778 for blocks delivered by barge to Numbulwar. The business plan assumed that Besser blocks should be produced first – at lower cost because of their cavities – and foam blocks – which have a lower “laid cost” and other advantages including better thermal insulation – from Year 2.

CONCRETING AND BLOCK LAYING

The business plan included a third project to use the combined, multi-skilled workforce to lay concrete as well as blocks for construction in Numbulwar and other areas. The strategy would provide continuing employment for an increasing number of local indigenous workers. Based on the Gunya model, it assumes that full-time employees will be paid \$36,000 a year and that a high level of management and supervision will be used. Despite the premium costs involved, the project is forecast to be profitable from Year 2 and provide a return of 22.7% on investment of \$1.8 million for the business incorporating the three projects.

3.2 Food Production and Processing

The plan for the construction business clearly demonstrates the commercial advantages of combining several projects into one business. The advantages include providing continual employment; sharing assets, management and overheads; and being able to offer higher wages to an increasing number of full-time employees. The strategy significantly reduces the risks associated with any one project and overcomes natural disadvantages such as no construction taking place during the wet season.

The same philosophy has been applied to combining a number of potential food projects into one new business for production and processing of seafood and agricultural products. The six projects are briefly summarised below.

A seventh project that has considerable support in the community is crab farming. It is considered a high risk venture, compared with the six projects below, and is not presently included in this business proposal. However, because of its interest and potential, a brief description is included in the following summary.

Further work commissioned by the Council to define and quantify the six projects is set out in Appendix 1.

FISHING

Fishing is a natural project choice given the coastal location of Numbulwar on the west coast of the Gulf of Carpentaria and the abundance of fish in the Gulf waters. The Community's website (www.numbulwar.nt.gov.au) lists 12 local species. About half are favoured by indigenous people and half by whites. Locals informed the consultant that girls are as good as fishing as boys, if not better, creating wider employment opportunities.

Commercial fishing has become an established business in other remote indigenous communities. The NT government provides advice, assistance and administration for commercial fishing operations. The Northern Land Council is responsible for approving permits to fish in the waters it controls. It also approves facilities for processing etc on the land that it owns and administers.

The project description in Appendix 1 assumes a small fishing boat is acquired in Year 1, together with basic processing facilities. If successful, processing facilities would be expanded in Year 2 and a larger fishing vessel purchased in Year 3.

FOOD PROCESSING

Even a basic commercial fishing operation requires on-land handling, storage and transport facilities to meet government and quality standards to be able to sell the product. In the first year these are included under the “clean water and ice production” project described below.

If it works, a more substantial food processing facility could be built to underpin this whole business operation. It is understood that land may be available (subject to NLC approval) adjacent to the existing wharf at Numbulwar. It could handle, fillet, package and store fish for the local market and for “export” to others such as the Darwin Fish Market. It could produce dried fish products for export to Asian markets such as Singapore. It could handle other seafood products eg a local crab farming operation. And it could process fruit and vegetables from the market garden and native food projects described below.

FISH FERTILISER PRODUCTION

The consultants have previously been involved in projects to produce high-nitrogen liquid fertiliser by the enzymatic reduction of fish waste, including a project for the Sydney Fish Markets. The room-temperature operation uses acid to break down all of the fish waste – including bones – in a simple and odourless process that produces a fertiliser sludge high in nitrogen. A processing plant in Margate, Tasmania, produces the product from the local salmon industry for export to the mainland.

This could be a simple addition to the processing plant, producing fertiliser for the market garden, for community gardens, and possible for packaging for the mainland.

MARKET GARDEN

A market garden was previously established in Numbulwar on a few acres of fertile soil close to the town. It thrived, but was unfortunately accidentally burnt and completely destroyed. However, it may be possible to rebuild it, incorporating greater security. Information is available from government and other sources on the most appropriate plants to grow. It is assumed that a market garden would initially concentrate on producing fruit and vegetables for local consumption, but the idea of processing produce for “export” is an attractive longer-term possibility.

AUSTRALIAN NATIVE FOOD PRODUCTION

Production of Australian native foods is a logical extension of the market garden. “Bush tucker” is now a thriving niche market, produced with benefit in many parts of Australia, including several NT communities.

There is a growing market for such plants in Australia and for export, and good information is available on selection and cultivation from numerous sources. Again, sound quality assurance, associated with a good processing operation, is essential.

CLEAN WATER AND ICE PRODUCTION

The fishing and food processing projects require a supply of potable water and ice. A basic facility is proposed to produce them from local water (bore water) to meet the standards required of a commercial fishing operation.

A simple extension involves bottling the clean water needed for the processing plant, and packaging the ice, initially for local consumption but later for “export” to other communities. These are consumed in large quantities, but are relatively expensive because of the cost of freight and refrigeration. The project includes a bottle-washing plant that might reduce the consumption of (expensive) water bottles and containers.

CRAB FARMING

As mentioned above, a crab farming project has support within the Community, where it has been trialled. It operates in neighbouring communities such as Groote Eylandt, but its commercial viability has not yet been studied by the consultants. We regard it as of higher risk than the more simple projects included in the proposed business, but acknowledge that it may have high economic development potential.

Crab farming is a simple form of aquaculture that has natural advantages and maybe lower risks than some other aquaculture projects. Red claw crabs are native and abundant. Previous trials, supervised by academics from Darwin, used old fishing nets to form an estuary off the mouth of the river, to contain and grow native crabs. It is claimed they can be fed by “shooting a buffalo and throwing it in the pond” and that their size and shell hardness can be controlled simply by stopping them feeding.

This high-value product is well-suited to quality processing, chilling and/or freezing, and packaging, together with low cost backload freight by air, truck or barge to population centres such as Darwin.

However, aquaculture is always a high risk business. It should not be contemplated without thorough analysis of the technical, cultural and commercial aspects of its operation.

3.3 Services Business

A third group of projects could advantageously be combined into one new business. That is now called a “services” business. Its central project would be to build serviced motel-style accommodation for visitors to Numbulwar. There is an increasing demand for accommodation for visitors who have permits, and limited availability. This could form the hub of a centre for additional services to be provided on a commercial basis. Ten such projects were listed in the original draft discussion paper, but only three are included in this proposal. The remainder are described in Appendix 3, and may be appropriate for future consideration.

The motel project could form the basis for a small hospitality business, providing house-keeping services to the motel rooms together with a small café open to visitors and the public. The administration necessary for the motel could be expanded to provide administration for other businesses, a call centre for local services and a travel agency. In the future it might also include a bakery, a laundromat and a delicatessen.

The proposed combined services business has the advantage – like the other two businesses – of providing continuing and hopefully increasing employment, and of sharing assets and overheads, including management. It should offer permanent part-time employment at good rates rather than casual jobs at minimal rates of pay.

SERVICED ACCOMMODATION FOR VISITORS

There is an increasing demand for accommodation for people who have reason to visit Numbulwar and surrounding areas. It includes visits by government officials involved in health and other areas, which has increased dramatically since the intervention in the NT. It also includes contractors who build the houses and other legitimate visitors.

There is little accommodation presently available. Some rooms are available in the training centre, for visiting trainers and others, but it is heavily booked. Some units have been provided by state departments such as Health for visiting doctors and temporary staff.

Like the construction business, this project is underpinned by a known and readily-identified demand. It could charge commercial rates to visitors, who mainly receive an accommodation allowance. It could grow from a small and manageable base to provide a range of services including food and (non-alcoholic) beverages, transport services and bookings.

It could also provide accommodation on weekends and holidays for fishing tourism. That would not only increase occupancy rates but help the fishing and other service businesses as well. That, however, is subject to consideration by the Community as visitors are presently required to have a permit to visit Numbulwar.

CAFÉ, CATERING AND HOSPITALITY SERVICES

At present most visitors have to buy their food from the local shop and/or cook it themselves. Some are also expected to clean their accommodation before leaving. Provision of “serviced accommodation” is therefore an attractive idea.

The motel building could accommodate a café or small restaurant, with quality products and table service. It could sell more healthy local produce, especially if the seafood and agriculture projects were to eventuate (and a good cup of coffee). A future possibility is a catering service for room service, parties and meetings. It could become the basis for a growing hospitality service in the community.

TRAVEL AGENCY

Many members of the community travel to other areas quite often and a travel agency could be of benefit to them and to the community as a whole. White employees travel more often as a condition of their work and/or of their employment contracts.

A travel agency makes commercial sense. It would retain income generated within the community and also attract income from outside sources.

CALL CENTRE FOR LOCAL SERVICES

Another project that might successfully be combined with some of the above is a call centre for the supply of local products and services both to locals and to visitors. It could handle calls, bookings and transport for all the projects mentioned above, emergency calls (under contract to Council and government agencies), and co-ordinate local services for visitors such as contractors and government officials.

3.4 Investment and Job Creation

The amount of investment required for the above three businesses over three years, and the number of FTE jobs that might be created as a result over five years, is estimated in the following table.

Table 1 Investment and Job Creation

	Year 1 2008-09	Year 2 2009-10	Year 3 2010-11	Year 4 2011-12	Year 5 2012-13
Investment (\$'000)					
Construction Business					
Total from Business Plan	1000	800			
Seafood, Agriculture and Food Processing Business					
Fishing	600		1000		
Food processing		600	200		
Fish fertiliser production		100			
Market garden		250			
Native food production			250		
Clean water and ice production	125	25			
Management and working capital	200	100	250		
Total Investment	925	1075	1700		
Services Business					
Motel and Café	600		1000		
Bus transport	300				
Travel agency		50			
Call centre	200	100	100		
Management and working capital	200	150	200		
Total Investment	1300	300	1300		
General management	100	200	300		
	3 year total				
Total for 3 businesses	9000	3325	2375	3300	
Job Creation (FTE jobs)					
Construction Business					
Total from Business Plan	3	5	10	13	17
Seafood, Agriculture and Food Processing Business					
Fishing	2	2	5	6	7
Food processing	1	2	4	6	8
Fish fertiliser production		1	1	1	1
Market garden		1	2	3	4
Native food production			1	2	3
Clean water and ice production	2	2	2	2	2
Management and supervision	1	1	2	2	2
Total FTE jobs	6	9	17	22	27
Services Business					
Motel and Café	2	3	5	5	5
Bus transport	1	1	1	1	1
Travel agency (shared)	0	0	1	1	2
Call centre (shared)	1	1	2	3	4
Management and supervision	1	1	2	2	2
Total FTE jobs	5	6	11	12	14
General management	1	1	2	2	2
Total for 3 businesses	15	21	40	49	60

The table suggests that the three proposed businesses would require investment of the order of \$9 million over three years. If successful, they could generate 15 new full-time equivalent jobs in Year 1, increasing to 60 by Year 5.

It must be stressed that these are only preliminary estimates. Only the construction business has been subject to rigorous business planning. It shows that strategies of paying premium wages to full-time employees and fully costing capital expenditure are likely to lead to sustainable businesses. Extension of estimates to the other two businesses is based on less rigorous analysis. It includes work commissioned by the Council on 12 projects for two businesses (set out in a separate Appendices paper).

That work provides a reasonable basis for the investment needed for the other two businesses. However, it does not include expected income from each project, and so does not demonstrate their viability, nor accurately estimate job numbers. Further work is required to produce firm numbers for both businesses.

3.5 Economic Benefit

Creation of new jobs clearly benefits new employees and their community, as well as investors in the business (which may include the community). There is also wider benefit to the economy.

The Gunya discussion paper (on page 25) suggests economic benefits of \$63,000 pa may accrue from each newly created position. It quotes data from the NT Department of Business, Economics and Regional Development which estimates the fiscal impact (on NT and federal governments) of \$23,800 a year and the economic impact from the salaries of new positions at \$39,000 pa for each new indigenous job created. We have not been able to contact its source, Dr Graham Kirby, now retired from DBERD, to attribute the reference or to discuss how we have used and modified the data.

Those numbers are based on paying \$42,800 for each new local job. We have modified them based on our lower salaries for locals (\$36,000), but included higher salaries for managers and supervisors. Tax rates are adjusted to 2007-08 levels.

We have not included any economic benefit from investment in the combined businesses, whose structure and tax status is not yet known. The results, summarised in Table 2, would be greater if that benefit were included.

Table 2

Fiscal and Economic Benefits (\$'000)

	Year 1 2008-09	Year 2 2009-10	Year 3 2010-11	Year 4 2011-12	Year 5 2012-13	Total
New jobs created						
New local jobs	11	17	32	41	52	
Management and supervision	4	4	8	8	8	
Total new jobs created	15	21	40	49	60	
Fiscal Impact (\$'000)						
Savings from CDEP payments	180	278	524	672	852	2,506
Extra taxation revenue	119	152	278	327	387	1,262
Total Fiscal Impact	299	430	802	999	1,239	3,769
Economic Impact (\$'000)						
Market job salaries	525	664	1246	1455	1710	5,602
Economic multiplier	158	199	374	437	513	1,680
Total Economic Impact	683	864	1,620	1,892	2,224	7,282
Fiscal and Economic Impact	982	1,294	2,422	2,890	3,463	11,051

4 Management, Structure and Risks

It is proposed that three viable businesses could be established in Numbulwar if the required investment could be raised. The question is, then, how this proposal could be managed and structured to minimise the inherent risks involved in setting up such a new, integrated venture in a remote indigenous community.

4.1 Management

The proposed venture, like any small or medium sized business, is highly dependent on its management. We propose that a new manager be employed – probably from outside the Community – to set up and manage each of the three businesses. Each manager would be paid \$72,000 pa, plus a car and housing as required. We are confident that these conditions can attract people of the required calibre and dedication. Senior managers work in this and other remote communities for less.

We have also assumed the need for general supervision and management for the combined project. Initially a Project Manager will be needed in the Community, similar to the CDEP/Projects Officer position within the present Council, but concentrating on these businesses. That work will involve employment of new staff; coordination of training (and attracting subsidies for training and other government assistance); covering for managers during their absence; and reporting for the group.

Within a few years a full-time General Manager will also be needed in Numbulwar. That job is not dissimilar from the position of the CEO of the present Council, but will also concentrate on establishing and expanding the three businesses for this project.

A great amount of work will be needed to plan, set up and report on each element of each business, and for the whole venture. Feasibility studies and business plans will be required prior to approval of each individual project. Co-ordination of tenders for the buildings required for each business will be a major component (with the local Project Manager and GM). Regular reporting for each project and business must be undertaken by local administration staff in conjunction with an accountant, probably based in Darwin. The external management role will depend on the structure of the investment vehicle for the combined project. It could well be undertaken by the manager of the investment company set up for that purpose.

4.2 Structure

The structure needed to establish three integrated businesses – incorporating at least 15 projects – is not known at present. Individual projects, such as a concrete batching plant, could be undertaken by attracting government funding and managing the project within the Council structure. A larger, integrated project would need much greater funding to become sustainable, and a different investment structure.

This paper proposes that an investment fund be set up for the purpose, based on the recommendations of the Gunya discussion paper. It suggested government incentives to attract investment in such funds, and outlined guidelines for their operation. We support those proposals and hope this paper provides confirmation of its practicality for a multi-project, multiple-business model for one indigenous community.

The proposal changes the nature of investment from either government funding or philanthropy to professional investment. We believe that has significant benefits.

The Gunya proposal includes providing for the local community to become joint owners of the investment fund, together with outside investors, with up to 50% ownership with little or no direct investment. That would provide significant benefits to the community as well as greatly assisting its establishment and operation. It does, however, dilute returns to outside investors. That, in turn, supports the proposal for government incentives to establish the investment fund.

The Gunya paper provides examples of the provision of government incentives for investment in various industries in Australia including film and agriculture. Appendix 4 to this report contains information – from the draft discussion paper – on how similar incentives were used to establish the venture capital industry in the 1980s.

The establishment of an investment fund for this project would indeed provide “a hand up rather than a hand out” to the local community. It has the potential to create new business, jobs and wealth in the community and to provide a commercial return to investors, including the community, depending on how it is structured.

4.3 Risks

This proposal is deliberately designed to include only projects and businesses with low inherent commercial risk. The main risks are associated with establishing them in a remote indigenous community that has virtually no history of commercial business.

We believe that significant reduction in both commercial and cultural risks follows from combining 15 separate, simple projects into three integrated businesses. Further risk reduction and cost saving stems from locating three businesses in one community.

All our projects are simple. Higher risk projects such as aquaculture and tourism have been avoided in our initial proposal. However, we recognise there is scope for adding some in the future. Crab farming has been demonstrated in other indigenous communities, and would share costs with the fishing and food processing projects. Fishing tourism is an attractive proposition (if tourists are allowed) which would share many operating costs with fishing, processing, a motel and hospitality services. Even on a small scale (weekends and holidays) it has potential to create and enhance profit.

The individual projects include elements of risk reduction and synergy (cost sharing):

- They mainly serve demand from markets which are well known and accessible such as products and services for new houses, fresh and processed food for local consumption and “export”, and accommodation for accredited visitors.
- The component projects of each business are relatively independent, eg concrete and blocks; fresh and processed food; hospitality and transport.
- They are combined into businesses to create continuing full-time employment (at premium rates) and to allow high levels of management and supervision, particularly in the early years. Each project therefore has lower direct costs and overheads than a similar “stand-alone” project.
- They appear to be more viable and sustainable than a similar project funded by a government grant. For instance, they share the asset costs of one building to house them and the working capital (stocks etc) needed for a viable operation.

There is also considerable risk reduction and synergy between the three businesses:

- Construction, food and services are relatively independent business concerns. Their cash flows are likely to be reasonably “uncorrelated” with the exception of severe local disruption such as cyclones (which are rare in Numbulwar), and all would be closed down for important cultural events like “sorry days”.
- There is considerable opportunity to share products and services between businesses. The most important is construction of three new buildings. Other examples include office space, transport, the call centre and the café.
- The proposal would benefit significantly by sharing overhead costs between the three businesses, particularly management, administration and accounting.

Finally, considerable benefits flow from the idea of locating all the projects and businesses within one community.

- The primary benefit is from having all the operations overseen by the elders and leaders of the community
- This would be enhanced if the community is a significant part of both the ownership and management of the investment fund. That would lead to a practical blending of “cultural” and “commercial” considerations in all important decisions concerning the establishment and growth of the venture.
- There are clear cost savings in both local management and (possibly remote) investment management. The strategy would lead to close co-operation between both parties. Nor can the cost savings be underestimated – it costs about \$3,000 for a visit from Sydney to the Community.

The main remaining risk is that it may take longer than planned to establish the projects and businesses, and achieve whatever targets are set in any commercial plan. That would not necessarily affect profitability in a dramatic way, if costs are kept in line with income. But it could significantly reduce return on investment over a period of years. That constitutes another important argument for government concessions to establish an investment fund for economic development in this challenging area.

The “portfolio effect” of combining projects and businesses into one investment portfolio is expected to enhance profit and returns, and reduce overall risk, compared with funding individual projects or businesses. The projects are relatively straightforward, but our strategy is designed to reduce the risks associated with their implementation in a remote community not accustomed to commercial ventures.

5 Conclusion

The discussion paper describes an exciting, practical opportunity to establish three new integrated businesses – incorporating 15 projects – in the remote indigenous community of Numbulwar in east Arnhem Land in the Northern Territory.

It shows how 15 “cottage industry” projects might be combined into three sustainable businesses involved in construction; food production and processing; and services.

Only the construction business has been the subject of a feasibility study and then a commercial business plan. A detailed financial model forecasts the need for \$1.8 million in investment over two years, repaid over Years 3 to 5, with a return on investment (IRR) estimated at 22.7% pa (given a conservative terminal value).

The other two businesses have now been defined and their investment cost roughly assessed. However, their income is not quantified, and the results are only estimates. They suggest that investment of \$9 million over three years may create 60 new jobs within five years. Additional projects, and investment costs, may lead to \$15 million over five years. That could be the basis for a micro but sustainable investment fund.

Table 3
Results of Discussion Paper

	Year 1 2008-09	Year 2 2009-10	Year 3 2010-11	Year 4 2011-12	Year 5 2012-13	Total
Construction Business (from Business Plan)						
New permanent local jobs	2	4	8	11	15	
Management and supervision	1	1	2	2	2	
Total new jobs created	3	5	10	13	17	
Forecast Financials (\$'000)						
Sales	545	754	1,360	1,885	2,306	6,850
Net profit before tax	-	39	21	153	476	638
Net operating cash flow	-	16	179	353	605	1,843
Net tangible assets	961	1,782	1,435	1,311	1,249	
Return on investment (%pa)	22.7%					
Three Integrated Businesses (Estimates)						
New jobs created						
New permanent local jobs	11	17	32	41	52	
Management and supervision	4	4	8	8	8	
Total new jobs created	15	21	40	49	60	
Fiscal and Economic Impact (\$'000)	982	1,294	2,422	2,890	3,463	11,051

The Discussion Paper by Gunya Australia – on which the strategy for this paper is largely based – seeks to provide “a hand up, and not a hand out” for indigenous communities to develop sustainable “cottage industry” projects and businesses.

The CEO of the Numbulwar Community Council, Alistair Price, said how wonderful it would be if kids could look over the school fence at projects that might motivate them to complete their education, and then provide them with employment.

In his Apology to Australia’s Indigenous Peoples in February 2008 the Prime Minister said, “The truth is: a business as usual approach to Indigenous Australians is not working. Most old approaches are not working. We need a new beginning.”

Our discussion paper is submitted in that spirit.