

PROPERTY ECONOMICS



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PORTERS PASS ECONOMIC IMPACT REVIEW

SELWYN DISTRICT COUNCIL

SCHEDULE

Code	Date	Information / Comments	Project Leader
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1. INTRODUCTION

Property Economics has been engaged by Selwyn District Council to undertake a peer review of the report entitled 'Proposed Porters Ski Area Expansion' by Butcher Partners Ltd dated July 2010.

This review is intended to summarise this report as well as assessing the suitability of the approach, methodology, and whether the findings achieve its objectives and are considered valid.

2. REVIEW

2.1. OBJECTIVE

It is understood, for the purposes of this review that this report has been offered to provide Council with an understanding of the potential economic impacts (both direct and indirect) of the proposal on the local and regional economy. The identification and, where possible, quantification of these impacts are necessary to form part of a wider cost benefit analysis in order to ensure that the utilization of these natural assets provide for social and economic wellbeing of the community.

In essence the report is to provide information to decide on whether there is likely to be a net benefit to the community from the proposal. In this regard this review seeks to ascertain the appropriate inclusion or exclusion of economic costs and benefits as well as, where viable, their true calculation.

2.2. SUMMARY FINDINGS

The report undertaken by Butcher Partners Limited outlines its key findings within the two tables summarized on page 2 under the heading 'Highlights'. This report has endeavoured to assess the 'net' impact of the proposed expansion to the Porters Ski Area on the local (Territorial), regional and national economies.

These are constructed utilizing a range of assumptions and supporting reports that estimate the unique spend likely to be retained in these areas due to the proposal. The units of measurement are clearly defined in Appendix 1 as: Output, Employment, Value Added and Household Income. Each of these represents differing 'values' to the economy and impact upon different economic parties.

In essence the report has ascertained that the proposal will have the following 'net' impacts, over its two 'phases', upon the three tiers of the economy:

The Construction Phase (Appears not to be unique)

- A total construction budget of \$503m over an undefined period of time.
- With appropriate multipliers the impact for the Selwyn District in terms of general output and value added are \$120m and \$41m respectively over the entire period
- Both the Canterbury Region and the national economy stand to gain significantly more as many of the 'inputs' necessary originate from outside the district. The impacts on the region are approximately 9 times that of the district with only, approximately, an additional 20% of the impacts falling outside this area.

The Ongoing Operation (Unique impacts)

- At capacity it is assumed that the proposed development will accommodate 300,000 visitors per year
- The value of each of these visitors is based on the 'type' of visitor and their propensity to spend differing amounts primarily 'off' the field
- These are based on generalized multipliers and the proposed 'level' of unique visitors to the district, region, and to New Zealand
- The on-going economic impact to the district economy is estimated at \$92m per annum with the value added component at \$46m per annum
- Given the larger proportion of visitor spend captured by the region Canterbury is expected to experience a net economic benefit of \$126 per annum in production and \$62m in value added production per annum. The net impact on the national economy is expected to be lower given the fact that a greater level of the additional visitors to the Porters development will be attracted from activities that current exist

in this economy. This implies that there will be a shift away from other districts and (to a lesser extent) regions to Selwyn and Canterbury. However it has been estimated that the operation of this proposal will have a net impact on output of \$69m annually and a net impact on the national level of value added output of \$37m per annum.

It has been stated that these impacts are based on a comparison with the current situation at Porters Ski Area, however if this proposal were not to proceed the alternative position may be the closure of the current operations. This would increase the net economic benefits from this proposal significantly.

Overall the proposed development, at full capacity, is estimated to contribute a net increase to both the local and national economies. Even considering the potential redistribution from current activities at a regional and national level the impacts are expected to be positive, and substantial.

2.3. APPROACH AND METHODOLOGIES

The approach adopted by Butcher Partners Ltd in undertaking this impact report is based on the relative economic costs and benefits associated with the construction and operation of the expanded ski-field and facilities. These net benefits are calculated in isolation from any community 'value' and are presented as nominal values only to be viewed in the wider context of economic and social well-being.

This report has sought to break down the economic contribution that the proposed expansion will have on the district, regional, and national economies through both the construction and operational phases of the proposed field and village developments.

The methodology adopted in assessing the economic impacts from the construction phase is relatively standard with costs estimated by the developer for each aspect of the development process (physical construction, planning processes, etc). Points of origin for these inputs have been estimated by both the developer and Butcher Partners to ascertain where resources are coming from and therefore what area (local, regional, national) is likely to experience the benefits of these resources being utilized (a key assumption within this report is that the resources being utilized in the 'unique' production of these services are currently underutilized).

The economic impacts these have been measured with four indicators; Output, Value Added, Employment (FTEs) and Household Income. Development costs are estimated and allocated based on the likely origin of these units of production. This means that of the total cost of \$503m only part of this will be spent within the District (16%) with the vast majority of

expenses (imported costs are based around large capital items intended for the ski field itself), 83%, remaining within the Canterbury Region.

Economic multipliers have been employed to estimate the 'flow-on' impacts to the economy of the initial injection during either the construction or operation phases. The report stated that multipliers have been constructed for each geographic area assessed (District, Region, Nation) for output, value added, household income and employment. It is important to note that there is a degree of uncertainty as to the origin and type of input likely to be employed in the construction, especially, of this development. This discrepancy may result in some movement in terms of the level of impact on each area and the size of the multipliers associated with each sector. The internalization of these benefits in any given area are based on assumptions around the size of the relative industrial within that area and are therefore subject to change due to the inability of this modeling to assess relative costs between suppliers and therefore the changing likelihood of these resources being used.

This report has further stated, for the construction phase of this development, that no timeframes have been adopted. Although it seems unusual that the proposed developer has been unable to provide this information, the results are unlikely to be significantly changed (given an assumed shorter timeframe). For projects that typically take more than one year it is common to adopt discount rates for the impacts associated as these are theoretically less valuable when comparing present values with future ones (providing a net present value, NPV). This would enable all values to be compared in the current timeframe, including social and environmental factors not measured within this report.

In terms of the construction phase the approach here is relatively simple once the multipliers are accounted for. A more difficult phase in this process is the recognition of economic impacts generated through the ongoing operation of the proposed ski area. This basis for this difficulty is the ability to ascertain the level of 'unique' demand that will result directly from the proposed development. Several sources of information have been drawn on to calculate the likely level and origin of demand.

The Tourism Research Consultants (TRC) has estimated total visitor numbers for the proposed development ranging from conservative to optimistic. These demand figures have been further differentiated between the origin of these visitors over a 5 and 10 year timeframe. The extent of the range between these two demand figures is just below 30% in the 10th year of operation.

It is important to note that the Butcher report has gone a step further and included a third scenario which assesses the proposed development at full field capacity. It is of interest to note that this assessment is a further 80% higher than the optimistic demand levels outlined by TRC.

Table 3 in this report is a key component to understanding the likely impact that the proposal will have on the local and regional economies. Both the total demand figures and

the place of origin are important in understanding whether or not this economic activity is 'new' to the area of simply a redistribution of existing activity from within the District or Region.

There are numerous additional assumptions associated with this phase of the process. Assumptions including the number of nights stayed, how much is spent and the propensity for this 'spend' to occur without the development are all significant contributing factors. Having reviewed each of these on the basis of the information provided and historical data each of these assumptions appear to be reasonable and pragmatic.

The report proceeds in differentiating between the economic impact on the District, Region and Nation. The assumptions applied to the origin and 'uniqueness' of these visitors is considered appropriate.

Overall this review finds that the Butcher report is adequate in its application of conventional analytical methods and processes. While the purpose of this review was not to assess or critique in any detail the data that sits behind this report it is important to note its significance in evaluating the likely economic impacts of the proposed development.

2.4. INTERPRETATION OF RESULTS

It is important to note that the results of the process adopted by the Butcher report must be considered with some degree of understanding of their limitations. Increased usage of any resource is likely to result in some economic costs that are not measured within this process. Increased congestion or utilization of public resources, environmental degradation, and changes to residential lifestyles all are likely to result in some economic impact on the local economy. Although it is difficult to quantify (whether positive or negative) these factors it is important to consider the risk to them in any decision.

A minor factor in the display of the results is the inclusion of a 'highlights' table for on-going operational impacts at the start of the report. This table includes only the economic impacts for the 'full capacity' scenario adopted in the Butchers report. As stated previously this is considerably higher than the 'optimistic' scenario presented by TRC. In fact the final net output impact for this scenario nationally is 260% and 115% above the conservative and optimistic scenarios respectively. However on the conservative side it has been stated that if this development does not go ahead then this ski field is likely (however inevitably) to close resulting in an initial net loss to the local economy. The likelihood of this closure and the ability for a local 'substitute to be found, must also be given some consideration in the decision making process.

2.5. COMPREHENSIVENESS OF REPORT

This review finds that for the purpose intended this report is comprehensive in its consideration of the factors required to be assessed.

2.6. RECOMMENDATIONS / CONCLUSIONS

There are inherent difficulties in the assessed and estimation of the economic impacts associated with a development or activity that has yet to occur, however this review finds that the methods, processes and interpretations of results within this report (notwithstanding their inevitable difficulties) are appropriate and provide clear guidance as to the likely nature of the economic impacts that each area will experience. Although the levels indicated are subjective (primarily to the numerous assumptions) they too are considered appropriate and supported.