Rangitane Reclamation and Boat Ramp Development

Economic Impact Assessment

27 May 2021 – Final

m.e consulting

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Economic Impact Assessment

Prepared for

Far North Holdings Limited

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1 Introduction

Far North Holdings Limited (FNHL) are seeking a consent under the COVID-19 Recovery (Fast Track) Consenting Act 2020 to accelerate the redevelopment of the Rangitane boat ramp, located outside of Kerikeri. In addition to bringing forward the development of a regional tourism asset, the project will help sustain construction jobs. Given the Bay of Islands area has been particularly hard hit by the effects of a COVID-19 driven downturn in tourism, this has the potential to be beneficial. FNHL have commissioned Market Economics to assess the economic effects of bringing forward the proposed project, to quantify the effect granting consent under the COVID-19 Relief legislation will have.

1.1 Background

The government have recognised that the COVID-19 pandemic has caused serious economic and social disruption in New Zealand – in particular, in areas that are highly reliant on tourism (especially international tourism) to sustain their economies. In order to provide a degree of economic impetus, government decided that the consenting and approval process as currently operated under the RMA, did not provide the speed and certainty needed for developers and public agencies to progress their plans. Government recognised that by speeding up the development process, benefits would flow early to communities as demand for labour would increase sooner and wages and salaries paid would sustain communities earlier. In addition, the developments themselves (commercial, residential and infrastructure) would stimulate and facilitate economic activity in communities suffering from COVID-19 driven downturns.

To this end, the COVID-19 Recovery (Fast-track Consenting) Act came into effect in July 2020. The purpose of this Act was to promote economic activity while continuing to promote sustainable management of natural and physical resources. The Act established 2 pathways for projects to be fast-tracked;

- Listed projects: these are outlined in Schedule 2 of the Act and are already eligible for the fast-track process
- Referred projects: these are projects not listed in the legislation, but can be referred by Councils to the minister for confirmation

The development of an asset such as the Boat ramp falls under the second pathway – it will need to be referred by Council to the Minister for confirmation. In order to do that it must achieve certain criteria. The Act lays out the criteria that a project will be assessed against to see the degree to which it supports the purpose of the Act.

1.2 Assessment Criteria

The criteria that are relevant to this project are outlined in Section 19 of The Act, included in the criteria are;

a) *the projects economic benefits and costs for people or industries affected by COVID-19, and*
b) *….*
c) *Whether the project would be likely to progress faster by using the processes provided by the Act than would otherwise be the case.*
d) *Whether the project may result in a public benefit by, for example;*
    i. *Generating employment*
    ii. *Increasing housing supply*
    iii. *….*

In the case of the Rangitane Reclamation and Boat ramp, it needs to prove that it generates or sustains economic benefits for people and communities affected by the COVID-19 driven downturn. In this case the reduction in international tourism into the Bay of Islands – and Kerikeri in particular. In addition, the project will need to prove that it has the potential to generate public benefits by generating employment.

In general, the fast track path reduces the time taken for a development to come to fruition. This reduces the cost of the project overall. In some cases, the delay causes the project to not be developed at all. The COVID-19 fast-track pathway provides the opportunity for a significantly faster consenting process that still considers the environmental matters required under the RMA.

The following assessment examines the impacts of the project receiving fast-tracked development consent, to highlight the degree to which the fast-tracked proposal generates economic benefits for people and communities affected by the COVID-19 downturn.

2 Study Area and COVID-19 Impacts

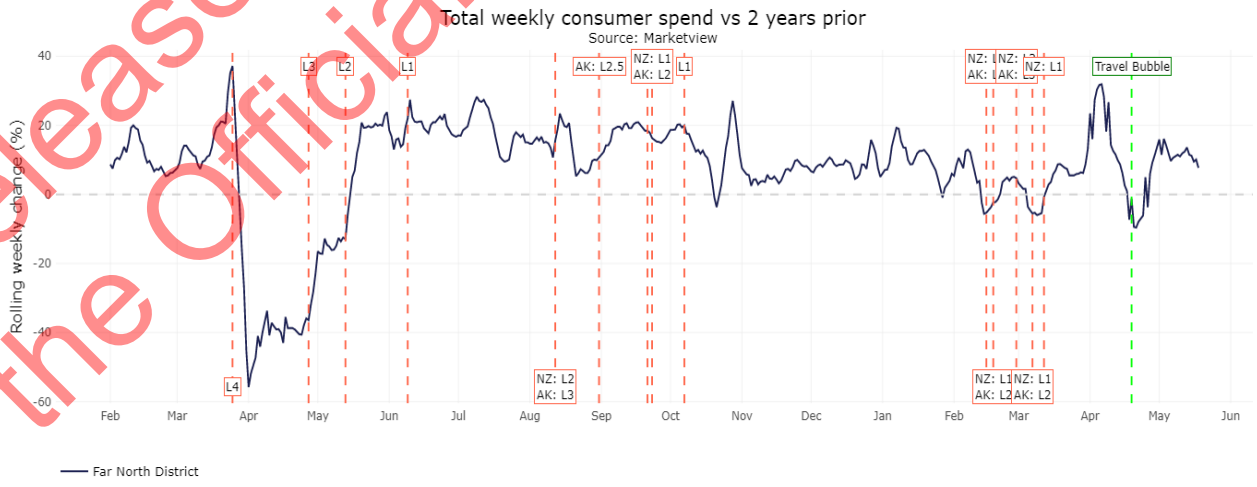
2.1 The Site

The development site is located on Rangitane Loop Road, roughly 6 km northwest from the centre of Kerikeri. The site is currently occupied by a boat ramp and jetty. FNHL are seeking a Fast Track consent as a referred project in order to shorten the consenting timeframe, speeding up redevelopment of the existing boat ramp. The proposed development will see a new boat ramp and modular pontoon jetty, with accompanying carpark, that will be built on reclaimed land. The build will provide a significant upgrade of the existing site, introduce dedicated parking for users, and improve overall accessibility.

2.2 COVID-19 Impacts

International tourism and industries associated with it have been most affected by the economic downturn associated with the pandemic. Across the board, all industries are impacted at some level through effects related to COVID-19, such as disrupted supply chains, trading restrictions, and general uncertainty. Figure 2.1 shows total weekly spending data (domestic and international) compared to the same week two years earlier,)for the Far North District since February 2020)[1]. While the data does not illustrate any significant changes to the total level caused by COVID-19, other than reduced activity during lockdowns (especially with the Auckland level changes), the volatility shown does highlight the uncertain economic climate in which industries and businesses are currently operating in.

Figure 2.1: Total Weekly Consumer Spend vs 2 Years Prior for Far North District since February 2020 (Source: MBIE)



[1] Source: MBIE Consumer Spending Dashboard - COVID19 response

However, sectors most impacted by COVID-19 (such as accommodation and food and beverage services) represent only around 0.6% and 1.4% of the Northland regions GDP, respectively[2], and impacts on them at the regional or Far North District levels may not be reflected in the available data. International consumer spending for the Far North District, as shown in Figure 2.2, does show a significant reduction in consumer spending due to COVID-19. As it can be assumed that international spending will generally reflect tourism related spending, this points to an asymmetrical influence of COVID-19 on businesses are reliant on tourism, compared to those who draw business from the wider population.

Figure 2.2: International Weekly Consumer Spend vs 2 Years Prior for Far North District since February 2020 (Source: MBIE)

Given the wide economic impacts of COVID-19, businesses within most sectors have experienced some negative impacts on their ability to operate. International tourism has been offset to a certain degree by a rise in domestic tourism. Due to international border closures, New Zealanders have not been able to travel as easily, attention has turned to domestic holidays. This has seen a rise in demand for domestic tourism infrastructure – such as boat ramps and trailer parking facilities. While this activity does generate flow on effects on retail, accommodation and so on, it is at a lower level than the international tourism it replaces[3].

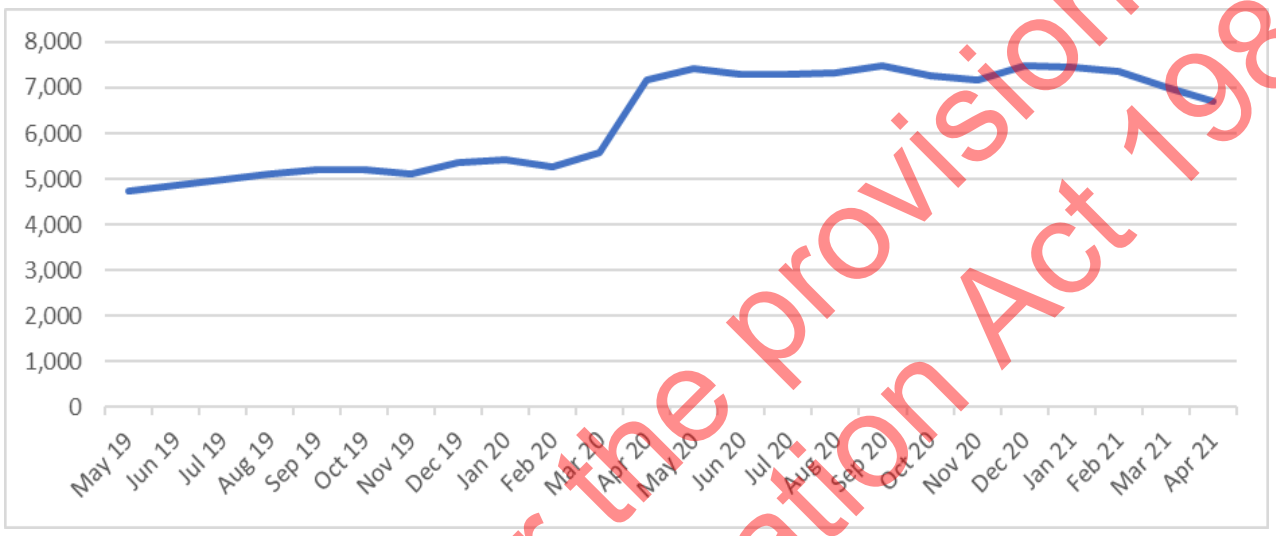
This, combined with the downturn in industries directly impacted is causing further flow on effects to many in the wider community/economy at present. By way of example, Job Seeker Support data from the Ministry of Social Development (MSD) shows that the number of people receiving support is trending back down but is still high in Northland compared to pre-COVID-19 levels (Figure 2.3). What these numbers show is a jump in numbers of people seeking employment of around 2,000 people when the borders were closed in March last year. Without knowing exactly the industries these people were working in – it is safe to say that this jump is driven by COVID-19. While Job Seeker numbers are not the same as unemployment figures

[2] Based on Stats NZ data, from National accounts (industry production and investment): Year ended March 2019.

[3] It takes 12 overnight trips from a domestic tourist to equal the spend of one international visitor, Tourism NZ 2020

(as not all unemployed are eligible for MSD's Job Seeker Support), the numbers do help us understand how employment (and unemployment) is trending in the Northland region.

Figure 2.3: Job Seeker Support Recipients by Month for Northland (Source: MSD)



3 Economic Impacts

3.1 Approach

This analysis relies on an estimated cashflow analysis based on data provided by FNHL, in respect to their own forecast spending and the timing of that spending on site preparation, construction, design, and approvals. That is, costs and timeframes to reclaim and develop the land up to and including the construction of the boat ramp and car park. This spending by FNHL is mostly directed to businesses within the Northland region[4]. Specifically, M.E have assumed that all construction related services (i.e., land reclamation, boat ramp installation etc), will be carried out by businesses within the Northland region. Other costs, primarily related to consulting services, do include a small proportion of direct spending received outside of Northland, although the majority is still received by businesses within the region. Some spending was identified as sunk costs and have not been included as future spending[5].

M.E. have matched this planned spending to 48 economic sectors in an input-output (IO) model which has been customised for the Northland economy (using a 2016 base year). The IO model provides projections of the value added and employment in the economy as a result of this additional activity. Value added arises through the spending, directly and indirectly, as the new activity flows on to other sectors of the economy. The links between the study area and the surrounding regions are also captured, showing the extent of the spread of the additional economic activity. The IO model contains data on gross output for each sector and employment in Northland. We are then able to generate an annual average ratio of gross output per person employed in each sector in order to translate additional activity into employment.

As the cashflow analysis provides spending detail based on general activity type with milestone date time estimates, we have split the year into quarters for the analysis. By applying these ratios to the quarterly revenue each sector is forecast to receive from the project's spending, M.E have estimated the count of jobs (by sector and approximate location) sustained each quarter as a result of FNHL (reported in full time equivalent job years).

FNHL have provided forecasted cashflow estimates which are based on a consent granted under the Fast-track pathway. It is assumed that the project will not go ahead if consent is not granted, due to funding uncertainty. Hence, the analysis provides the value added and job years, sustained over time for only one scenario. The value added results are then discounted on a quarterly basis at an annual rate of 5%[6]. Discounting is used to reflect the rate of time preference and the opportunity cost of capital, reflecting the present value of future benefits. In other words, economic activity that happens today is worth more to the community in terms of the wages and salaries paid and the overall economic activity, than the same activity happening in future time periods.

[4] For the IO model all expenditure is assumed to be in Northland for simplicity.

[5] These costs are assumed to relate to activity which has already taken place, thus the economic impact of these have already occurred.

[6] Treasury NZ default discount rate is 5%.

3.2 Economic Effects

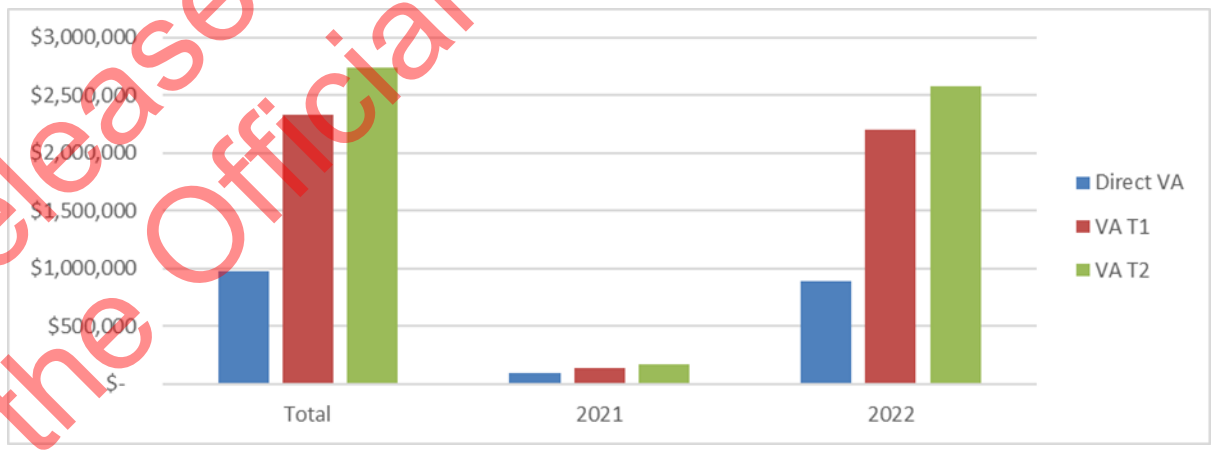
3.2.1 Value Added

Under the Fast-track consent scenario, it is estimated that the consent will be received in December 2021. The full timeline of construction will last nine months (three quarters), with development starting at the beginning of the first quarter of 2022 and finishing at the end of the third quarter of 2022. Figure 3.1 summarises the estimated value added generated by the development, directly (blue bars). The cumulative direct value added from the present to completion is projected to be around $977,000.

The direct economic impact only considers the effects that are directly associated with the amount of expenditure required to develop the site. From a comprehensive economic impact perspective, 'indirect' and 'induced' impacts – also known as the flow-on impacts – are also relevant[7]. These reflect the additional activity, stimulated by the development, across the whole economy. Inputs required in construction are likely to be sourced by industries based in the Northland region. Therefore, as construction demands more materials, the manufacturing sector increases output. These effects are termed the 'indirect effects'. In addition, when more labour is required, the workers are paid wages which they then spend at retail outlets generating more demand for goods and services. These effects are 'induced effects'. Thus, the indirect and induced impacts measure how much additional activity the direct spend will stimulate.

Based on the IO modelling, shown by the red bars in Figure 3.1, the development of the Rangitane boat ramp will stimulate a total of $2.34 million of direct plus indirect value added (GDP). Once the induced effects are included, as represented by the green bars, this rises to $2.74 million in value added (GDP) across the duration of the development. While all the direct impacts are assumed to occur in the Northland region, the indirect impact of the proposed development will have effects within Northland, while also reaching the rest of the North Island and the rest of New Zealand.

Figure 3.1: Value Added by Impact Type



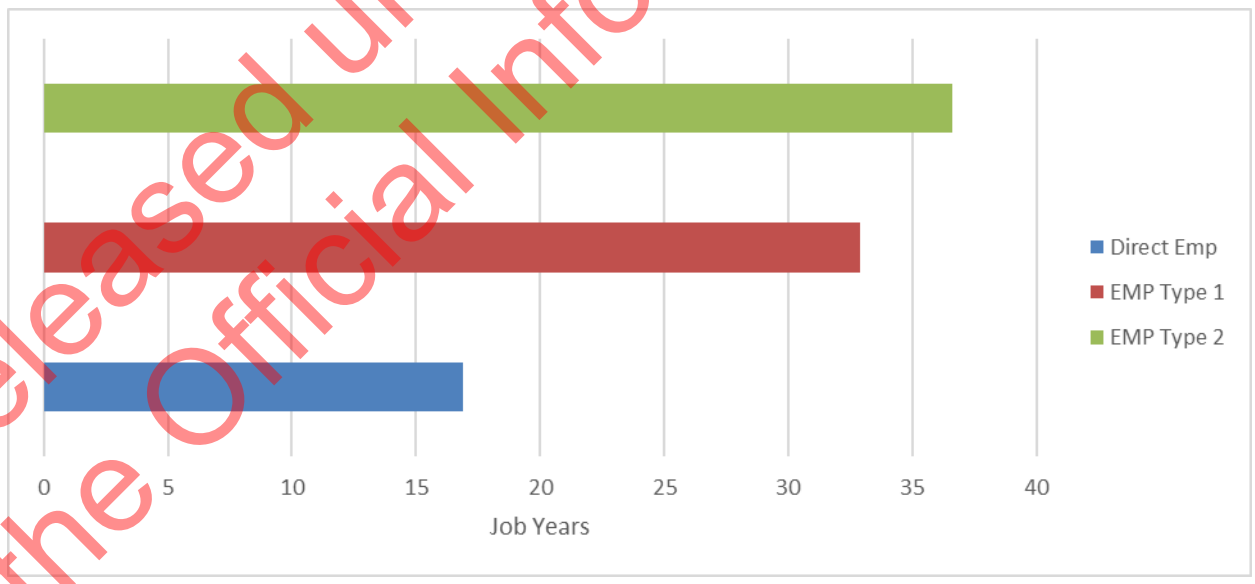
[7] Type 1 and type 2 indirect impacts are shown. Type 1 multipliers account for the direct and indirect impacts based on how goods and services are supplied within a region. Type 2 multipliers not only account for these direct and indirect impacts, but they also account for induced impacts based on the purchases made by employee.

3.2.2 Employment

Under the projected scenario, direct spending is spread across construction, mainly, and fees for services relating to project consulting and obtaining consents. The directly sustained construction employment begins at the start of the first quarter of 2022 and is completed by the third quarter of 2022, a total of nine months. Sustained employment is spread evenly throughout the full span of the development. This is based on M.E assumptions given the detail provided in the cashflow analysis and the assumption that costs are averaged out across the development. In reality, this is unlikely to be linear, altering the timing of spend, however the overall amounts would be the same. The proportion of spending on consulting services is estimated to occur from the present through till project completion, and based on the estimates provided, have been spread evenly across quarters based on the year when the related work is expected to occur. This also shares the themes of the assumption applied with construction costs, and is primarily distributed, in this manner, for simplicity and within the constraints of the estimates provided.

The total job years (Full time equivalent) sustained by the development is shown in Figure 3.2. The direct impact on employment, as shown by the blue bar, shows that the development is projected to sustain a cumulative total of around 17 job years. Based on the assumptions of cashflow analysis, these are primarily construction sector jobs within in the Northland region which occur during 2022. Of the local jobs, they are not limited to jobs occurring on the Rangitane Loop Road site, as construction companies will have office-based staff included in the estimated ratios and several consultants are employed at various stages of the development. The development is also projected to indirectly contribute to sustaining the equivalent of 37 job years, once the indirect and induced effects are added (green bar).

Figure 3.2: Jobs Sustained by Impact Type



3.3 Non-quantifiable Impacts

The planned development significantly improves the existing Rangitane boat ramp. Currently, the boat ramp provides single boat access directly from the road, while the accompanying jetty is considered unsafe for docking. As it stands, there is no designated boat trailer parking, and the road is blocked when boat trailers are manoeuvring on and off the ramp. Upon completion, the development will deliver a safer boat ramp and floating pontoon, with two boat capacity. The new carpark will provide 16 trailer parks and 8 carparks, while road access is significantly improved. In terms of boat ramp facilities in the Bay of Islands area, the planned development alone will increase ramp capacity by 14% and increase dedicated trailer park capacity by 34%.

The improvements resulting from the development will have a positive effect on the ability of the Kerikeri Inlet and wider Bay of Island's areas to provide for trailer boat users. This is likely to have a positive effect on domestic tourism in the area. Given the available information, it is difficult to quantify the potential economic effects of the development on domestic tourism. However, as Far North visitor numbers have traditionally been 75% domestic, (prior to Covid-19), with the 25% of overseas visitors not high boat-ramp users[8], the impact of COVID-19 on international tourists can be softened as attracting boat-ramp users would draw tourism activity from domestic tourists.

The development would likely be a significant drawcard for domestic tourists as effectively 38% of New Zealand's growing population of recreational boat users live within 3 ½ hours' drive of the Bay of Islands, due to the proximity with Auckland. Maritime NZ surveys have estimated that 22% of Auckland boat users travel to Northland, a number which could increase with improved facilities. While the additional tourism effect is likely to be small, it adds to the tourism related infrastructure of the Bay of Islands and helps facilitate and accommodate future growth.

[8] Sourced from Northern Far North Boat-Ramp Study by Northern Edge for FNDC and MBIE

4 Conclusion

The proposed redevelopment of the Rangitane boat ramp is expected to positively contribute to the future economic and social wellbeing of the Northland region, and through flow on effects, other areas of New Zealand. To be eligible under the COVID-19 Recovery (Fast Track) Consenting Act 2020, projects must meet several criteria set out in the Act. As discussed throughout this report, the proposed development project will result in economic benefits for an economy significantly affected by COVID-19 and will assist in sustaining the construction sector (and many other supporting sectors) within the Northland region (including upstream suppliers). Many of these sectors are suffering as a direct and indirect result of the downturn in economic activity and the uncertainty of the economic climate. This is evident through the increase in job seekers by around 2,000 post the international borders being closed – a number that has not reduced significantly over the intervening year.

The proposed development delivers an improvement to existing recreational boating facilities which has the potential to attract domestic tourists to the area. These tourism infrastructure benefits generate economic activity by encouraging people to visit to go boating, and potentially stay longer to use the facility.

The benefit of the Fast-track consent pathway is clear. The proposed development is projected to generate value added to the Northland economy which has significant flow-on effects. It means that local jobs can be sustained in the short-term future, with the construction expected to begin in 2021. The sooner that relief occurs the less damage is felt by households impacted negatively by the tourism downturn. While the economic effects outlined in this report are not strictly dependent on a fast-track consent pathway, the Northland economy is clearly suffering from the absence of international tourism. In addition, the MBIE funding is dependent on construction beginning by January 2022, which can be achieved through the fast track pathway but may be in more doubt without it.

Once completed, the development will deliver a significant improvement of the existing boat ramp and dedicated carparking facilities, increasing the capacity of boat ramp facilities in the area. The development will help ensure that the Bay of Island's area has the facilities to accommodate current and future recreational boat users from the Northland area and other parts of New Zealand. This will help sustain the local business sectors reliant on tourism, through targeting domestic tourists as a means to offset the impacts of COVID-19.

Appendix A – IO Model Assumptions

The following assumptions were made in order to run the input-output analysis:

- The analysis is based on a series of estimates for project expenditure and the timing of project milestones. Quarterly expenditures are used, and the impacts are calculated based on the quarters in which they are expected to occur.
- It is assumed that all direct expenditure on the construction is received in the Northland region. This was made for simplicity and due to the high likelihood that most of this spending is directed to Northland as it is the region which surrounds the site. Other cost estimates have been provided with a region which is likely to receive the majority of the direct spend.
- Far North Holdings Limited estimate for construction duration of 9 months from start of land reclamation to completion. However, a further break down of the costs and timings per each construction activity is not known.
- Only the total estimated construction cost is given. From here it is assumed that costs are spread evenly over the duration of the construction period (3 quarters). This assumption therefore creates a figure equal to the average expenditure per quarter, rather than the potential distribution of construction activity and expenditure across the project timeframe. These are fully classified as expenditure to the construction industry.
- Other costs are provided such as relating to services provide for resource consent, engineering, design and other consulting. Estimates were provided based on the year they were expected to occur. As such, these are evenly distributed across the quarters within each year they are expected to occur. However, some costs provided have already occurred and represent work completed by the time of this assessment. Therefore, as these are sunk costs, they have not been included in the economic impact assessment.
- All up a direct spend total of $3,545,000 was considered (this amount was spread across five quarters and two of the 48IO sectors). A total of $268,000 was not considered in the assessment, as this related to pre-existing spending and future consent fees which do not reflect the economic impact that will occur only if the consent is approved.
- Only one scenario is used, which reflects approval of a COVID-19 Fast Track consent. It is assumed that without consent, the proposed development will not occur.
- The assessment is based on a 48 sector Multi-Regional Input-Output model, with a base year of 2016, while the regions used are Northland, Rest of North Island, and Rest of New Zealand.
- The results of the input-output model are discounted (except for employment) quarterly at an annual rate of 5%, which is line with the default discount rate recommended by Treasury NZ.
- Inflation is not accounted for.
- The reported effects on employment reflect fulltime equivalent jobs years that are created by the direct spending (Direct EMP) and the full impact with direct and flow on effects considered (Type 1 and Type 2). This provides a standardised measure of the employment created. It does not necessarily reflect the amount of people working at any given point. For example, if 40 people are employed fulltime for a three month period, this will be reported as 10 job years.