



**The new state  
of business**

# Comparative Analysis of Regional Development Projects

Which projects generate the greatest return?

# Overview

- Why?
  - Perspective of local government and State/Federal Government
  - Experience of IAU
  - Knowledge
  - Assessment methodologies
- Overview of projects
- Results

# Assessment of 'competing projects'

- Tourism v 'traditional' industries project
  - Referent group (region of interest)
  - Specific purpose visitors
  - Counterfactual
- Projects are assessed using both Cost Benefit Analysis (CBA) and Economic Impact Analysis (EIA).
- Primarily interested in how do different projects rank at State and Local level.
- 'how much tourism' to better a traditional industries project.

# Economic Assessment Methodologies\*

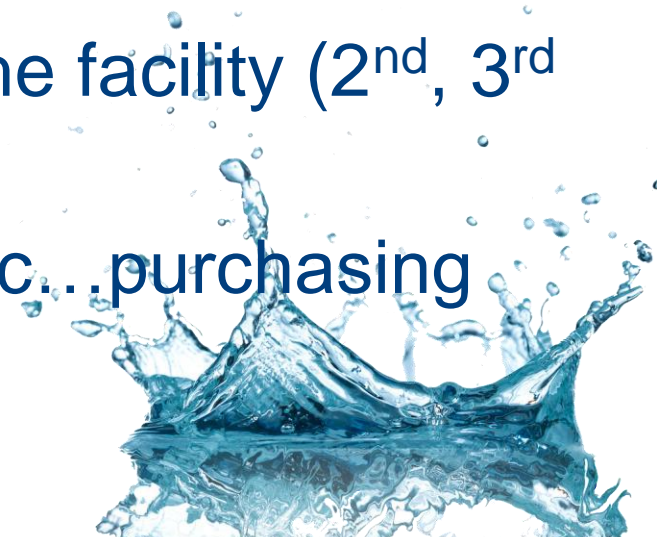
- Two popular assessment methodologies
  - Cost Benefit Analysis (CBA)
  - Impact Analysis – Input Output Analysis (IO) and Computable General Equilibrium (CGE)
- Also other assessment methodologies
  - Cost Effectiveness Analysis (CEA)
  - Financial Analysis (FA)
  - Multi-criteria Analysis (MCA)

# Cost Benefit Analysis

- What is Cost Benefit Analysis?
  - Most comprehensive of the appraisal techniques
  - Quantifies in money terms all costs and benefits
  - Time
- Analysis undertaken consistent with the NSW Government Guidelines for Economic Appraisal (TTP07-5)
- Developed in conjunction with NSW Treasury
- Social welfare approach – calculate surpluses

# Input Output Analysis

- Measures inter-industry transactions in monetary terms.
- Total economic benefit is comprised on direct and indirect impacts:
  - Direct impacts: construction and operation of facility
  - Indirect impacts: suppliers to the facility (2<sup>nd</sup>, 3<sup>rd</sup>, ...round impacts)
  - Induced impacts employees etc...purchasing goods and services.



# Input Output Analysis

- Input Output data published by the Australian Bureau of Statistics.
- Use State Accounts and Labour Force Survey to create NSW model.
- Published data and GRIT technique to create base tables.
- Superior (primary) data included to reflect business operating environment.
- Results expressed in terms of value of output, industry value add, household income and employment.

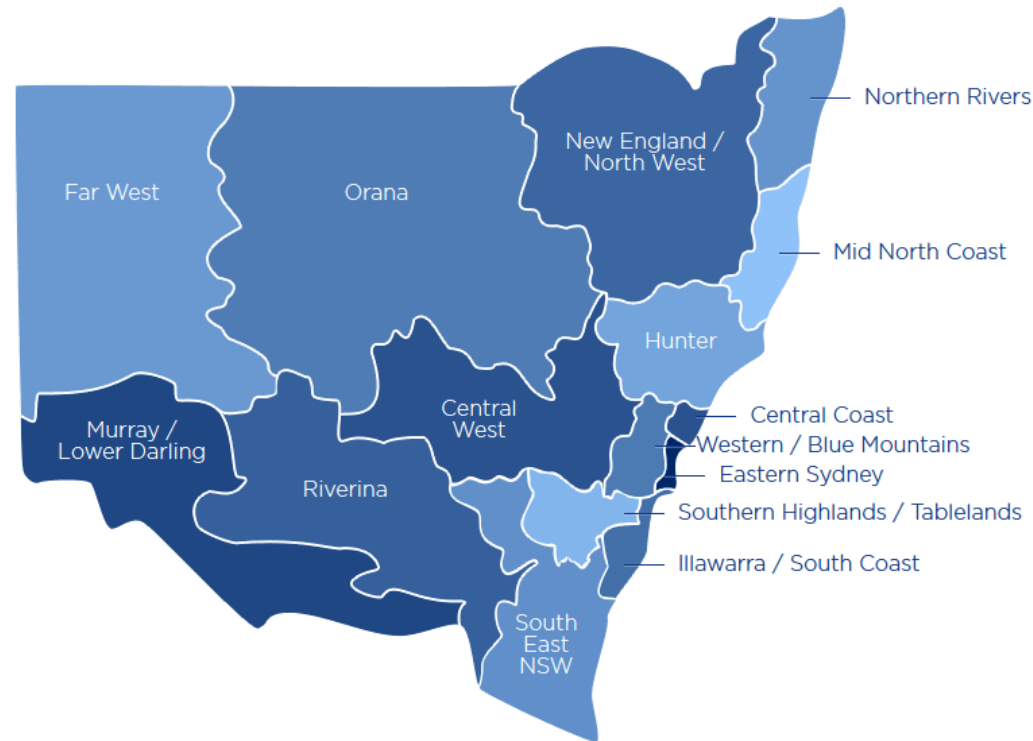
# Some Key Issues





# Who has standing?

- Significant implication from ‘who has standing’.
- Job created in LGA counts at LGA and state level
- Job created outside of LGA counts only at state level



# Counterfactual

- Counterfactual allows us to build the marginal impacts
  - Need to consider the other ‘state of the world’
- What would have occurred in the absence of the project being attracted/assisted?
  - Doesn’t go ahead or goes ahead in another area.
  - Go ahead in area at later time
  - Goes ahead anyway but on a smaller scale
- A particular issue for tourism related projects
  - Need to make some assumptions about what people would have done

# Tourism Projects and Visitation

- Not the people that visit the attraction, but people who came because of the attraction.
- Art Gallery of NSW, Taronga Zoo etc... attract in the order of 10% of specific purpose visitation from interstate and international.
- If in referent group assumption that if they didn't visit attraction they would have done something else.
- The whole spend for SPV is counted not just day/night spend or additional days.

# 'Traditional Industries' Project



# Traditional Industry Project

- Estimate sectors that have a comparative advantage in the central west – using ABS IO data
- The TI project is an actual project submitted to the Department – modified to disguise the proponent.
- Approximate capital cost of \$40 million, employing over 150 people (average wage = \$60,000)
- Generated approximately \$15 million a year in profit
- Significant proportion of revenue derived from outside of NSW

# Traditional Industry Project

## NSW Assumptions

- Intermediate inputs (purchases) - \$62 million (100% sourced in NSW)
- Wages and salaries - \$11 million (100% sourced in NSW)

## LGA Assumptions

- Intermediate inputs (purchases) - \$9 million (14% of total)
- Wages and salaries of project - \$11 million (100% sourced in LGA)



# Traditional Industry Project – CBA Results

## CBA Results – NSW referent group

- **Net Present Value \$30.43 million**
  - Labour Surplus \$18.8 million
  - Producer Surplus \$11.54 million
  - Government Surplus \$0.093 million

## CBA Results – LGA referent group

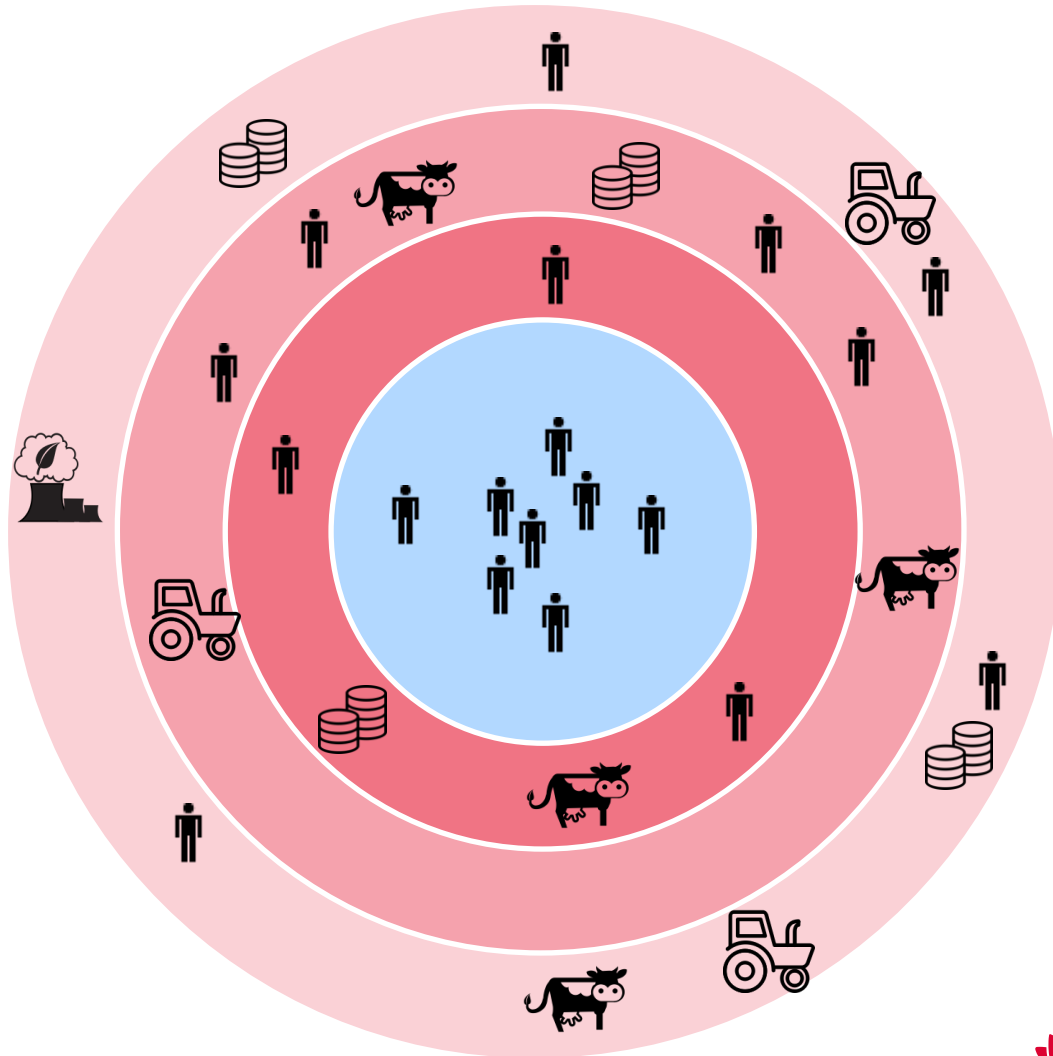
- **Net Present Value \$17.205 million**
  - Labour Surplus \$15.91 million
  - Producer Surplus \$1.295 million
  - Government Surplus \$0

# Economic Impact Analysis Results

- NSW as the Referent Group
  - Employment (FTE) = 672
  - Household income = \$45.9 million
  - **Value Added = \$113.2 million**
- LGA as the Referent Group
  - Employment (FTE) = 317
  - Household income = \$22.4 million
  - **Value Added = \$52.9 million**
- No surprise, but highlights the difference due to referent group. Appears better at State Level



# What is happening?



# Tourism Project



# Tourism Project

- Approximately \$10 million in infrastructure and 25 construction related jobs.
- Attract 5% as specific purpose visitors to region for day trips and 0.5% of interstate.
- Employees less than 5 FTEs on an ongoing basis
- Visitation and expenditure data taken from Tourism Research Australia and Destination NSW.
- Again based on a real project.

# Tourism Project – CBA Results

## CBA Results – NSW referent group

- **Net Present Value \$0.72 million**
  - Labour Surplus \$0.36 million
  - Producer Surplus \$0.07 million
  - Government Surplus \$0.06 million
  - Visitation \$0.2 million

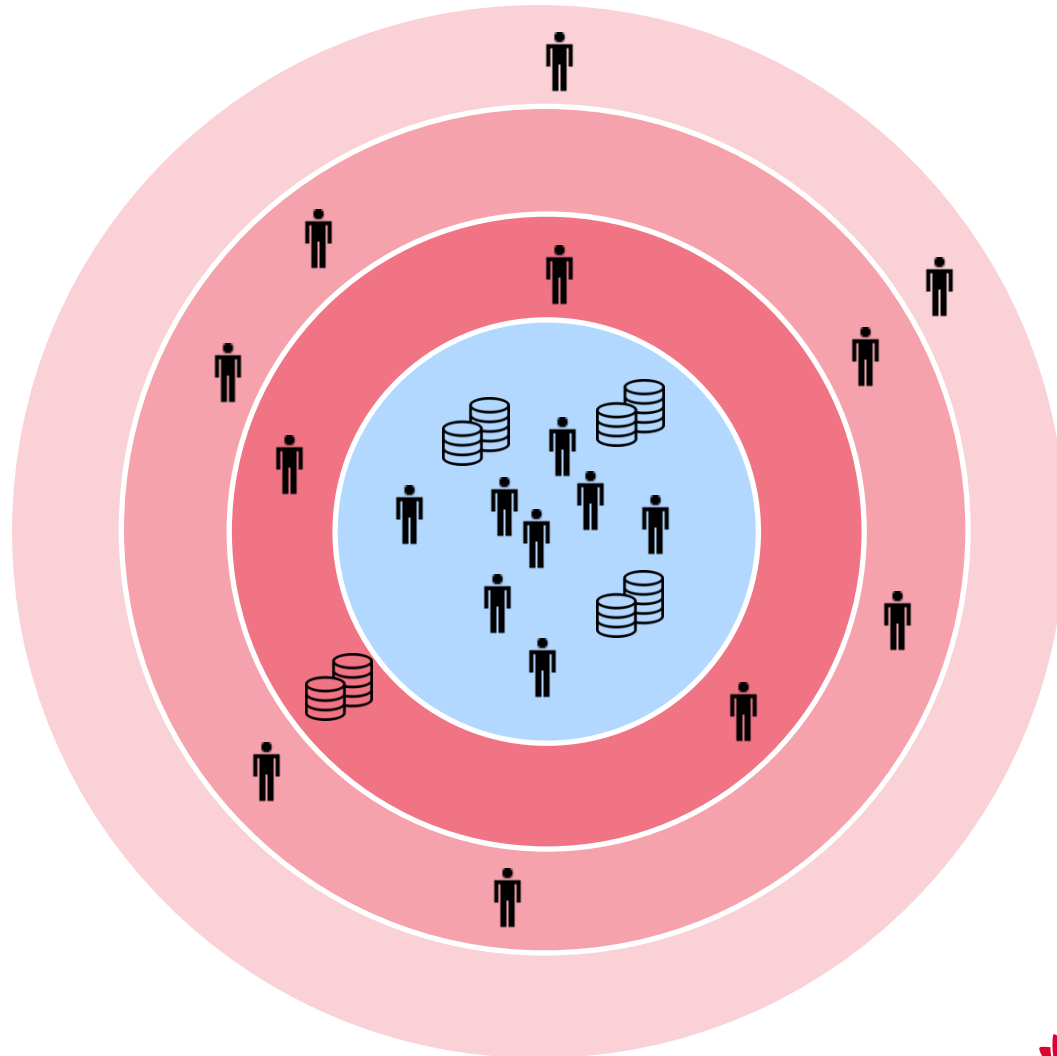
## CBA Results – LGA referent group

- **Net Present Value \$2.4 million**
  - Visitation \$1.9 million

# Economic Impact Analysis Results

- NSW as the Referent Group
  - Employment (FTE) = 6
  - Household income = \$0.4 million
  - **Value Added = \$0.7 million**
- LGA as the Referent Group
  - Employment (FTE) = 36
  - Household income = \$2.2 million
  - **Value Added = \$4.2 million**
- Reverse of traditional industry - better at local level

# What is happening?



# So which type of project is better?

- Scale is an issue – but tourism has more concentrated benefits.
- Need to leverage other attractions – portfolio effect.
- BoE – approximately 2,500 specific purpose visitors need to offset average job.
- Assessment allows comparison of apples and oranges – but this swaps depending on referent group.
- Should be consistent with funding of project.