

Friday, August 2, 2019

## The Comfort Group – Estimated Economic Impact of Delays

### 1. Introduction

- 1.1 My name is Philip Brent Wheeler. I hold the degrees of Bachelor of Arts, Post Graduate Diploma of Arts( First Class Hons.) and Doctor of Philosophy from the University of Otago. I have been asked to provide estimates of the likely economic effects of delays in the establishment of the manufacturing component of the Sleepyhead Estate project proposed by The Comfort Group (TCG) at Ohinewai.
- 1.2 TCG's property arm, Ambury Properties Limited , has lodged a submission on the Waikato Proposed District Plan requesting the zonings needed to enable the Sleepyhead Estate to be established. The company has requested a hearing and decision earlier than planned by the Waikato District Council. In that context, I have been requested to assess the economic impact of different timing scenarios.
- 1.3 My qualifications and experience are set out in Appendix I. I note that I have no conflicts of interest in undertaking the analysis set out below and that the work has been undertaken on an arm's length fully independent basis.

### 2. Background

- 2.1 TCG (known as and associated with various other names such as Sleepyhead) has a long history as a successful business (75 years), is a substantial employer, produces significant output in dollar terms and sells into domestic markets throughout NZ as well as exporting to a variety of Australasian and Asian markets.
- 2.2 TCG currently operates manufacturing facilities at Otahuhu and Avondale, Auckland. These facilities are operating beyond their design capacity which has resulted in inefficiencies that are impacting on TCG's ability to maintain its competitiveness. TCG has decided to rectify the by consolidating all of its operations at a single location at Ohinewai. The new, state-of-the-art manufacturing facilities will ultimately occupy 100,000 square metres and will comprise the foam manufacturing plant, mattress manufacturing plant, storage, and related access elements.
- 2.3 The current proposal will enable TCG to consolidate certain of its operations, manage risks to the business (and thus to those it employs) more adequately, continue its programme of adopting and vertically integrating each technological advance that takes place and to improve the logistics configurations the company deploys in distributing its product. In addition, it will allow a measure of net growth in output and ongoing employment.

2.4 TCG is committed to proceeding with the development (if the appropriate zonings are secured) and I am advised is soon to apply for the 1,800 square metre foam plant which it hopes to start building in 2020. The rest of the manufacturing facility is to be built in four 18 month stages (6 months preloading, 12 months construction) of around 20,000-30,000 square metres.

### 3. Method and Assumptions

3.1 This report considers the likely economic impacts of the proposal by TCG to develop a new 100,000 square metre manufacturing plant at Ohinewai. I consider that the plant will generate significant beneficial economic impacts on the district and regional economy through enhancing economic efficiency and the propagation of net beneficial multiplier effects.

3.2 The efficiency effects arise through:

- (a) Productive Efficiency – which is to be enabled by the new site and development on it.
- (b) Allocative Efficiency – which is served through re-location to a site where expanded production at greater levels of productive efficiency can be achieved; and,
- (c) Dynamic Efficiency – which is promoted both by the establishment of the new plant and the scope for expansion as innovation takes place.

3.3 The expected multiplier effects arise from direct, indirect and induced economic activity which is expected to accompany the development in both the construction phase (over 18-24 months) and the ongoing activity over and above the traditional, historical outputs of TCG's activity but enabled by the new plant.

3.4 I have undertaken a multiplier analysis to assess the additional effects of economic activity created by businesses servicing TCG from the rest of the economy (indirect effects) and the economic activity generated by households (induced effects) associated with such servicing as well as new output generated directly by TCG.

3.5 The analysis uses standard value added multipliers adjusted for opportunity cost (output and FTE employment which might be displaced by TCG growth). Data are drawn from Statistics NZ inter industry inputs.

3.6 This assessment is not based on a finely detailed analysis of the project and is confined to matters associated with the 100,000 square metre manufacturing component of the project as described above. Wider matters linked to the "Masterplan" are not considered.

3.7 The analysis focusses on the *additional* value added through the proposal, not the benefits or costs associated with the entire operation. Output and employment estimates relate only to the additions which are to be generated through the proposal.

3.8 I have proceeded as follows:

- (a) I have carried out an analysis of the likely results of the proposed development over a 10 year period from the commencement of construction to the end of the works proposed in the application;

- (b) From this value added output and full time equivalent (FTE) employment opportunities have been estimated insofar as these may be determined from current management plans and expected economic conditions over the period;
- (c) A standard multiplier analysis has been applied to the resulting data to estimate the direct (estimated value added actual dollar output), indirect (inputs to processing) and induced (inputs from households) effects of the proposal;
- (d) Multipliers used are those for the Waikato regional economy and reflect operation of the construction, manufacturing and (to a lesser extent) administrative sectors of the regional economy;
- (e) Results have been expressed as “net present values” (NPVs) of total impact for output (value added dollars) and FTE opportunities across all sectors of the economy (107 industries).
- (f) The discount rate for calculating NPVs is the project cost of capital since that is both the risk to be covered in undertaking the project and the point of departure for considering alternative investments.

3.9 The resulting figures have then been adjusted downward to reflect the opportunity cost of the resources used for the expansion (they have a value in that they could have been employed elsewhere but in a different, likely lower level of return and higher risk, use).

3.10 This process ensures a minimum of double counting and renders a conservative view of benefits. I have not explicitly counted benefits of the TCG’s departure from its existing site and the environmental benefits accruing to that. They represent benefits, nonetheless.

#### 4. Value Loss Through Delay

4.1 Value loss from delay may arise through the following processes:

- (a) Simple “time value of money” losses whereby dollar sums not invested because work is unable to commence involve dollar sums which could have been otherwise invested and yielded returns while the eventual target of the investment (the proposal which is the subject of the application(s)) waits; and,
- (b) The longer it takes for the work to commence, the longer it is before the community can benefit from the increased production promised by the proposal and the FTE employment opportunities offered become available.

4.2 Such losses are modelled through changing the timeframe parameters of the proposal and the outputs it produces. Comparisons are then made between the “ideal” timing for the project and timing given delays.

## 5. Scenarios Modelled

5.1 Three scenarios were modelled as follows.

### The "Ideal" Scenario

5.2 This scenario assumes a successful request for an early hearing and decision, a hearing in May 2020, a decision in late July 2020, no appeals and resource consents granted for the manufacturing facility by the end of March 2021;

5.3 This ideal scenario sets the benchmark which enables the greatest benefits to be generated from the proposal.

### "Intermediate Delay"

5.4 Under this scenario it is assumed that the request for an early hearing and decision is not granted and the proposal proceeds from the "standard" date, i.e., decision on the Proposed Plan towards the end of 2020 which would therefore apply;

5.5 All other parameters are assumed to hold as for the ideal scenario. In practical terms this is likely to impose a delay equivalent to one calendar year (and possibly up to 18 months).

### "Intermediate Delay but with Appeals"

5.6 This scenario is identical to ii above but with the additional possibility of appeals included. Other parameters remain the same as above;

5.7 In practical terms this is likely to impose a delay equivalent to two calendar years.

5.8 It is noted that the design of the scenarios requires some "administrative license" in that exact dates and time periods are obviously not known with precision. Nonetheless the various scenarios and the delays they are likely to impose can be readily envisaged.

## 6. Results

6.1 The following tables set out the results of the analysis:

### Early Hearing (No appeals, immediate decision)

	Summary of Total Effects		Multiplier
	Total Project Value		
	Direct	Total	
Output \$m NPV	\$81.83	\$294.52	3.60
Employment	60	132	2.20

6.2 The first table shows that the benefits at issue are considerable with total value added over the 10 year period amounting to a present value of some \$290m and FTE employment of an additional

60 jobs available per annum over and above what the firm currently generates in its present location and configuration.

6.3 The effect of delay (versus the ideal) is shown in the following tables:

No Early Hearing (No appeals, immediate decision)

Summary of Total Effects			
	Total Project Value		Multiplier
	Direct	Total	
Output \$m NPV	70.55	285.74	4.05
Employment	60	109	1.82

No Early Hearing (Appeals)

Summary of Total Effects			
	Total Project Value		Multiplier
	Direct	Total	
Output \$m NPV	58.65	249.49	4.25
Employment	60	87	1.45

6.4 It can be seen that there are significant losses occasioned by delays. These are summarised below as:

Scenario	Loss in Benefit	Percent
No Early Hearing (No appeals, immediate decision)	\$11.28	4%
No Early Hearing (Appeals)	\$23.18	8%

6.5 Under the "Intermediate" scenario there is a loss of \$11.8 m to the economy and some 60 FTE positions curtailed for a year while a two year delay imposes roughly twice this loss with two years of job opportunity for 60 FTE employees lost along with some \$23 m in value added.

## 7. Conclusion

7.1 The proposal being considered offers material benefits of considerable value when considered in both dollar and FTE terms. The analysis has been undertaken on the most conservative of bases and may therefore understate the beneficial effects.

7.2 Delays to the project have the capacity to diminish the value to be added – again in dollar and FTE forms. The potential losses are considerable and such delays are not able to be re-captured in any practicable manner.

## Appendix I – Qualifications and Experience

### Qualifications and experience

- 7.1 My name is Philip Brent Wheeler. I hold a Ph.D from the University of Otago (1980). I am a specialist in economics, notably financial economics and the economics associated with resource management. I am a Certified Securities Analyst member of the Institute of Finance Professionals New Zealand.
- 7.2 I have been employed in providing economic and financial advice to a variety of industries over the past 25 years. My experience covers assessments for central government, membership of the 1991 Resource Management Bill Review Committee, and preparation of economics effects analyses for many consent applications under the Resource Management Act 1991 (“RMA”).
- 7.3 I have previously been employed as Planning Officer, Senior Planning Officer and Deputy City Planner by the Palmerston City Corporation. As well as standard land use planning duties, I was involved in city economic development issues. I also served as Deputy Regional Planner for the Manawatu United Council. The latter role involved the development of regional plans.
- 7.4 I was also employed by the NZ Treasury as a Senior Analyst in Public Policy and in managing commercial assets and liabilities, asset sales, regulatory reform and the development of economic impact assessments.
- 7.5 I have undertaken economic impact assessment work in respect of mining and the mining industry (applications over 17 years for Newmont Waihi), casino applications and tourism, (six for the Casino Control Authority), sporting and recreational events (three Americas Cup events, motor racing, outdoor recreation), manufacturing enterprises (heavy and light processing industries), retailing (big box development, mall development and urban infrastructure design) and a variety of other industries.