

**Economists at Large review of the Buchan Consulting *Bastion Point Ocean Access Boat Ramp Economic Impact Assessment* report, 22 July 2010.**

### Executive Summary

Economists at Large have undertaken a rapid review of the new Buchan Consulting Economic Impact Assessment Report (the 'Buchan Report') and have found several issues that call into question the validity of the results presented by the consultants.

Economists at Large have been involved in the Bastion Point boat ramp and breakwater project for many years. Given the costs of the project and the amount of local opposition it faces, we believe there must be a convincing and thorough economic case for the project to be approved that can demonstrate clear and certain net social benefits. We have found the Buchan Report, the fourth such economic assessment, to be neither convincing nor thorough.

The report adds no new economic analysis or data that should lead to higher economic benefits, and yet it has managed to inflate the benefits of the ramp substantially. The Buchan results run directly contrary to the findings of the EES Panel Inquiry Report that concluded that "***the economic case for the proposals based on increased recreational ocean boating is flawed***" (page 135). The Buchan Report - based on projected increased boating - provides no new data that changes this conclusion.

In fact, with no new research having been undertaken by Buchan, they significantly overstate additional boat launches compared with the conclusions of the EES Panel, assuming 2990 additional recreational boat launches plus 1247 additional local boat launches. This is directly contradictory to the independent EES Panel's conclusion of 600 additional recreational boat launches, and Buchan provide no justification as to why their estimates are more reliable.

Despite providing no new supportive data, the Buchan Report claims a benefit cost ratio (BCR) of 4.6, well above the conclusion of the EES Panel Inquiry that the BCR was 0.34 - a negative project value.

Importantly, our assessment of the Buchan Report has turned up serious concerns with the way Buchan has calculated their BCR, and confusion in Buchan's calculation of additional (or new) boat launches that would come as a result of the new ramp. Our critique of the Buchan Report focuses on three major areas:

1. Methodological errors in the analysis
2. Large increase in construction costs since previous reports
3. High estimates of costs that potential boat users will be willing to pay

We conclude that there are significant methodological problems within the economic impact assessment, which result in the economic case for the project being overstated.

Based on this, we would recommend that this project ***not be approved based on the economic case for the ramp outlined in the Buchan Report.***

### Methodological concerns:

**Calculation of benefit cost ratio:** To calculate a benefit cost ratio (BCR), the Buchan Report appears to have taken total revenues less operating costs, then added the societal benefits of regional income. A BCR is typically based on net present benefits divided by net present costs, which was not the manner undertaken by the Buchan Report.

The resulting BCRs of 4.6 and 6.4 listed in the Buchan Report are therefore not the correct BCR to use for analysing the project.

**Use of 'revenues' as 'benefits':** The Buchan Report uses 'revenues' to estimate the BCR. Counting 'revenue' as 'benefits' is only correct if you can demonstrate that all of this revenue is *additional* to what would otherwise have occurred without the new ramp development. Because much of the revenue counted in the Buchan Report exists already in the region (ie economic activity of local boat operators), it should not be considered in any economic BCR analysis as additional 'benefits' that accrue due to the new development.

This same mistake was clearly highlighted in the EES Panel final report that found the previous economic assessment had made the same mistake by confusing additional launches with total launches (using 1200 rather than 600) thus substantially inflating the BCR (see page 134 of EES Panel Report).

**Use of multipliers:** The Buchan Report uses multipliers to estimate the indirect net regional income resulting from the increase in tourism. Multipliers should only be used when comparing more than one option. When comparing more than one option (or project), differences in multipliers between options may result in one option being better. Because this only looks at a single project and a single option, multipliers only serve to 'inflate' the stated benefits.

**Lack of sensitivity analysis:** with any such economic assessment, undertaking sensitivity analysis is one method of testing the reliance of the model on the assumptions. Unfortunately, the Buchan Report provides no sensitivity analysis to test (for example) the impact of lower tourist arrivals, fewer boat launches, and higher capital or operating costs. This is contrary to accepted practice in cost-benefit analysis.

Once the methodology is adapted as per our concerns raised above, we can give indicative figures of the impact of such changes to the assumptions. With only additional net benefits being considered in the model and without any multiplier effect, the project's BCR becomes closer to 3.5.

Removing the estimated impact of increased regional tourism activity resulting from the project (remembering that this regional tourism impact stems from the over inflated number of additional boat launches), the BCR drops to just 0.1. This is largely consistent with the conclusions of the EES Panel who conclude that at best the BCR would be 0.34 (see page 135).

In simple terms, the business case for the ramp itself is non-existent and over a 30-year lifespan, the ramp would generate just \$0.7 million in benefits for \$6.2 million in costs (net present values).

Given that this economic impact of this project is purely about the tourism potential of the ramp, it would be prudent to include some sensitivity analysis in the BCR calculations to provide best and worst case scenarios of impact on tourism arrivals – at the very least.

Due to the importance of these elements in an economic assessment, we would encourage the re-calculation of these numbers with sufficient sensitivity analysis to test the concerns raised above.

### Large increase in costs since 2005

**Variable constructions and operating costs:** Capital costs and operating costs are difficult to estimate for all infrastructure projects, however this latest assessment indicates a concerning inflation of costs when compared to previous estimates. Total construction costs have increased by over 300% from \$1.7 to nearly \$5.5 million, and annual operational costs are up by 450% from \$50,000 to \$225,000.

|                          | Pryor Knowledge (2005) | Buchan Consulting (2010) | Change |
|--------------------------|------------------------|--------------------------|--------|
| Construction costs       | \$1,700,000            | \$5,250,000              | 309%   |
| Operating costs (annual) | \$50,000               | \$225,000                | 450%   |

These changes have significant implications for the financing of the project and such fluctuation is of great concern for the credibility of the estimates. Some variability in cost estimates is to be expected in infrastructure projects, but such scale exposes a poor understanding of the project details, and exposes the developers to significant financial risk

**Ramp runs at an operating loss:** Not only is the BCR for the ramp itself closer to 0.1, the ramp also operates at an operating loss from year 1. Estimated at a loss of \$11,000 per year, this is money that will have to be derived from elsewhere and could have impacts on services to Shire residents. What is more concerning is that an operating loss of \$11,000 would actually be a very good outcome for the ramp. The more likely scenario for year 1 (and potentially future years) is an operating loss of between \$80,000 and \$130,000.

The losses above are 'operating' losses and only look at direct operating costs (dredging and maintenance) and revenues (ramp fees) for the ramp. Once we factor in the cost of financing the project (assuming interest is not paid at 0%), things get even worse and should be of great concern to the council and local residents, given the financial impact they could have on the community and other services. If amortised costs for construction of \$262,500 are taken into account (\$5.25 million over 20 years), the loss could become between \$340,000 and \$390,000 per year.

***Estimate of costs boat operators would be willing to pay:***

The report assumes boat users are willing to pay \$20 per launch, with government agencies willing to pay \$50 per launch, forming the bulk of the revenues from the new ramp. It is our understanding that other boat ramps in the region are free or have a low launch fee. If, as the consultants assume, this Bastion Point ramp is to attract new boat users in the off season from outside of Mallacoota, it would need to be competitive with other regional options.

**Conclusion:**

We conclude that the final BCR is overstated compared to what the project is likely to actually deliver to the community. Considering all the concerns mentioned above, the actual BCR is likely to be very low, in line with the conclusions of the EES Panel final report.

This Buchan Report shows a clear case of 'optimism bias' towards the projected economic outcomes, based on consultants' untested estimates of tourism and boating growth, across 20 years, in an area already at tourism capacity for 3 months of the year. All of this is based on no new research or analysis but rather is the consultants' own estimates and contradicts the conclusions of the EES Panel Inquiry.

The results projected by Buchan depend upon large growth in visitation and boating in the offseason for this remote coastal town, in months where ocean access is at best unsafe and when boating numbers are low. Tourism experience in neighbouring larger towns (such as Eden and Merrimbula) would indicate that the low season cannot be eliminated by the construction of an ocean boat ramp, as this Buchan Report implies.

As a result, we would urge caution upon making a large investment decision based upon the optimistic analysis provided by the Buchan Report.

This report, like several before it, is an economic impact assessment that has overstated the economic potential of an ocean access ramp for Bastion Point and we urge decision makers not to proceed on the basis of this economic case.

We are happy to discuss this summary further if requested.

Regards,

Simon O'Connor

Tristan Knowles

Rod Campbell

(Directors of Economists at Large)

Email: [info@ecolarge.com](mailto:info@ecolarge.com)

Tel: +61 3 9005 0154

Fax: +61 3 8080 1604