Lindfield Village Hub

Economic Impact Assessment

Ku-ring-gai Council
June 2020, Final Report

SGS Economics & Planning

Independent insight.

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1 ECONOMIC IMPACT ANALYSIS

1.1 Introduction

An Economic Impact Assessment (EIA) measures the degree to which the economic stimulus associated with a project accumulates in total economic activity levels of a defined region, i.e. after measuring the cumulative impact of all the buyer/ supplier transactions that are induced in the region.

The basic steps in undertaking an EIA include:

1. Isolating how the project stimulates the regional economy (direct impacts).

2. Generating region specific Input-Output model and subsequently deriving economic multipliers for impacted regional industry groups.

3. Applying these multipliers (by relevant industry group) to the direct impacts to estimate total regional impacts in terms of regional output, value-added and employment.

1.2 Regional definition

For the purpose of this project, the region was defined as the Ku-ring-gai Local Government Area (LGA). The EIA will focus on the effects of the Lindfield Village Hub (LVH) upon the economic activities within the Ku-ring-gai LGA.

1.3 Economic stimuli (direct impacts)

The economic stimuli of the LVH project measured in this EIA is relative to the base case development outcome.

Note that the base case development outcome refers to the Indicative Development Scenario developed by SJB under existing planning controls. This is the Masterplan for LVH adopted by Council in 2016 and amended in 2017. The LVH project refers to the Indicative Development Scenario by AJC Architects under proposed planning controls.

The economic stimuli of the LVH project relative to the base case development outcome[1] include:

- Higher capital costs (around $50 million more) of the LVH development under proposed planning controls relative to the development under the current planning controls, which will directly impact on the Construction industry

[1] Base case development outcome refers to the Indicative Development Scenario developed by SJB under existing planning controls

- Spending induced by a greater number of residents (approximately 190 more residents) within the LVH under proposed planning controls compared to that under the current controls, which is expected to result in more retail and other spending within the Ku-ring-gai LGA

- The provision of additional retail floorspace (of 3506 sqm) within the LVH under proposed planning controls relative to the current controls.

1.4 Regional economic multipliers

To calculate the indirect impacts associated with the direct impacts outlined above, SGS has used regional economic multipliers generated by its internal econometric modelling techniques.

In essence, SGS takes the inter-industry relationships (buyer–supplier transaction) that are measured by the Australian Bureau of Statistics in the National Accounts,[2] and scales these relationships down to a state level initially and then subsequently a regional level using available datasets and accepted mathematical techniques.

The results of this scaling process are a set of regional industry specific multipliers which estimate how spending in a specific regional industry, via the assessed direct impacts (stimuli), flows through to total regional output, value added (or contribution to GRP net of taxes), and full-time equivalent employment levels.

1.5 Assessed economic impacts

Job creation

During the construction phase, the project is expected to generate additional jobs relative to the base case development outcome:

- Direct 70 additional FTE jobs
- Indirect 57 additional FTE jobs
- Total 127 additional FTE jobs

This reflects direct construction jobs and professional services jobs that are supported during construction works, and indirect jobs that will be generated, for example, suppliers of construction materials. Once construction phase is completed, these jobs will dissipate from the region as construction workers transition to other projects.

Once complete, the LVH development is expected to generate additional ongoing employment within the Ku-ring-gai LGA (from retail and community facilities) relative to the base case development option :

- Direct 75 additional FTE jobs
- Indirect 66 additional FTE jobs
- Total 141 additional FTE jobs

Value added (contributions to GVA)

During construction the project is expected to generate:

- Direct $20.58 million
- Indirect $15.70 million

[2] Particularly the Australian Input-Output Tables (ABS Cat. No. 5209.0).

- Total $36.28 million

Once complete LVH development is expected to generate on an average annual basis additional to the base case:

- Direct $2.49 million
- Indirect $0.98 million
- Total $3.47 million

Value added includes the sum of wages paid out to employees and Gross Operating Surpluses retained by firms, net of input or material costs. In other words, value added impacts reported above measure labour and business surpluses retained within the Ku-ring-gai LGA. It does not include taxes paid to government.

This concept is perhaps best explained with an example. Consider a single retail business. During a year, the retailer might earn total sales revenue of $1,000,000 but might make payments totalling $800,000 to suppliers of products sold by the retailer, such as fruits and vegetable, or clothing and footwear. These "inputs" are provided by other suppliers, and the retailer's 'value added' is $200,000. So value added is the difference between total revenue and total payments to suppliers, and is the source of the wages and salaries paid to the retailer's employees, as well as the profits earned by the business owners.

Output

During construction the project is expected to generate additional to the base case:

- Direct $50.7 million
- Indirect $29.34 million
- Total $80.04 million

Once complete LVH development is expected to generate on an average annual basis additional to the base case:

- Direct $3.48 million
- Indirect $1.51 million
- Total $4.99 million

This measures the total amount of output (or business revenue) induced across all industries to satisfy the additional demand from construction and ongoing operations of the LVH.

1.6 Limitations to analysis

Input-output modelling has some limitations, as follows, but is a cost effective technique, recognising that the only feasible alternative is to utilise partial or general equilibrium econometric models. Having said this, general equilibrium models require an annual stimulus of >$100 million before the impacts start to be measurable across the economy.

- The input-output (econometric) model assumes relationships between industries are static over the forecast period. That is, productivity improvements are not factored in and historic relationships are assumed to hold.

- The input-output (econometric) model derives relationships between industries using total production estimates. Consequently, the relationships are 'average', whereas the stimulus used as an input is 'marginal'. Such an approach does not account for any 'underutilised capacity' at

the industry level or additional economies of scale that might ensue, as production expands from its existing base.

- All of the stimuli (direct impacts) are assumed to be 'new' economic activities for each regional economy. That is, crowding out or industry substitution effects are assumed to be negligible, meaning that key economic inputs such as labour and capital are assumed to be unconstrained, i.e. there is sufficient slack in the economy to service these stimuli without transferring significant resources from other productive uses. It also means that the activities that are promoted by the subject project do not adversely affect operations elsewhere.

1.7 Key findings

This section below summarises the direct and total (including direct and indirect) economic impacts of the LVH under the proposed planning controls compared to the current controls, in terms of additional jobs supported, value added and output.

Employment

- The development of the LVH under the proposed planning controls compared to the current controls will generate 127 additional FTE jobs during the construction phase, of which 70 will be directly created by construction expenditure on the LVH and an additional 57 via indirect effects
- Once complete, 75 additional FTE ongoing retail jobs will be created and as a result there will be an additional 66 FTE ongoing indirect jobs created, with total additional employment associated with the new planning proposal estimated at 141 additional jobs

Value-Added

- During the construction phase there will be an estimated value-added of $20.58M directly associated with the construction of the LVH and an indirect effect of additional $15.70M, resulting in a total contribution of $36.28M to Ku-ring-gai's Gross Value Added across the construction phase
- Once operational the LVH is expected to contribute $3.47M in value-added, $2.49M directly and $0.98M indirectly, ongoing for each year of operation

Output

- Output is expected to increase by a total of $80.04M, $50.7M from direct construction costs and $29.34M from indirect effects, within the Ku-ring-gai LGA
- Operational activities are expected to contribute an additional $4.99M in output, $3.48M directly and $1.51M indirectly, ongoing for each year of operation.

2 EIA OF A NEW SCENARIO

In June 2020, SGS has been asked by Ku-ring-gai Council to assess the economic impacts of a new LVH development scenario, where the retail component of the LVH project is reduced from 8142 to 5000 sqm (GFA), equivalent to the minimum retail GFA in the proposed DCP control.

Under this new scenario, the shortfall in retail floorspace of 3142 sqm (being the difference between 8142 and 5000 sqm) will be replaced by commercial floorspace, resulting in no change in total GFA and construction costs as per the LVH development scenario assessed in 2019 (referred to as the Indicative Development Scenario by AJC Architects under proposed planning controls in the previous section).

The following table shows the additional retail and commercial floorspace under this scenario, on top of the base development scenario under existing planning controls.

TABLE 1: ADDITIONAL EMPLOYMENT FLOORSPACE UNDER MIXED RETAIL AND COMMERCIAL SCENARIO

Development scenario	Total employment generating floorspace (sqm of GFA)	Additional floorspace (sqm of GFA) on top of the base scenario (i.e. indicative Development Scenario by SJB Architects under existing planning controls)
Retail floorspace	5000	364
Commercial floorspace	3142	3142

Source: SGS calcualtions based on information provided by Council.

We understand additional car parking in this scenario will be provided for the benefit of community. This will account for car parking attributable to the commercial component being at a lesser rate than the retail component.

The results of the economic impact assessment completed for this new LVH scenario are provided below.

2.1 Assessed economic impacts

Job creation

During the construction phase, the project is expected to generate additional to the base case:

- Direct 70 additional FTE jobs
- Indirect 57 additional FTE jobs
- Total 127 additional FTE jobs

Once complete, the operational phase of this development scenario relative to the base case development option is expected to generate ongoing employment in both the retail and commercial sectors within the Ku-ring-gai LGA of:

- Direct 134 (8 retail & 126 commercial) additional FTE jobs
- Indirect 60 additional FTE jobs

- Total 194 additional FTE jobs

Value added (contributions to GVA)

During construction the project is expected to generate additional to the base case:

- Direct $20.58 million
- Indirect $15.70 million
- Total $36.28 million

Once complete LVH development relative to the base case is expected to generate on an average annual basis:

- Direct $44.46 ($2.49 from retail and $41.97 from commercial) million
- Indirect $18.16 million
- Total $62.63 million

Output

During construction the project is expected to generate additional to the base case:

- Direct $50.7 million
- Indirect $29.34 million
- Total $80.04 million

Once complete LVH development relative to the base case is expected to generate on an average annual basis:

- Direct $33.08 ($3.48 from retail and $29.59 from commercial) million
- Indirect $14.39 million
- Total $47.47 million

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