

14 March 2104

Dunedin City Council
Otago Regional Council

By Email

Dear Sirs

Brief Update on Review of Economics of AgResearch FFP Case

In November 2013 I led the BERL team that completed on behalf of Dunedin City Council and Otago Regional Council research described in the report *Review economic basis of AgResearch FFP Business Case*. This research was completed on the basis of two AgResearch documents:

AgResearch Future Footprint Business Case, 40pp. 31st October 2012, and the resulting
Future Footprint Proposal, 15pp. 30 July 2013.

As the base of the Business Case, the **Strategic Case** derived two objectives: The Strategic Case derives two objectives:

- Improving infrastructure quality and utilisation, and
- Catalysing agriculture innovation centres.

The **Economic Case** showed collocation could result in greater collaboration and an increase of 1.6% in the total number of citations of research papers. The indication, if all the AgResearch assumptions held, was that the 'improved quality of R&D would increase GDP by \$20 million per year in the long term.'

The BERL assessment is that increase is very small, could be generated by about 3-5 additional dairy farms, and is effectively in the margin for error. The Economic Case did not describe in any detail alternative developments such as the BAU Options, or others that against which the FFP can be compared.

The **Financial Case** outlines funding of \$99.5 million by sale of farm land, sale of campus facilities and balance from future profits and debt. BERL has since received the more-complete *AgResearch Future Footprint Business Case*, 31st October 2012, of 102 Pages. This includes no more detail on the Economic Case for the BAU Options.

It does show some findings of the Financial Case including the BAU Options. A summary is

Net Present Value of Options (\$million):	At 2022	In Perpetuity
FFP Case	\$33.6 m	\$256m
BAU Option One	\$60.3m	\$221m
BAU Option Two	\$74.8 m	\$235m

These results indicate that in the medium term, i.e. to 2022, both of the BAU Options provide a better financial return than the FFPO. In the very long term (perpetuity) the FFP generates somewhat larger Net Present Value, but with sensitivity analysis, the FFP benefit falls below the BAU Option Two.

In this situation, where the Economic Value of the BAU options has not been measured, and the financial benefits of the FFP over the BAU options is very sensitive to the assumptions made, it is extremely risky to adopt as the preferred case the FFP.

It is imperative that a risk analysis is carried out, as well as an adequate Economic analysis of the BAU Options, including an enhanced one with increased collaboration capability.

Commercial Case:

This revolves particularly around staffing, and property use. We have not studied property use.

In relation to staff, our main points here remain:

- The staff in Ag Research are said to be dominated by older staff. The staff over 50 years are stated to make up 40% of staff. An assumed 'AgResearch life for staff could be age 25 to age 65, though increasing numbers are likely to work beyond 65 years. The 25 years to 65 years is a 40 year period and the age classes 50 years to 65 make up 15 years of 37.5% of the working life. This is very close to the present 40% of the workforce over 50.
- One key reason for shifting animal science to Lincoln is that the 'Hub' will encourage Lincoln Graduates to join AgResearch. To ratify this one would have to outline the programme of recruitment that AgResearch has undertaken over recent years with under graduates at Lincoln and Massey, and the success in attracting such graduates.
- The other piece of information which is obvious and extremely necessary in order to make a sound decision is the likely transfer of all types of staff to the new Hubs. Also as an prior example it would be valuable to complete a full study of the outcomes resulting from the shift of the Wallaceville operation to Invermay.
- International findings of research published in the last year or two show conclusively that success in Centres of Excellence depend upon
 - Retaining research 'stars' to attract other top staff;
 - Having the research activities embedded in their industry. Given that 30% of sheep are south of the Waitaki, Invermay is the location embedded in the industry.
 - Success is not found to be so dependent on the Cluster approach of the 1990s.

I trust these grief points are useful for you.

Yours sincerely

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