

## **Bexhill Hastings Relief Road**

### **Valuing Potential Economic Impact**

#### **Methodology and indicative findings**

*March 2012*

#### **Introduction**

GENECON has been instructed by East Sussex County Council (ESCC) and East Sussex Energy, Infrastructure & Developments Ltd (ESEID) to prepare a strategic assessment of the economic value of the proposed Bexhill Hastings Link Road (BHLR). This paper sets out the basis of the assessment and the key assumptions alongside the quantitative assessment presented in Annex I. The assessment is strategic in nature, based on information provided by ESCC and ESEID and with reference to recognised economic appraisal guidance.

#### **The Case for the Link Road**

The case for the BHLR has been scrutinised through public inquiry and has been the subject of extensive case-making submissions relating to the full range of issues raised by the proposals – transport, environmental, economic. In relation to the economic case, we have been supplied with a paper prepared by the County Council dated 13<sup>th</sup> February 2012 which sets out the key arguments in favour of the road in terms of its contribution to economic development and regeneration. In summary:

- ❑ BHLR forms part of a comprehensive response to addressing the economic performance of the Hastings and Bexhill area, based on an established long term strategy.
- ❑ BHLR offers the potential to unlock significant new employment generating development in a part of the South East which is suffering from persistent high levels of social and economic deprivation.
- ❑ The area suffers from a lack of a critical mass of employment space. This is holding back the expansion of existing local companies in a range of sectors – services, manufacturing and distribution, creating significant latent demand for new employment space. Opportunities for substantial supply of new commercial space in the town centres is largely exhausted and future economic growth is, to a large extent, dependent on the delivery of employment space in North East Bexhill.
- ❑ Employment and housing growth at North East Bexhill has strong policy backing in adopted Local Plans, supported by an objective evidence base which demonstrates a requirement for up to 163,000 sqm of employment space to meet projected needs to 2026. North East Bexhill offers the largest potential contribution to employment growth, with capacity to deliver 51,000 sqm accommodating an estimated 3,550 gross jobs across 17 hectares, together with potential for new housing growth of up to 2,650 new homes.
- ❑ The development of North East Bexhill is dependent on BHLR to provide strategic transport access. Without the road no significant development can proceed. Therefore, delivery of the BHLR offers the potential to unlock a major employment generating development with consequential benefits to the sub-regional economy.

## Measuring economic benefits

Previous submissions have sought to quantify the economic benefits of BHLR in terms of employment and GVA impacts. This analysis has been strategic in nature, seeking to highlight, in broad terms, the scale of new economic capacity that could be released. The estimates derived suggest potential to generate annual GVA contribution of approximately £100m per annum once the scheme is fully built-out.

In order to refine this assessment GENECON has developed an approach involving:

- ❑ calculating gross jobs and adjustments to establish an estimate of net additional jobs, taking into account deadweight, leakage, displacement and multiplier effects;
- ❑ profiling the phasing and timing of development / employment delivery across North Bexhill;
- ❑ applying estimates of annual GVA per job for the different sectors of employment anticipated across the phases of development to define the profile of GVA build up over the projected timeframe of the development;
- ❑ calculating an estimate of the total cumulative GVA from the scheme and net present value;
- ❑ assessing additional indirect employment and GVA impacts arising from construction activities associated with the delivery of the employment and housing developments.

Our approach and assumptions used for the assessment are set out below.

### Step 1 – Gross and net jobs calculations

#### *Gross jobs capacity*

ESCC and ESEID have confirmed that the employment floorspace capacity of the North East Bexhill development is 51,000 sqm (GIA). Based on typical plot densities and allowing for some multi-storey office development, this may be a cautious capacity assessment but it is adopted for this analysis.

This total floorspace is projected to split by use class into: 26,000 sqm B1a (office), 15,000 sqm B1c / B2 (manufacturing) and 10,000 sqm B8 (distribution/warehousing).

The assessment of gross jobs capacity is based on the HCA Employment Densities Guide<sup>1</sup>. This provides ratios of floorspace per job for a range of use classes. Ratios vary in the use of Gross External Area (GEA), Gross Internal Area (GIA) and Net Internal Area (NIA) as the basis for calculations. For this assessment, all calculations have been adjusted to reflect GIA.

Based on the projected floorspace split across the development the gross jobs capacity is estimated to be 2,670.

#### *Net additionality adjustments*

Deadweight – it is assumed that no jobs will come forward at North East Bexhill in the absence of BHLR. Therefore, deadweight (i.e. the impact arising without the intervention) is assessed at zero.

Leakage – Hastings and Bexhill are relatively self-contained economies. While the development will draw some of its labour pool from outside of the area, this is likely to be limited, particularly when the effects of proposed new residential development in the area is taken into account and the extensive skills and learning programmes underway as part of the

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<sup>1</sup> Employment Densities Guide 2<sup>nd</sup> Edition – Homes & Communities Agency, Drivers Jonas Deloitte

economic strategy. Leakage (i.e. the proportion of new jobs taken by people from outside of the local economy) is estimated at 5%.

Displacement – a proportion of the new jobs on site will be displaced from elsewhere in the local economy. This is inevitable given the latent, pent-up demand for employment floorspace amongst existing businesses in the area seeking larger floorplates, as confirmed by ESEID. However, most of these firms are seeking to expand and therefore a significant proportion will be generating significant new job opportunities as a result of expansions in North East Bexhill. Moreover, the scheme has the critical mass and profile to attract in-moving occupiers from outside of the local economy. Such inward investment, which has been in evidence from recent investments in the area, will be net additional at the local area level, thus minimising displacement effects. Based on these factors, an allowance for displacement of 20% has been assumed. This is in line with the average displacement benchmarks for sub-regional business development projects identified in established employment additionality guidance<sup>2</sup>.

Multipliers effects – the new employment activity attracted to North East Bexhill will generate further economic impacts through induced (wage expenditure in the local economy) and indirect effects (local purchasing of goods and services by new and expanded businesses). Different activities will generate different levels of downstream effects. For this assessment, reference has been made to the Scottish input-output tables which are a generally accepted benchmark for assessing sectoral multipliers in the UK. Taking average factors for the range of activities likely to be attracted to North East Bexhill the following employment multipliers have been adopted for this assessment – service sector employment 1.5, manufacturing 1.65 and distribution uses 1.45. These levels reflect the ongoing programmes to diversify and strengthen the business base of the sub-region and thus the ability of businesses to develop local supply-chains.

Based on the above adjustments, the estimate of net additional jobs unlocked at the sub-regional level by BHLR is **2,655 jobs**.

### Step 2 - Phasing of development delivery

ESEID has provided its assessment of the timing of development delivery at North East Bexhill based on current and projected demand for employment floorspace. The scheme is expected to be delivered in the following phases, split by the target use classes:

Phase / Occupancy target date	Office (B1a)	Manufacturing B1c / B2	Distribution B8
Phase 1 – 2016/17	3,500	3,000	
Phase 2 - 2019	6,500		
Phase 3 – 2020/21	5,000	4,000	
Phase 4 - 2023	3,000		
Phase 5 – 2024/25	4,000	4,000	2,000
Phase 6 – 2026/27	4,000	4,000	4,000
Phase 7 - 2028			4,000

### Step 3 – GVA per job

Sectoral GVA data has been provided by ESCC from the East Sussex Local Economic Assessment prepared in 2011. The data, provided originally by Cambridge Econometrics in 2010, has been used to inform the LEA and economic policy in the County. The source data is from 2007 but given its adoption for LEA purposes is considered suitable for this strategic economic impact assessment.

Total GVA and employment projections were developed as part of the LEA for 41 defined employment sectors based on combinations of Standard Industrial Classifications (SICs). By dividing sectoral GVA by sectoral employment, an indicative estimate of sectoral GVA per job

<sup>2</sup> BIS Occasional Paper No1 – Research to improve the assessment of additionality – October 2009.

can be derived. A base year of 2011 has been adopted for the purposes of this assessment. This is a projection based on the Cambridge Econometrics work for the LEA. Further refinement of these estimates could be made through updated projections of sectoral GVA and employment for East Sussex if available. The sectors considered most likely to be attracted to the North East Bexhill scheme have been consolidated for the current assessment to align with the use classes proposed for the North East Bexhill development. Thus, an average GVA per job in office, manufacturing and distribution activities has been derived based on the average ratios across private sector services, manufacturing and distribution SICs respectively. This provides a more accurate guide to the GVA impacts of the scheme than adopting an average GVA across all sectors in East Sussex, given that North East Bexhill is targeting a specific range and mix of business investment, including higher value activities particularly in the service and manufacturing sectors in which there is growing evidence of latent demand.

The base GVA per job estimates adopted for this assessment based on the LEA data are therefore:

Services (B1a uses)	–	£50,000 per job
Manufacturing (B1c / B2 uses)	–	£57,000 per job
Distribution (B8 uses)	–	£42,000 per job.

These GVA estimates are significantly higher than the average for the East Sussex economy as a whole, reflecting in part the exclusion of sectors with lower GVA, such as public sector services, hotels & catering and retail which are significant employment sectors in the County.

#### **Step 4 – Cumulative GVA calculation**

The take-up of employment land unlocked by the BHLR has been modelled to build a profile of gross and net job generation across the projected timeframe of the scheme as defined in Step 2 and applying the GVA per job estimates to that profile. This indicates a potential annual GVA on scheme completion of just over £155m. The cumulative GVA over the full period of the development has been calculated applying a ‘persistence factor’ of 10 years per job. This adjustment reflects the time period over which employment benefits can be expected to last and was adopted in the Government’s national evaluation of the Regional Development Agencies. (PwC, 2008). It represents a more cautious approach to assessing cumulative GVA over the lifetime of a development project.

The modelling for the North East Bexhill employment development indicates a cumulative GVA over the full course of the project of £1.55bn, with a net present value (applying the Treasury discount rate of 3.5%) of approximately **£950m**.

#### **Step 5 – Construction jobs and GVA**

In addition, consideration should be given to the construction jobs generated by the development, including those associated with unlocked residential development in North East Bexhill. While only temporary effects, HM Treasury has confirmed that construction jobs should be accounted for in the economic appraisal of public sector infrastructure projects.

The construction costs in respect of the project are estimated as follows:

<b>Indicative construction costs</b>		
<i>Element</i>	<i>Assumptions (based on data from ESEID)</i>	<i>Construction cost estimate (2012 prices)</i>
Residential units	2650 units. Ave. unit size @ 80 sqm. Ave. build cost @ £1,200 per sqm	£254m
Office units	26,000 sqm. Ave. build cost @ £2,200 per sqm	£57m
Industrial /warehouse units	25,000 sqm. Ave. build cost @ 1,100 per sqm	£28m
Link Road & other strategic infrastructure	Current cost estimates	£78m

Based on HM Treasury guidance<sup>3</sup> an estimate of the construction jobs supported by this expenditure has been derived, applying labour coefficients for expenditure on new housing and private commercial floorspace. For new housing the ratio of construction years per £1m of expenditure is 21, for private commercial floorspace 17.6, and for infrastructure 14.8. On this basis, the construction of the scheme could generate approximately 8,000 job-years in the construction sector. Assuming 10 job years per full time equivalent, this suggest a potential for 800 FTE construction jobs. The East Sussex LEA data suggests a GVA per job in the construction sector of £34,500. Thus, annual GVA of £28m could be generated over the course of the development.

### **Summary**

On the basis of the methodology outlined above, an indicative estimate of the overall economic impact of the North East Bexhill development unlocked by the BHLR, in terms of GVA contribution to the sub-regional economy, could be approaching **£1bn** (net present value) based on the cumulative employment generating potential of the project over the full development period.

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<sup>3</sup> Guidance on estimating the employment impacts for planned capital expenditure – HM Treasury 2009