Appraisal of the Department for Transport's *Guidance on Preparing an Economic Impact Report*
by Christopher Lewis

- The Guidance's focus on the employment impacts of transport schemes provides a rather lop sided assessment of a scheme's overall regeneration impacts.

- The Guidance states that 'the need for an EIR must be considered for all major schemes, that is, those with a capital cost of £5 million or more'. GLA Economics believes that the £5 million threshold is too low and should be raised to at least £10 million.

- The Guidance concentrates on existing residents. It does not recognise that transport schemes support population growth which can be important for economic growth and development.

- GLA Economics is concerned that the excessive detail required by the Guidance makes compiling an EIR unnecessarily complex and too dependent on intensive data collation and survey work.

- Insofar as different regional transport schemes are to be appraised and measured against each other, it is a problem that there is no national definition, or at least national criteria, for defining or classifying regeneration areas in the Guidance.

1. Introduction

This note provides a critical appraisal of the document *Guidance on Preparing an Economic Impact Report* (hereafter referred to as The Guidance) prepared for the Department for Transport (DfT) by Steer Davies Gleave. The Guidance describes how an Economic Impact Report (EIR) should be prepared by a transport scheme's promoters when seeking funding from the DfT in support of that scheme. The Guidance outlines how to measure the economic impact, in the form of employment effects, of transport schemes on regeneration areas (RAs). A major criticism of an EIR is the misleading name given to any such appraisal by the DfT. It should be explicitly recognised that there are important categories of economic impacts beyond jobs (e.g. land values) that are not covered by the Guidance. For clarity, we suggest that as the Guidance document stands, its title should be amended to *Guidance on assessing employment impacts of transport schemes in regeneration areas*.

2. Summary of the Guidance

The Guidance is intended to provide practical advice on the preparation of EIRs. The Guidance only applies to identifiable RAs and its chosen measure of contribution to regeneration objectives is employment among the population of the RA. The Guidance sets out that the impact of a transport scheme on economic activity should be measured through employment levels. It is not concerned with the economic impact of a transport

scheme at a national level, but only with the employment impact in a RA and the surrounding region. It is also not necessary to demonstrate whether any new jobs generated by a transport scheme would otherwise have gone elsewhere in the country.

The Guidance states that the need for an EIR must be *considered* for all major transport schemes (i.e. those with a capital cost of £5 million or more) but that it is only *required* for schemes that affect travel to, from, or within one or more RAs. The depth and quality of analysis contained within an EIR should be reasonably proportioned to the case.

The Guidance lays out that an EIR should involve quantitative analysis as well as a description of how the RA's economy operates, the role transport plays, why improved transport will contribute to regeneration by leading to new jobs and/or reduced unemployment, and what risks there are that the employment effects will be negative.

The Guidance requires an analysis of existing economic activity in the RA, showing what factors have led to its current position, what the future expectations are if no action is taken, the extent to which transport is holding back expansion, and how the proposed transport scheme will correct this. The analysis of the current economic position should be built up from an assessment of individual economic sectors, such as manufacturing; commerce and finance; retail; tourism; services; and the public sector. The Guidance also requires employee skill levels (i.e. professional and managerial; other white collar; skilled manual; and unskilled manual) to be considered as the EIR needs to provide estimates of the increase in accessible jobs, split by skill level, for residents in the RA.

The Guidance states that the EIR will consist of a written report supported by quantified analysis. To complete an EIR the following steps are required:

- Provide a description of the scheme, with maps.
- Provide a discussion of the RA's economy as it is now and is expected to be without intervention.
- Provide a quantified analysis of the employment situation for residents of the RA.
- Provide a quantified description of the proposed scheme, particularly how it will impact on travel conditions.
- Estimate how many residents will gain employment from newly accessible existing jobs.
- Estimate the number of new jobs expected due to expansion of existing businesses, and how many of these jobs will go to residents of the RA.
- Calculate the net gain in employment for RA residents.
- Estimate any losses in employment among RA residents due to increased competition for existing jobs.
- Calculate the net position.

The Guidance provides a worksheet (in its Appendix A) to guide the structure and presentation of completing an EIR. The worksheet has 20 sections with the final section

being a summary of change in employment for residents of the RA split into the following categories: managerial and professional; unskilled; skilled manual; and white collar. To help with an EIR's completion, the Guidance strongly suggests that interviews with local businesses are useful (its Appendix C has an outline business questionnaire).

3. Weaknesses of the Guidance

The Guidance has several weaknesses:

- In the Guidance it is not necessary to demonstrate that any new jobs generated by the transport scheme in the specified RA would not have otherwise located somewhere else in the country. This is not a sensible approach in economic terms as it is ignoring the possibility of displacement. If the new jobs attracted to locate in the target RA have just been displaced from another area (which could be equally deprived) then there is no benefit to society overall and it should not be considered as such.

- The focus in the Guidance on only the employment impacts of transport schemes provides a rather lop sided assessment of their overall regeneration impacts. Other dimensions of regeneration are covered by other New Approach to Appraisal (NATA) framework headings such as the quality of the built environment. However, the implications of improved accessibility for bringing forward the development of large housing sites or for realising a higher density of housing development, are not covered in NATA. Hence, there will be local economic impacts arising from new housing, which could be very significant in schemes that primarily serve new residential areas, which are not covered. GLA Economics believes that the Guidance should consider the impact of transport schemes on housing provision and the knock-on effects for local job creation.

- The Guidance goes into significant detail on how to assess accessibility changes but provides limited direction on how to assess the implications of these changes on employment growth. The Guidance seems to only rely on the responses of local businesses in a questionnaire to make this link.

  The Guidance does not seem to recognise transport capacity as a potential constraint to employment and it only considers transport accessibility as a facilitator. This may be due to the Guidance focusing on RAs and not discussing development impacts which are not regeneration based. However, these impacts can be significant and should therefore be part of transport appraisals.

  GLA Economics suggests that the DfT consider the methodology of Brook Lyndhurst and Volterra Consulting's work[1] about the impact on potential employment of the proposed Thames Gateway Bridge scheme. These reports examined the correlation between accessibility and employment density levels.

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[1] 'Thames Gateway River Crossings. Package 2: Accessibility & Regeneration', Brook Lyndhurst Ltd (October 2002) and 'Impact on Potential Employment and Population of Thames Gateway Boroughs of the Thames Gateway Bridge, Technical Report', Volterra Consulting Ltd (May 2004).

- Despite splitting jobs into different skill levels, the Guidance seems to treat all jobs as though they have the same value. In fact, productivity and economic value clearly vary significantly across and within employment sectors, which should be taken into account. A better approach would be to incorporate some measure of the contribution of the jobs that will be created to the UK economy as well as to local employees. This would take into account the type of jobs that would be created. Jobs in high-value and high-skilled occupations will add more to the local economy than low-value, low-skilled occupations.

- Appendix C of the Guidance lays out an outline for a questionnaire for business interviews. The Guidance strongly suggests that interviews with businesses should be carried out to help build up a picture of the local economy including future expectations or constraints on expansion. However, GLA Economics believes that the EIR is probably not the most appropriate place for business views to be incorporated. The views of businesses should be considered in great detail but probably not given excessive weight in an EIR. One reason for this is that the non-comparability of different interview questions for different EIRs will give the DfT problems when considering competing transport schemes.

  The Guidance does seem to recognise some of the potential problems with the technique of using business interviews for gathering and disseminating the information required in an EIR by stating in footnote nine on page 24 that 'selective reporting or skewed weighting of the interview results should be avoided.' Even if the compilers of EIRs are never tempted to undertake such a practice it should be expected that, if asked, businesses would usually say that they want more transport infrastructure.

  In the EIR the interviews with businesses seem to be targeted more heavily at businesses that are dependent on transport such as manufacturing and haulage. Consequently the outline questionnaire is weak on the importance of transport in the movement of staff, which is a relatively small section compared with the movement of goods. This could lead to an underestimation of the benefits of transport schemes for the financial and business services sector.

- The Guidance does not recognise the benefits of lower prices to customers or increased profits to businesses that a transport scheme might cause. Instead, the compiler of the EIR must explain why savings will be converted into new jobs rather than increased profits or reduced prices for the savings to be included in the EIR. This is an unusual appraisal position to have and is directly related to our key area of concern that the Guidance only recognises employment impacts as economic impacts.

  The Guidance's paragraph 7.13 (p24) demonstrates this problem: 'The EIR should provide an analysis of the significance of the changes in transport costs to the affected businesses. The cost savings will be used by those companies in one way or

another, but not necessarily to create jobs. The EIR should explain why it might be expected that the savings will be converted into new jobs rather than, say, increased profits or reduced prices, drawing for example on information collected in interviews with relevant businesses'.

- The Guidance states that 'the need for an EIR must be considered for all major schemes, that is, those with a capital cost of £5 million or more' (p9). Even allowing for the fact that the Guidance also states that 'the depth and quality of analysis contained within the EIR should be reasonably proportioned to the case' (p9), GLA Economics believes that the £5 million threshold is too low and should be raised to at least £10 million.

- The Guidance concentrates on existing residents. It does not recognise that transport schemes support population growth, which can be important for economic growth and development. For example an increase in the local population is likely to lead to higher expenditure in local shops.

4. Complexity of the Guidance

Following the Guidance to compile an EIR is currently a complex task. This is especially so for large schemes, such as Crossrail, which potentially affect a significant number of RAs. The Guidance makes compiling and completing EIRs extremely resource intensive. To undertake a review of the existing local economic indicators and then make forecasts in each RA, including skills audits, vacancy levels, as well as an analysis of the economies of hinterlands of these RAs, is time consuming. For example, the work required to compile an EIR includes analysing each industry's prospects in the RA, a breakdown of jobs by workforce, unemployment and vacancies (all split by skills categories). The Guidance should recognise the complexities and resource implications of undertaking such a detailed review of local economies to complete a comprehensive EIR.

In addition to the Guidance involving high information requirements at quite significant levels of detail it strongly suggests that an EIR should involve surveying employers within the RA. This places an extra, not insignificant, resource burden on the authority preparing the EIR. The overall concern is that in trying to capture such detail the Guidance becomes unnecessarily complex and depends too much on intensive data collation, survey work and analysis.

5. Definitional issue if the focus on RAs is kept in any future Guidance

GLA Economics believes that the definition of RAs should be considered by the Guidance. When different regional transport schemes are to be appraised and measured against each other, it is a problem that there is no national definition, or at least national criteria, for defining or classifying RAs. In the interests of transparency, there should at least be criteria (such as a standard index of deprivation levels) allowing for consistent cross comparisons.

6. The EIR worksheet

The 'EIR worksheet' in Appendix A does not seem SMART (specific, measurable, achievable, relevant, and timed-based). For example, section six of the table under the heading "Jobs and People in the RA" asks the compiler of the EIR to "Provide a breakdown of the current jobs in the RA, indicating skill levels and vacancies." This fails most of the SMART definitions.

- Specific – the skill levels of 'unskilled, skilled manual, white collar, managerial' are somewhat vague and do not correlate with commonly used occupational definitions (SOC2000) or skill-level definitions (NVQ levels).
- Measurable – this is the key area of concern. This type of job's data is provided by the Office of National Statistics through:
  a. Annual Business Inquiry – this provides local area workplace employment data by industrial sector, but not by occupation or skills.
  b. Labour Force Survey – this provides workplace occupations, but as it is survey-based it is notoriously unreliable at a local level.
  c. Census 2001 – the census may help provide the data the EIR requires, but could be woefully out of data within just a couple of years.
  Attaining the vacancy data is a matter of even greater concern. Vacancy rates most commonly quoted are those notified through Job Centres. However, this statistic is heavily biased towards elementary and manual occupations as many professional and managerial jobs are not advertised through Job Centres.
- Achievable – with such difficulties in measurement, it cannot be identified when a labour market balance (i.e. people looking for jobs minus vacancies is approximately zero) is achieved.
- Relevant – this part of the test is passed.
- Time-based – the impact assessment must look at the trends in employment before and after the transport scheme will take place to see if it will produce a structural change in the pattern of employment.

The major problem with the EIR worksheet is that not all the indicators are clearly specified or measurable so some figures that appear in a comprehensive EIR study are likely to be quite speculative.

7. Conclusion

GLA Economics welcomes the DfT's acknowledgement that a standard Cost-Benefit Analysis (CBA) does not capture the full economic impact of transport schemes in many cases. As stated in the SACTRA report from 1999, standard assessment techniques will:

- potentially under or over estimate the costs and benefits of transport projects where there are market failures, or
- not take account of distributional issues arising out of the transport scheme.

However, it is disappointing that the EIR Guidance is restricted to regeneration areas since there is no reason to believe that the impact of the above two factors is restricted to such areas. In the interests of including all relevant costs and benefits of a scheme, it is important that an economic impact assessment be made for all projects where such

impacts are considered to be significant and not just for projects that will affect RAs. Economic impacts of transport outside regeneration areas are likely to far exceed impacts within regeneration areas. Of even greater concern is the limitations of the current EIR Guidance due to its sole emphasise on employment. It should be explicitly recognised that there are important categories of economic impacts beyond jobs (e.g. on land values) that should be, but are not, covered by this Guidance.

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References

Guidance on Preparing an Economic Impact Report, Final Report, Steer Davies Gleave, July 2003

Thames Gateway River Crossings. Package 2: Accessibility & Regeneration, Brook Lyndhurst Ltd, October 2002

Impact on Potential Employment and Population of Thames Gateway Boroughs of the Thames Gateway Bridge, Technical Report, Volterra Consulting Ltd, May 2004