



Economic Impact Assessment for No.1 Reading, Reading, Berkshire, Commissioned by Station Rd Development Co Ltd., September 2018

CONSTRUCTION PHASE NET BENEFITS (TEMPORARY JOBS)



£25m

Cost of construction.



190 jobs

Net direct construction jobs.



512 jobs

Total net construction jobs during (including direct, indirect and induced).



£31m

Total construction related Gross Value Added Net Present Value (Direct, indirect and induced).

ANNUAL NET OPERATIONAL BENEFITS



124 jobs

Net direct operational jobs.



273 jobs

Total operational net jobs created (direct, indirect and induced).



£59m

Total net operational related Gross Value Added Net Present Value (Direct, indirect and induced).

TOTAL 10 YEAR NET BENEFITS



273 operational jobs

512 construction jobs

Net created and safeguarded (direct, indirect or safeguarded).



£89m

Net Present Value
Total net related Gross Value Added (Direct, indirect and induced).



1:3.7

10 year cost benefit ratio (after discounting).



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Calculating Economic Impact

Construction Impacts

During the construction phase a considerable number of direct jobs will be created locally and regionally. Investment in production-type activity rather than consumption, brings significant long-term economic and social benefits.

The construction industry is also a driver of growth in other sectors due to its heavy reliance on an extended and varied supply chain. It uses a wide range of inputs from many industries to produce its goods and services. Investment in the sector therefore indirectly supports a broad set of industries as the increase in final demand filters through to key industries which supply the sector.

The following sectors are amongst those that benefit most from increases in construction activity: aggregates, renting of machinery, real estate; architectural and technical consultancy; plastic, wood and metal products and heating and electrical supplies.

The suppliers and other services that are engaged in the delivery of the scheme are described in terms of both direct, indirect and induced jobs and resultant GVA. **Gross value added (GVA)** is the measure of the value of goods and services produced in an area, industry or sector of an economy.

Each is summarised as follows:

- **The direct impact:** Wage income and profit generated in the construction sector, plus spend on non-labour input.
- **Indirect impact:** The supply chain impacts of construction and their knock on effects, i.e., an increase in output and income up and down the supply chain.
- **Induced impact:** An increase in household income as a result of increased employment/income in construction and other sectors leads to an increase in spending and demand/output in the overall economy.

Jobs created during the construction phase only last as long as the construction takes place (estimated at 2 years) and are described in terms of job years. A composite multiplier for indirect and induced impacts was applied from the HCA Additionality Guide Fourth Edition (2015) (Table 4.14: Output multipliers, construction composite). The gross figures have also been adjusted to net figures to take account of the true added value of the investment (See **Annex One** technical note on impact assumptions).



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Calculating Economic Impact (Continued)

Operational Impacts

As discussed there are two major components to valuing the economic benefits of development proposals – those associated with the construction phase and those with its subsequent operation or use.

For these latter impacts we have looked at:

- Those jobs associated with **operation of the building** in security, reception, cleaning, maintenance, landscaping, IT, management and sales/letting.
- Plus those jobs linked to the **proposed hotel, office and retail space**.

Again three tiers of effects are considered:

- **Direct Employment:** Employment impacts and resultant productivity / GVA from jobs safeguarded and created.
- **Indirect Employment Effect:** The effect on suppliers and resultant productivity / GVA.
- **Induced Effects:** Increased household income as a consequence of increased employment that is re-spent on final goods and services.

Composite multipliers were used to calculate the indirect and induced effects (from the HCA Additionality Guide Fourth Edition (2015) (Table 4.14: Output multipliers Economy Average). We have calculated resultant GVA per head by sector using BRES (The Business Register and Employment Survey) and ONS (Office of National Statistics), 2015 data for the South East Region .

The Treasury's Green Book offers some suggested guideline in assessing the true impact of investments. In line with these the several steps have been taken to assess gross and net GVA and employment impacts and net present value. These are summarised in **Annex One** (Technical Note on Impact Assumptions).



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Summary Impact of the Proposal

The proposal will result in the following construction impacts:

- **512 total net temporary construction jobs** comprised of:
 - ⇒ 190 direct construction jobs
 - ⇒ 322 indirect and induced construction jobs
- The construction phase will generate a total NPV **GVA of £31m**
- **273 total operational net jobs** comprised of:
 - ⇒ 124 operational jobs associated with the operation of the building as well as within the proposed hotel, offices, and retail space.
 - ⇒ 149 indirect/induced jobs
- Total operational net NPV **GVA of £59m**. This is larger than the construction GVA as the benefits persist longer.

The proposal will result in the following 10 year combined construction and operational benefits:

- **512 net temporary construction jobs** (direct, indirect and induced) and **273 permanent operational net jobs** (direct, indirect and induced)
- **Total NPV GVA of £89 million**
- **A 1:3.7 cost benefit ratio** (each £1.00 will generate £3.70)

Summary impact tables appear in **Annex Two**.



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Annex One: Technical Note on Impact Assumptions

When calculating jobs and GVA we have taken account of:

- Direct construction jobs for the proposal were calculated by dividing construction expenditure by GVA per FTE average for construction (for the South East Region).
- Applying a composite employment multipliers from the HCA Additionality Guide Fourth Edition (2015) (Table 4.14: Output multipliers).
- To ensure the true added value of a development is assessed appropriate adjustments are required to alter the impacts from gross to net. These account for displacement (assumed modest to low at 20%), and leakage (again assumed modest to low at 20%).
- The persistence of the benefits i.e. how many years the benefits are expected to persist and the period over which benefits will accrue until they reach their full potential. In this instance, a ten year time frame has been chosen based on experience of the time taken for previous facilities to bed in. A 2 year construction period has been assumed with benefits phased accordingly.
- The rate at which benefits will decay i.e. the proportion of annual benefits expected to be lost from one year to the next due to economic changes, other investment decisions etc. A decay of 10% per annum has been used.
- Calculation of the Net Present Value (NPV)* of the GVA benefit stream over the appropriate persistence time period by discounting back utilising an appropriate discount rate. HM Treasury Green Book guidance has been followed which

recommends discounting by 3.5% in order to determine NPV.

- A cost benefit ratio calculated by Net Present Cost (NPC) against NPV i.e. the amount each £1 of investment generates.
- Kada estimates for GVA per FTE have been used. These do not account for self-employment.

* Net present value is a calculation that compares the amount invested today to the present value of the future cash receipts from the investment. In other words, the amount invested is compared to the future cash amounts after they are discounted by a specified rate of return.



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Annex Two: Potential 10 Year Impact of Proposal

	Jobs	GVA	NPV over 10 years
Operations (FTE)	273	£22,302,440	£58,488,147
Direct Jobs	124	£7,588,284	£36,555,092
Indirect and Induced Jobs	149	£9,105,940	£21,933,055
Construction (Temp)	512	£41,893,756	£30,828,843
Direct Jobs	190	£11,614,470	£11,418,090
Indirect and Induced Jobs	322	£19,744,599	£19,410,753
Total		£64,196,196	£89,316,990
Direct Economic Impacts		£19,202,753	£47,973,182
Indirect and Induced Economic Impacts		£28,850,539	£41,343,808

Lifetime cost benefit	Financial costs	GVA impacts	BCR
Gross	£25,000,000	£153,337,444	6.1
NPC/NPV	£24,154,589	£89,316,990	3.7