

## **Wider Economic Impacts**

### **TAG Unit 2.8**

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# 1 Wider Economic Impacts

## 1.1 Appraisal of the Wider Economic Impacts

1.1.1 The Economy Objective has the following five sub-objectives:

- to get good value for money in relation to impacts on **public accounts**;
- to improve transport economic efficiency for **business users and transport providers**;
- to improve transport economic efficiency for **consumer users**;
- to improve **reliability**; and
- to provide beneficial **wider economic impacts**.

1.1.2 This TAG Unit provides an introduction to the appraisal of the last of these five sub-objectives – the wider economic impacts. For information on the appraisal of the other four sub-objectives, reference should be made to *The Public Accounts Sub-Objective* (TAG Unit 3.5.1), *The Transport Economic Efficiency Sub-Objective* (TAG Unit 3.5.2, which deals with the second and third sub-objectives together), and *The Reliability Sub-Objective* (TAG Unit 3.5.7).

1.1.3 It is generally accepted that, under conditions of perfect competition for both the transport and the transport-using sectors, a properly specified Cost/Benefit Analysis (CBA) of a transport scheme would capture all impacts and measure them correctly. In other words, at the national level, the conventional CBA would capture all the economic benefits. This assumes we are excluding any divergences which might arise due to effects outside the national economy.

1.1.4 The conventional CBA compares the economic benefits to users and providers of the transport system (as captured under the second and third economy sub-objectives) with the costs of implementation, maintenance, operation and enforcement (as captured by the first economy sub-objective). Thus, under the assumption of conditions of perfect competition, it may be assumed that the appraisal under the second and third sub-objectives will have captured the impacts of the transport intervention on the wider economy.

1.1.5 The Government takes the view that the economic impacts in a regeneration area are more valuable than identical impacts occurring elsewhere. It is the purpose of the appraisal of the wider economic impacts, not to duplicate the transport economic efficiency appraisals, but to assess this additional value of impacts which accrue in regeneration areas.

1.1.6 In many cases, the economic impacts of a transport proposal may not occur in a regeneration area, in which case no appraisal of the wider economic impacts is required and no entry is required against the wider economic impacts sub-objective in the Appraisal Summary Table. In some instances, however, a proposed transport intervention may impact on the economic activity in a regeneration area, and this TAG Unit provides an introduction to the appraisal of the wider economic impacts in these cases.

## 1.2 The Need for an Economic Impact Report

1.2.1 An Economic Impact Report (EIR) should be prepared by the promoters of a transport scheme seeking funding from the Department for Transport (DfT) in all cases where the proposal may impact on the economic activity in a regeneration area.

1.2.2 The EIR has been designed so as to be consistent with the revised EGRUP guidance on regeneration assessment, now referred to as "The 3R Assessment

Guidance: Regeneration, Renewal and Regional Development – Guidance on the Assessment of Intervention with Spatial Impacts”. It provides guidance on how to measure the economic impact, in the form of employment effects, of transport schemes on regeneration areas.

- 1.2.3 The Government attaches considerable importance to regional economic development. A transport scheme can support the aims of the Government’s Public Service Agreement, namely to make sustainable improvements in the economic performance of all the English regions and, over the longer term, reduce the persistent gap in growth rates between regions. The regeneration of under-performing areas is potentially important to promoting regional economic growth because measures which improve the performance of such areas might encourage development at the regional level. Areas which are identified as regeneration areas are characterised by their failure to function as well as other areas. They are likely to be more prevalent in under-performing regions which often exhibit many different sub-regional problems which add up to a below average performance.
- 1.2.4 While the Guidance on the Preparation of an EIR introduced in this TAG Unit is mostly concerned with appraising defined schemes, in practice it is often necessary to begin by identifying potential schemes to solve problems in a particular location. It is intended that the Guidance can also be used to guide the design of potential schemes, by describing the ways in which transport schemes may be able to help stimulate economic activity.

### **1.3 The SACTRA Report: Transport and the Economy**

- 1.3.1 In its 1999 Report, SACTRA noted that there could be two circumstances where the CBA might not fully describe the complete situation.
- 1.3.2 First, with market failures the CBA might over or under-estimate the economic benefits.
- 1.3.3 Secondly, benefits might not be evenly distributed across the population, and some people might gain while others might lose. Even if there were no effect at the national level, benefits such as increased employment might be gained in some areas while an equivalent reduction might occur elsewhere across the country.
- 1.3.4 This latter point is especially relevant in regeneration areas (RAs). As noted earlier, RAs will usually have a policy objective of increasing local economic activity and employment, and in such cases it may be desirable to introduce measures that bring local benefits even if this leads to costs rising elsewhere.
- 1.3.5 SACTRA recommended that an Economic Impact Report (EIR) should be prepared by the promoter of all schemes. This recommendation has been accepted by DfT but only for schemes which may impact on regeneration areas. The main intention of preparing an EIR, therefore, is to investigate the distribution of the impacts captured by the transport economic efficiency appraisal and the potential manifestation of those impacts in terms of changes in employment levels.

### **1.4 Guidance on Preparing an Economic Impact Report**

- 1.4.1 This TAG Unit introduces guidance which provides practical advice on the preparation of Economic Impact Reports. It is a restricted version of the Guidance envisaged by SACTRA, in the following respects.
- It applies only to identifiable RAs. This restriction has been made on the grounds that RAs are, by definition, places where reductions in

unemployment would be given priority by policy makers. However, it also permits some methodological simplifications, as in the following point.

- The Department's chosen measure of contribution to regeneration objectives is the change in the number of RA residents in employment. An additional measure which may also be useful is the change in the number of jobs in the RA.
- It is not concerned with the economic impact at a national level, but only within the RA and the surrounding region. In particular, it is not necessary to demonstrate whether any new jobs generated by a transport scheme would otherwise have gone somewhere else in the country.
- It provides an indirect measure of regional impacts by focusing on under-performing areas that are themselves more likely to be part of under-performing regions.

1.4.2 This focus on economic activity (as measured through employment levels) is deliberate: the guidance is concerned with the economic impact of transport. There are other dimensions under which regeneration objectives might be set, such as quality of the built environment, but they are covered under other NATA headings informed, as necessary, by the 3Rs Guidance.

1.4.3 SACTRA recognised the difficulty of attempting to quantify, with confidence, the number of jobs that a proposed transport scheme will generate. However, analysis of the scale of the transport impacts, particularly patterns of accessibility, can be used to indicate feasible ranges for any associated increases in employment. The EIR achieves this through analysis of how a RA's economy operates, why it is stagnant or in decline, and how the proposed transport improvements may contribute to reversing the decline, such as by improving access to existing employment opportunities, or reduced transport costs for businesses that allow them to expand their activities.

1.4.4 It should be noted that an EIR need not always be prepared: *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8) discusses how to decide if an EIR is necessary. Furthermore, the impacts may not always be positive, and the EIR will have to consider whether, by exposing an RA to increased competition, the scheme might lead to a reduction in employment. *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8) discusses this more.

## 1.5 Regeneration Areas

1.5.1 There is no national designation of regeneration areas. However, in the majority of cases the notion of an identifiable RA can be equated with the designation as an area with a specific regeneration priority in achieving the objectives of the relevant Regional Economic Strategy. This is what is primarily meant in the rest of the guidance by the term "Regeneration Area". Other possible definitions (e.g. "Assisted Areas") are much cruder and should not form the definition of a regeneration area.

1.5.2 Spatial priorities in terms of regeneration and economic development take a number of forms. An overview of the spatial framework for these priorities can be found in the *Revised Technical Note on Tier 2 – Regional Outcomes* (available at <http://www.offpat.info/publications.asp>).

1.5.3 These spatial priorities may take the form of:

- Regeneration Zones, where the aim is to reduce deprivation by 10% in those wards in the region that are currently in the bottom 20% of the Indices of Multiple Deprivation;

- Urban Priority Areas, where the aim is to contribute to the renaissance of towns and cities; and
- Rural Priority Areas, market towns and their hinterlands, where the aim is to improve productivity and accessibility to services.

1.5.4 These areas are defined in the relevant RDA Corporate Plan.

1.5.5 Where regeneration benefits are considered to accrue to areas not designated in this way, it will be necessary to examine a full range of indicators and build a case for the area to be regarded as an identified RA. Areas which do not currently conform to an identified RA but are felt to be in need of assistance in order to improve their economic position should not be considered in the EIR.

## **1.6 Regional Development**

1.6.1 As noted earlier, the regeneration of under-performing areas can assist in the promotion of regional economic growth. However, there are limits on the extent to which the EIR can assist in identifying schemes which promote regional development. Regeneration areas and under-performing regions are subject to all types of market failures and not all of these will be addressed by transport measures. Transport investment needs to be complemented by other measures if they are to succeed in contributing to regional growth targets. In addition, regeneration is not the only objective of transport investment. The assessment of transport schemes within NATA is based on several criteria as well as regeneration. While meeting such criteria as the various environmental or road safety objectives can help to contribute to regeneration and hence regional growth targets, the EIR focuses on the employment effects of transport schemes.

## **1.7 Models and Methodology**

1.7.1 SACTRA took the view that, for individual schemes whose impacts are likely to be limited, land-use/transport interaction models might not be the best tools for estimating new jobs and/or reduced unemployment. *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8) does not require such models.

1.7.2 However, for very large schemes with an area-wide impact, SACTRA considered that such models might be able to help. Use of these models should not replace the analysis set out in *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8), but supplement and support it. The underlying rationale for change should still be explained as described here. Information about commercially available land-use models is provided in *Modelling* (TAG Unit 3.1).

## **1.8 Structure of an Economic Impact Report**

1.8.1 Much of *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8) is concerned with the question of how transport interacts with the RA's economy, and the questions that should be asked when preparing an EIR. However, the overall structure of the EIR is set out in *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8), and a worksheet that can be used to summarise the key steps and conclusions is given in *Worksheets for the Appraisal of Wider Economic Impacts* (TAG Unit 3.5.10).

## 1.9 Preparing Entries to the Wider Economic Impacts Sub-Objective in the Appraisal Summary Table

- 1.9.1 Advice on the preparation of entries to the wider economic impacts sub-objective in the Appraisal Summary Table can be found in *The Wider Economic Impacts Sub-Objective* (TAG Unit 3.5.8).

## 2 Further Information

The following documents provide further background on the New Approach to Appraisal.

For information on:	See:	TAG number:	Unit
The appraisal process	<i>The Overall Approach: The Steps in the Process</i>	TAG Unit 2.1	
	<i>The Appraisal Process</i>	TAG Unit 2.5	
	<i>Appraisal</i>	TAG Unit 3.2	
The Appraisal Summary Table	<i>Appraisal Summary Table</i>	TAG Unit 2.7.2	
Land-Use Models	<i>Modelling</i>	TAG Unit 3.1	
Economic Impact Report	<i>The Wider Economic Impacts Sub-Objective</i>	TAG Unit 3.5.8	

## 3 References

SACTRA (1999) *Transport and the economy*

EGRUP (1995) *A Framework for the Evaluation of Regeneration Projects and Programmes*

## 4 Document Provenance

This Transport Analysis Guidance (TAG) Unit is based on *Guidance on Preparing an Economic Impact Report* prepared for the Department for Transport in July 2003.

Technical queries and comments on this TAG Unit should be referred to:

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