

Proposed Development at Grovesfield Way, Cheltenham: Economic Impact Assessment

Final Report

Prepared on behalf of Hunter Page Planning Ltd

September 2018

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Executive Summary

HJA was instructed by Hunter Page Planning Ltd to assess the likely economic impacts arising from proposed mixed-use employment generating development at Grovefield Way, Cheltenham. The hybrid application comprises an Aldi Foodstore, Happy Days Nursery childcare facility and 5,903 sq m of B1a office floorspace in full plus a further 7,730 sq m of B1a office floorspace in outline.

The site is located within west Cheltenham, to the south of the A40 Gloucester Road. The application site lies immediately adjacent to a new BMW showroom and in close proximity to a mixed-use employment area including retail, health and technology employers. The proposed development will contribute to boosting employment in this part of west Cheltenham. It will also provide opportunities for those currently unemployed in the area.

The **construction phase** for the full application scheme is anticipated to extend to 15 months, with the peak effort falling within the first six months following the granting of planning permission. The timing for the outline elements of the scheme is as yet unspecified and will be reliant upon market interest.

The gross direct construction phase impacts of the £24.7 million investment are estimated at 139 person years of employment, supporting £4.3 million in wages.

The net additional effects at the Cheltenham level are estimated at 100 person years of employment and £3.1 million in wages. At the JCS area level these increase to 147 person years and £4.6 million in wages.

The **operational phase** analysis shows the scheme will deliver employment capacity for 1,039 FTE gross direct posts generating incomes of almost £35 million per annum.

The net additional effects at the Cheltenham level are estimated at 515 FTEs supporting wages in excess of £17 million per annum, increasing to 626 FTEs and almost £21 million in wages at the JCS area level.

Total locally retained business rates are estimated at around £671,300 per annum, which will provide funding to safeguard and extend further local employment and services.

1 Introduction

1.1 Purpose

Hardisty Jones Associates Ltd (HJA) has been appointed by Hunter Page Planning Ltd to assess the likely economic impacts of mixed-use employment generating development proposals at Grovefield Way, Cheltenham. This report sets out the method and results of the assessment and is intended to accompany a planning application.

This September 2018 version updates the March 2018 version to take account of changes in the proposed scheme. In particular the removal of the Costa Drive Thru with an additional B1a office building within the full application and an adjustment to the total quantum of B1a floorspace within the outline application.

1.2 The Proposed Development

The application site lies between Grovefield Way and the A40 on the western edge of Cheltenham. The A40 provides direct access to the city of Gloucester and the M5 via Junction 11.

The hybrid application comprises the following:

Full Application

- 1,742 sq m (GIA) A1 Aldi Foodstore
- 502 sq m (GIA) D1 Happy Days Nursery Childcare Facility
- 5,903 sq m (GIA) B1a Offices in three buildings

Outline Application

- 7,730 sq m (GIA) B1a Offices in two buildings

The application site is currently vacant agricultural land. Previous outline consent was granted for 16,800 sq m of B1 employment uses (14/01323/OUT) but has not been implemented. A plot immediately adjacent the application site secured full consent for a flagship BMW/Mini car showroom which is now fully developed (13/01101/FUL). The area surrounding the application site comprises a mix of uses including residential, retail, health and employment.

1.3 Approach

The method employed for this assessment aligns with the principles set out in HM Treasury Green Book and draws on other best practice guidance, most notably the Homes & Communities Agency *Additionality Guide (Fourth Edition 2014)*.

The analysis considers the construction and operational phases separately. This acknowledges the temporary nature of construction activity, particularly for a scheme of this size, whereas the operational phase impacts will continue year on year.

Given the hybrid nature of the application, the full and outline elements are also considered separately.

For both the construction and operational phases impacts are set out in terms of gross direct effects and net additional effects. The former captures the first round impacts through employment and expenditure. The latter make adjustment for a range of 'additionality' factors (leakage, deadweight, displacement and multipliers).

Wherever possible primary data has informed the assessment. This includes employment data provided by prospective occupiers and construction cost information supplied by the developer¹. Where assumptions and modelling adjustments have been made these are referenced in full and accord with best practice guidance.

Headline fiscal impact is based on an assessment of likely business rates income using local comparators.

1.4 Report Structure

Chapter 2 of this report sets out a brief analysis of the baseline situation.

Chapter 3 sets out the assessment of construction phase impacts.

Chapter 4 sets out the assessment of operational phase impacts.

¹ Initial estimates have been adjusted to take account of construction cost inflation over the period October 2016 to June 2018. This inflates costs by 4.6%.

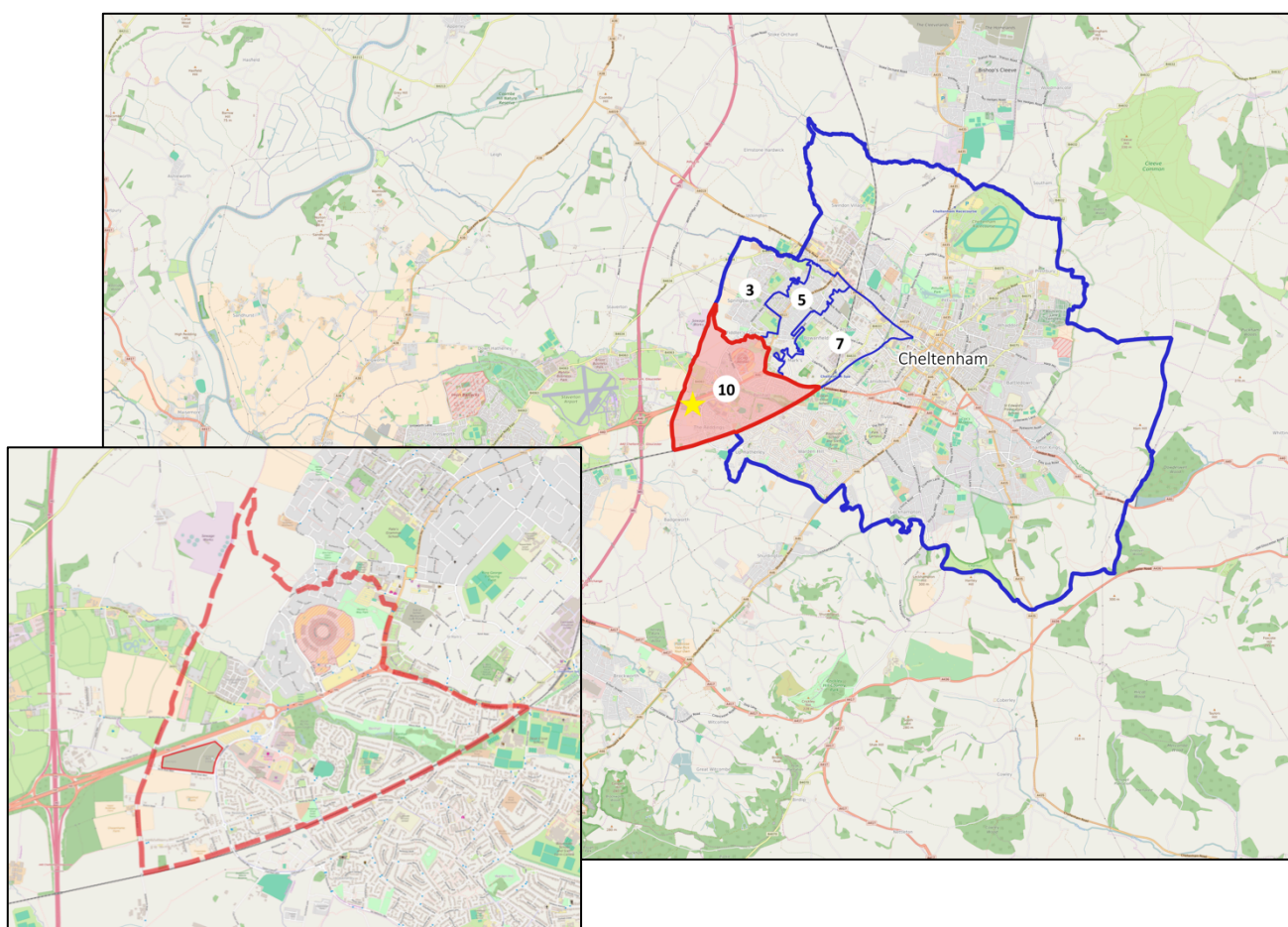
2 Context and Baseline

This chapter provides brief contextual analysis to the economic impact assessment that follows. It considers the economic situation at the present time, and how it has changed in recent years.

2.1 Geographic Focus

This analysis considers the immediate vicinity of the site within the Cheltenham 010 MSOA, the Cheltenham Borough as a whole and provides benchmarking against the Joint Core Strategy (JCS) area and Great Britain. Figure 2.1 illustrates these geographic designations.

Figure 2.1 – Geographic Analysis Areas



Prepared by HJA using QGIS. Contains OS data © Crown Copyright.

2.2 Employment

There are approximately 8,000 persons employed within the immediate vicinity of the site (ONS BRES 2016). This represents around 11% of total employment in Cheltenham as measured by BRES.

The primary employment location is GCHQ – 75% of employment within the immediate vicinity of the site is in public administration, defence and compulsory social security sector. The retail/employment park south of the A40 to the east of the application site, which includes the

Nuffield Cheltenham Hospital, is also a large employment location – 500 jobs are recorded within the wholesale and retail trade and 250 jobs within the health sector.

Employment within the immediate vicinity of the site increased between 2012 and 2016. There has been a steady level of employment, with jobs changing very little between 2013–2016². Cheltenham has also seen employment growth between 2012–16, although levels have decreased since 2014. The JCS Area has seen a steady increase in employment since 2012. These figures are set out in Table 2.1 below.

Table 2.1 – Total employment in study area (2010-2014)

	2012	2013	2014	2015 ³	2016
Cheltenham 10	7,000	8,000	8,000	8,000	8,000
Cheltenham	64,000	67,000	69,000	67,000	67,000
JCS Area	167,000	169,000	174,000	177,000	179,000
Great Britain	27,905,000	28,217,000	28,970,000	29,819,000	30,305,000

Source: Business Register and Employment Survey (ONS)

2.3 Unemployment

The claimant count measure of unemployment which is available for localised areas shows low unemployment within the immediate vicinity of the site. At December 2017 just 25 claimants were recorded within Cheltenham 010. There were 660 claimants in the entire Cheltenham Borough. Claimant count can be an underestimate of total unemployment given the eligibility criteria for claiming job seekers allowance.

Table 2.2 – Total claimant count (July 2016)

	Age 16+	Aged 16-24
Cheltenham 10	25	5
Cheltenham	660	140
JCS Area	2,260	470
Great Britain	769,785	151,525

Source: Claimant Count (ONS)

Claimant unemployment is higher in other parts of Cheltenham including neighbouring MSOAs. Cheltenham 003 (50 persons), Cheltenham 005 (105 persons) and Cheltenham 007 (65 persons) lie immediately to the north east of Cheltenham 010 and straddle Princess Elizabeth Way, including the Springbank, Hester’s Way, Arle, Rowanfield, St Marks and Alstone areas. Almost 40% of Cheltenham claimant unemployment falls within these four MSOAs.

² BRES figures are rounded to the nearest 1,000, which means some caution must be applied when interpreting data, especially at smaller spatial scales.

³ Note: Figures for 2015 and 2016 are taken from the latest version of BRES data. There may be minor inconsistencies with earlier years.

3 Construction Phase Impacts

This chapter assesses the likely economic impacts arising during the construction phase. This is separated from the operational phase given the temporary nature of construction impacts over a finite construction period.

For this assessment the full and outline elements of the accompanying planning application are considered separately, with an aggregate impact presented for completeness. Data on the construction period and estimated construction costs has been provided to HJA by the Hinton Group Ltd⁴.

3.1 Gross Direct Impacts

The A1 and D1 elements of the proposed development are expected to be constructed within 6 months of receipt of planning. The three office blocks within the full application are anticipated to be constructed over a 15-month period from receipt of planning. The timetable for constructing the remaining office element which is subject to outline application is not yet confirmed and will depend on market interest.

Total construction costs are estimated at £24.7 million. This includes £12.6 million of costs related to the full application and £12.1 million relating to the outline application.

Employment impacts are expressed as ‘person years’ of employment. This measure is used to represent one full time equivalent post for a single year. This approach captures the contract nature of much construction work, encompassing a range of trades on varying contract lengths. An estimate of person years is generated on the basis of average turnover per worker in the construction sector taken from the ONS Annual Business Survey (released May 2018). This indicates turnover per worker of £178,569 in the UK. Wage impacts are estimated using the ONS Annual Survey of Hours and Earnings (released October 2017) at £31,048 median full time wage.

Table 3.1 sets out the gross direct employment and wage impacts. It does not capture knock on indirect and induced effects. This shows that in aggregate the application will support 139 person years of employment generating wages of £4.3 million. This is split broadly in two halves between the full and outline elements of the application.

Table 3.1 Gross Direct Construction Phase Impacts

	Construction Spend (£m)	Employment (Person Years)	Wages (£m)
Full Application	£12.6m	71	£2.2m
Outline Application	£12.1m	68	£2.1m
Total	£24.7m	139	£4.3m

Source: Hinton Group Ltd and HJA Analysis. Figures may not sum due to rounding.

⁴ Initial estimates were provided at October 2016. These costs have been inflated using ONS Construction Output Indices for the period October 2016 to June 2018. Increase of 4.6% for private commercial new build.

3.2 Net Additional Impacts

The above analysis presents a measure of the direct effects at the application site. The following considers the net additional impacts at the Cheltenham Borough and Joint Core Strategy (JCS) area levels. This takes account of leakage, deadweight, displacement and multiplier effects. Full discussion of the approach taken is set out in Appendix 1 to this report.

In adjusting to net additional impacts, rather than reporting on a workplace basis, the impacts are reported on a resident basis. That is, the scale of employment and wage impacts on residents of Cheltenham Borough and the JCS area.

Table 3.2 sets out the results of the analysis. It is estimated that 100 person years of employment will be secured by Cheltenham Borough residents, supporting wages of £3.1 million across the construction period. When considering the wider JCS area the local benefits increase to 147 person years of employment and £4.6 million in wages.

Table 3.2 Net Additional Construction Phase Impacts

	Cheltenham Borough		JCS Area	
	Employment (FTEs)	Wages (£m)	Employment (FTEs)	Wages (£m)
Full Application	51	£1.6m	75	£2.3m
Outline Application	49	£1.5m	72	£2.2m
Total	100	£3.1m	147	£4.6m

Source: HJA Analysis. Figures may not sum due to rounding.

4 Operational Phase Impacts

This chapter assesses the likely economic impacts arising during the operational phase of the proposed development. Impacts are shown in terms of gross direct and net additional.

4.1 Gross Direct Impacts

The proposed development includes a range of employment accommodating uses. The following analysis assesses the likely employment and wage impacts at full occupancy. For the A1 and D1 uses this is based on primary employment data provided by the anticipated occupiers. For B1a elements employment has been assumed using best practice employment density assumptions⁵. Wage effects are assessed based on the latest ONS Annual Survey of Hours and Earnings (data for 2017, released October 2017) for full time median earnings for the appropriate sectors⁶. All employment and wage data is based on full time equivalents (FTE).

Table 4.1 sets out the estimated gross direct employment and wage impacts by element. The full scheme has the capacity to accommodate almost 1,039 FTE jobs generating annual wages of almost £35 million year on year. The elements of the scheme subject to the full application have the capacity to support employment of 479 FTEs generating wages of more than £15.6m per annum.

Table 4.1 Gross Direct Operational Phase Impacts

	Employment (FTEs)	Wages (£m Annual)
A1 – Aldi Foodstore	26	£0.50m
D1 – Happy Days Nursery	25	£0.40m
B1a – Full	428	£14.75m
Full Application	479	£15.65m
B1a – Outline	560	£19.31m
Outline Application	560	£19.31m
Total	1,039	£34.96m

Source: HJA Analysis. Figures may not sum due to rounding.

4.2 Net Additional Impacts

The above analysis presents a measure of the direct effects at the application site. The following considers the net additional impacts at the Cheltenham Borough and Joint Core Strategy (JCS) area levels. This takes account of leakage, deadweight, displacement and multiplier effects. Full discussion of the approach taken is set out in Appendix 1 to this report.

In adjusting to net additional impacts, rather than reporting on a workplace basis, the impacts are reported on a resident basis. That is, the scale of employment and wage impacts on residents of Cheltenham Borough and the JCS area.

⁵ Homes & Communities Agency, *Employment Densities Guide, 2015*

⁶ A1 - SIC 4711, D1 – SIC 8891, B1a – Hybrid based on relevant SICs.

Table 4.2 sets out the results of the analysis. The total scheme has the capacity to deliver 515 FTE net additional jobs supporting over £17 million in wages per annum at the Cheltenham Borough level. This increases to 6265 FTEs and almost £21 million in wages at the JCS area level.

Table 4.2 Net Additional Operational Phase Impacts

	Cheltenham Borough		JCS Area	
	Employment (FTEs)	Wages (£m Annual)	Employment (FTEs)	Wages (£m Annual)
A1 – Aldi Foodstore	16	£0.32m	21	£0.40m
D1 – Happy Days Nursery	16	£0.25m	20	£0.32m
B1a – Full	214	£7.40m	261	£7.28m
Full Application	247	£7.96m	302	£9.01m
B1a – Outline	268	£9.25m	324	£11.18m
Outline Application	268	£9.25m	324	£11.18m
Total	515	£17.21m	626	£20.90m

Source: HJA Analysis. Figures may not sum due to rounding.

4.3 Headline Local Fiscal Impact

The proposed development has the potential to deliver substantial local fiscal benefit through business rates. This will generate increased revenues to local government and will enable the safeguarding and creation of new jobs and the protection and enhancement of services to local residents.

The following analysis is intended as indicative and the final revenue position will be based on formal assessment once constructed. It is acknowledged that there is a complex system for determining locally retained business rates and consultation has recently been completed relating to a revised system of local retention. Cheltenham Borough Council participates in the Gloucestershire Business Rates Pool and will participate as part of the Gloucestershire 100% Business Rate Retention pilot in 2018/19. The exact value of the element retained by Cheltenham Borough Council is therefore not stated. The purpose of the analysis below is to provide an indication of the scale of business rates to be generated from the Proposed Development under the current regime assuming no reliefs and before any adjustment for local top-ups and tariffs. However, what is clear from the direction of policy is that the move to greater reliance on business rates income to fund local government brings the incentive for growth into even sharper focus.

Based on the headline assessment of potential business rates generated by the proposed development the gross rateable value is estimated at approximately £2.7 million. Based on the 2018/19 multiplier the rates payable are estimated at more than £1.3 million. Based on a maximum rate of 50% locally retained the Proposed Development has the potential to deliver additional local revenues in excess of £670,000 once fully implemented. A detailed breakdown is provided in Table 4.3.

Table 4.3 Estimating Business Rates Revenues

	Estimated Rateable Value ⁷	Total Rates Payable ⁸	Maximum Local Retention ⁹
A1 – Aldi Foodstore	£287,400	£141,700	
D1 – Happy Days Nursery	£50,200	£24,700	
B1a – Full	£1,033,000	£509,300	
Full Application	£1,370,600	£675,700	£337,850
B1a – Outline	£1,352,800	£666,900	
Outline Application	£1,352,800	£666,900	£333,450
Total	£2,723,400	£1,342,600	£671,300

Source: HJA indicative analysis. Figures may not sum due to rounding.

⁷ Estimated based on local comparables. Based on 2017 revaluation estimates.

⁸ Based on 2018/19 multiplier for large businesses of 49.3 pence in the pound.

⁹ Based on current rules with maximum 50% locally retained.

Appendix 1: Assessing Net Additional Impacts

This appendix sets out details of the approach to assessing additionality. This is based on the approach outlined in the Homes & Communities Agency *Additionality Guide, Fourth Edition 2014*. Assumptions vary between the construction and operational phases which are each considered in turn.

Construction Phase

Leakage

Leakage captures those impacts which 'leak' outside the impact area. For this analysis the primary impact area is identified as Cheltenham Borough with analysis also presented for the Joint Core Strategy (JCS) area. Commuting data is used as the source of data to assess leakage of employment. Data from both the 2001 and 2011 Censuses of Population has been analysed. This shows that the majority of employment impacts are retained within Cheltenham Borough. Where benefits do leak to those that in-commute to the area, the majority are retained within the wider JCS area.

2001 Census data suggests slightly lower than average leakage for construction sector. This records 28% of construction sector employees in-commuting to Cheltenham from outside the Borough. This falls to 13% from outside the JCS area. For comparison, for the whole economy the figures are 30% and 13% respectively.

The 2011 Census does not allow sectoral analysis of this data. Data for the whole economy, calculated on the same basis as the 2001 Census reporting shows in commuting at 38% from outside the Borough and 17% from outside the JCS area. It is uncertain whether the effect of increased in commuting has been felt equally across sectors, but for the purposes of this analysis we adopt the 2011 Census figure.

It should be noted that these figures are slightly different to the whole economy averages listed for the operational phase. The reason for this is the way in which those working at or from home, and those with no fixed place of work are treated. Within the construction sector there will be a high proportion of itinerant workers that need to be incorporated in the analysis. In the operational phase analysis, the focus is on workers with a fixed workplace outside the home. As a result the leakage analysis differs.

Deadweight

Deadweight is a measure of impacts that would be expected to accrue without the proposed development. It is often referred to as a reference case or do nothing option.

Deadweight at the site level is anticipated to be very low. An extant outline planning permission for office development is in place but has not been implemented. Large parts of the current development proposals are similar in nature and therefore it would be inappropriate to consider the extant scheme as deadweight.

Displacement and Substitution

Displacement is a measure of impacts that are offset by reduced activities elsewhere in the target area. Substitution is a form of internal displacement. This could be where a construction contractor secures work on the proposed development and declines work elsewhere in the area. Typically displacement and substitution effects have been considered together.

Gross Direct impacts are shown to peak at approximately 3% of current Cheltenham construction employment and not at a scale that is likely to have substantial displacement impacts. Displacement and substitution effects are therefore deemed to be low in this instance, a figure of 10% at the Cheltenham level and 15% at the JCS level is assumed.

Multipliers

Multipliers capture the effects of further rounds of indirect and induced economic activity. This includes the expenditure through the supply chain of core occupiers and the effects as employees spend their wages in the local economy.

The construction sector has particularly high multipliers, with high levels of locally retained expenditure. This reflects the local sourcing of labour and the expenditure of earned incomes in the local area, as well as the often localised purchase of building materials, particularly non specialised materials. The analysis above has specifically separated out those major areas of expenditure that will flow outside the UK. Multipliers of 1.3 at the Cheltenham level and 1.5 at the JCS area are applied.

Operational Phase

Leakage

Leakage captures those impacts which 'leak' outside the impact area. For this analysis the primary impact area is identified as Cheltenham Borough with analysis also presented for the Joint Core Strategy (JCS) area. Commuting data is used as the source of data to assess leakage of employment. Data from both the 2001 and 2011 Censuses of Population has been analysed. This shows that the majority of employment impacts are retained within Cheltenham Borough. Where benefits do leak to those that in-commute to the area, the majority are retained within the wider JCS area.

2011 Census of Population data indicates that for jobs within a fixed workplace in Cheltenham 55% are filled by Cheltenham residents. Of the remainder 25% are filled by in-commuters from the JCS area and the remaining 20% from those outside the JCS area.

2001 Census of Population data on commuting patterns suggests much lower levels of in commuting to Cheltenham for service sectors including wholesale, retail and trade and hotels and restaurants which one would expect for what are typically lower wage activities. The 2011 Census does not allow such fine-grained analysis. To reflect the available evidence the level of in commuting is reduced by 10% points at the Cheltenham level and 5% at the JCS area level.

A proxy for office based work, using financial intermediation, real estate and public administration sectors shows a level of in commuting broadly in line with the whole economy average, perhaps

fractionally higher, which one would expect for higher wage activities. No adjustment is made to the headline level.

Deadweight

Deadweight is a measure of impacts that would be expected to accrue without the proposed development. It is often referred to as a reference case or do nothing option.

Deadweight at the site level is anticipated to be very low. There are no substantive employment generating activities on the site at present, with the land supporting negligible agricultural employment. There is therefore no loss of existing employment at the site which needs to be offset. An extant outline planning permission for office development is in place but has not been implemented. Large parts of the current development proposals are similar in nature and therefore it would be inappropriate to consider the extant scheme as deadweight.

In the absence of the development some jobs might be accommodated elsewhere within Cheltenham or the JCS area. However, the need for employment capacity is well known locally, with examples cited of businesses either failing to locate within the JCS area, or relocating outside the JCS area as a result of constrained supply. On this basis it is appropriate to set deadweight at a minimum level of 10% within Cheltenham and 20% across the JCS area.

Displacement

Displacement is a measure of impacts that are offset by reduced activities elsewhere in the target area. This could be where a new business within the proposed development captures market share from an existing business in Cheltenham.

This is anticipated to be very low for the A1, A3 and D1 uses (10%) and low (25%) for office elements. The Cheltenham population and economy are forecast to grow over the coming years and to facilitate this there is a need for additional employment space and appropriate service infrastructure. However, within the office element there is the potential that some take up will be from existing occupiers within the borough with existing office premises lost to other activities. This would be true of any new office development.

Multipliers

Multipliers capture the effects of further rounds of indirect and induced economic activity. This includes the expenditure through the supply chain of core occupiers and the effects as employees spend their wages in the local economy.

Multiplier effects are assessed as medium. For A1, A3 and D1 uses these are set as 1.2 at the Cheltenham level and 1.3 for the JCS area. For office uses these are set as 1.29 at the Cheltenham level and 1.35 at the JCS area. All assumptions based on the HCA *Additionality Guide, Fourth Edition 2014*.