Department for Levelling Up, Housing & Communities

Towns Fund (FHSF)
Project Adjustment Request (PAR)
Application & Assessment Form

Newton Abbot FHSF
Economic Case Inputs
DRAFT November 2022

Economic Case

4.06: Benefits Appraisal **Your cost-benefit analysis should include the following in accordance to the appraisal guidance.** **- Appraisal period: 30 years for large scale regeneration schemes, to reflect what the guidance considers as “useful asset life”; While an appraisal period of 10 years for schemes that are expected to have a shorter asset life (e.g. public realm improvements)** **- Discount rate for costs and benefits: 3.5% per annum (consistent with HM Treasury Green Book)** **- Cost estimates include an adjustment for inflation, where available (e.g. using of constant 2018 prices via the relevant GDP deflators at market prices (see HM Treasury Spring Statement).)** **Please provide a cost-benefit analysis and appraisal for, where appropriate, for both:** **1. the sum of Future High Streets Funding requested for this project** **2. the overall programme of transformational change for your town centre (including the co-funding)** **For your cost-benefit analysis of (1) above, please outline your assumptions of which benefits are attributed to this element of the Fund**
We have completed a Green Book compliant economic appraisal of the revised FHSF proposals, based on revised scheme proposals for the three retained projects – namely the Market Hall, Cinema and National Cycle Network (NCN) and Queen Street projects. The approach to the economic appraisal follows HM Treasury Green Book and MHCLG Appraisal Guide principles, considering the gross and net national scale economic returns that could be achieved through the delivery of the revised FHSF scheme, set against the likely counterfactual ‘no FHSF investment’ position. In practice, without investment support from the FHSF, none of the projects would progress and so the counterfactual position can be taken as no change. The assessment of economic impacts focuses on those most tangible national scale impacts, assessed in terms of: (a) Direct Land Value Uplift (LVU) associated with the delivery of the new cinema and the revitalized Market Hall; (b) Direct Labour Supply Impacts associated with future additional FTE jobs supporting in the Market Hall and the cinema, with associated welfare-related returns reflecting a mix of additional income tax and negated welfare payments; (c) Direct Active Travel Impacts, reflecting physical health, absenteeism, journey quality and environmental impacts, alongside indirect tax and congestion impacts brought about through the delivery of the NCN and Queen Street works, as assessed through the DfT’s AMAT Toolkit;

(d) Wider residential LVU, associated with the schemes role in supporting a much improved town centre offer and experience, with associated impacts within the town housing market;

(e) Wider commercial LVU, associated with the role of the scheme to support new town centre footfall and spending, with associated uplifts in wider town centre commercial markets; and,

(f) Distributional Impacts, reflecting the value of investment in income deprived areas, such as Newton Abbot.

Present value net benefits derived through the impact modelling are then compared to present value net costs to derive 'initial' and 'adjusted / overall' national-scale Benefit Cost Ratios (BCRs) for the revised FHSF scheme. In line with the HMT Green Book approach, the economic case costs reflect all public costs.

Local level (South Devon) ONS metrics are applied throughout and where needed, all metrics have also been rebased to 2022/23 prices, completed via the HMT GDP deflator, September 2022). The selected Model appraisal period is 2022/23 to 2040/41 (20-years) and all impacts are discounted to 2022/23 terms.

Economic Impacts – National-Scale Results

Direct LVU – Market Hall and Cinema

The delivery of the Market Hall and Cinema projects will both bring uplifts in land and asset values directly and the Existing Use Value (EUV) for existing units to become the new cinema (New Look and Shauls) is estimated at £915,000, based on the profits method of valuation. On completion, valuation evidence suggests that the new cinema would have a Gross Development Value (GDV) of around £1,650,000, again based on the profits valuation method.

Whilst the relocation of the cinema from its existing Alexander Theatre premise would leave the asset temporarily vacant, it is likely that the existing cinema units would be re-let over the short-medium term, and so no value would be lost.

For the Market Hall, the contractors method has been selected as an appropriate method of valuation for the economic appraisal, given the relatively unique nature of the asset. By this approach investment in the Market Hall (£4,179,078) can be taken as gross LVU. In practice, the Market Hall currently trades at a loss and it is unlikely to carry significant commercial value.

As all costs associated with the conversion works are reflected in the economic case costs, the GDV on completion (£5,829,078 across both assets) less the EUV (£915,000) can be taken as gross LVU. A prudent (-25%) deduction has then been made to estimate net LVU.

Direct Labour Supply Impact

The delivery of the new cinema and revitalised Market Hall will ultimately ensure an ample supply of future job opportunities locally, and based on modelling of new FTE jobs capacities, it is estimated that the new assets could support a total of around 58 gross FTE jobs (12 at the cinema and 46 at the Market Hall. Note, this includes a small (-10%) deduction to reflect inevitable periods of underoccupancy among the newly created space.

The Market Hall and cinema currently support around 16 gross FTE jobs and in the 'No FHSF' counterfactual scenario these jobs are expected to be retained. Consequently, these jobs have been deducted from the assessment of labour supply impacts as deadweight.

On this basis, the scheme will support a total of 41 additional gross FTE jobs, and in line with WebTAG principles, it is considered that around 10% of those employed would otherwise not be engaged in the labour force.

In practice, this may be higher given the effects of Covid-19 and more recent economic turmoil on a local labour market that has for many years has significant shortfalls in employment opportunities.

A benchmark ONS GDP per FTE job for the retail and leisure sectors in South Devon has been applied to determine the overall GDP that will be supported by 10% of the 41 FTE jobs enabled through the scheme, with 10 years of subsequent GDP impacts within the labour market claimed.

In line with WebTAG, 40% of GDP can be claimed in welfare-related impacts - a mix of tax revenues and negated welfare payments.

Direct Active Travel Impact

Although there have been some small changes to the NCN and Queens Street works, these are not expected to impact on the overall potential of the project, and at FHSF submission stage the project was assessed through the DfT's AMAT toolkit (TAG Unit A5.1).

The impacts reflect a mix of physical health improvements, reduced absenteeism, improved journey quality and environmental impacts, alongside indirect tax impacts and congestion impacts.

The AMAT results have been retained, although price and forecast year rebasing has been completed to enable reporting in 2022/23 terms.

Wider Residential LVU – Town and Town Centre

A much strengthened and more resilient town centre will ultimately improve the offer and reputation of Newton Abbot and its hinterland adjoining settlements as a place to live and each of the FHSF projects will have a role in improving house price performance locally.

The extent of 'spillover' housing market impacts is considered at two-levels, namely Newton Abbot itself and its wider hinterland adjoining settlements – Buckland, Milber, Knowles Hill, St Leonards and Canada Hill (representing the Newton Abbot BUASD). The number and type of dwellings in each defined impact area have been mapped by respective housing type with current median residential house prices applied (ONS, HPSSA 11).

Given the effects of town performance improvements, a prudent view would be that the in-combination effects of the FHSF projects will positively bring a 1%-1.5% uplift in Newton Abbot's housing market (1.25% mid-point) and a that a further 0.25%-0.75% (0.5% mid-point) uplift will be achieved among the wider hinterland towns.

A prudent 25% displacement deduction has been made.

Wider Commercial LVU – Town Centre

The FHSF scheme is ultimately designed to attract new footfall and drive spending in the town core, with 'spillover' effects on values among existing town centre commercial assets expected.

At initial FHSF stage, HATCH completed a valuation of gross LVU associated with the submission stage FHSF scheme, by competing a current valuation of the wider town centre, with reasonable adjustments then made to reflect the likely effects of expected increased economic activity and placemaking benefits following delivery. These adjustments then enabled gross LVU to be derived and a prudent 25% displacement adjustment was then made.

Given that the revised FHSF plans include the loss of the Alexander Theatre redevelopment, a reasonable view would be that around 80% of previously assessed wider gross and net commercial LVU could still be achieved.

Note, appropriate price and forecast year rebasing has been completed to express expected commercial LVU impacts in present value terms.

Distributional Impacts

Median average Gross Disposable Household Incomes (including after housing costs) in South Devon are around £2,090 lower than the UK average (ONS, GHDI per head, 2019 data), a deficit of 10% on national levels. Low incomes resonate across town communities, with effects ultimately fuelling deprivation locally.

This not only demonstrates the significant need for ensuring a well-functioning town centre as a mechanism for 'levelling up' locally, but it also suggests that redistributive effects can be important, particularly given the vital role of the FHSF scheme in supporting the overall towns success.

Weighting for distributional impacts have been applied to all national-scale welfare benefits assessed based on a multiplier of 1.139. Note, this includes an adjustment to the power of 1.3, as per the HMT Green Book suggested elasticity of marginal utility of income.

A summary of national-scale impact results achieved in the With FHSF scenario over and above the counterfactual is outlined in the table below.

Newton Abbot FHSF Scheme – National Impacts			
	Gross Impact	**Net Impact**	**Net Impact (NPV)**
Direct LVU – Market Hall	£4,179,078	£3,134,309	£2,826,967
Direct LVU - Cinema	£735,000	£551,250	£497,196
Direct Labour Supply Impact	£991,438	£991,438	£743,981
Direct AMAT Impact	£13,390,076	£13,390,076	£10,654,983
Wider Residential LVU	£29,237,285	£21,927,964	£19,777,767
Wider Commercial LVU	£3,564,481	£2,851,585	£2,661,985
Distributional Impact	£7,219,085	£5,937,219	£5,149,628
Total Impact	**£59,316,443**	**£48,783,841**	**£42,312,507**

Economic Costs

The overall revised financial cost of the FHSF scheme is estimated at £12,816,421 and this cost will be wholly bourn to the public purse.

To derive the economic costs, a likely profile of net delivery cost demands has been discounted at 3.5% per year using the HM Treasury Discount Rate. Costs have also been presented in real terms, by removing the effects of background general inflation via the HMT GDP deflator (September 2022).

Finally an allowance for Optimism Bias (OB) has been included and applied to the pubic costs. An OB allowance of 15% has been applied, reflecting the advanced stages of the FHSF projects, good awareness of site/building conditions and some cost certainties.

On this basis, the present value net real term economic cost of the revised FHSF scheme is £13,384,172.

Value for Money Assessment

The assessment of national-scale Value for Money (VfM) achieved through the revised FHSF scheme is outlined below, as demonstrated by the 'initial' and 'adjusted/overall' Benefit Cost Ratios (BCRs) achieved. Note, the initial BCR excludes distributional impacts.

In this assessment the 'Central Case' scheme delivers good Value for Money (VfM) with **headline overall / adjusted BCR of 3.05 : 1**.

Newton Abbot FHSF - Value for Money (£m, NPV, 2022/23 prices and terms)		
		FHSF Scheme (all projects)
National Economic benefits		
Direct LVU – Market Hall		£2,826,967
Direct LVU - Cinema		£497,196
Direct Labour Supply Impact		£743,981
Direct Active Travel Impact – NCN and QS		£10,654,983
Wider Residential LVU – all projects		£19,777,767
Wider Commercial LVU – all projects		£2,661,985
Distributional Impact – all projects	(F)	£5,149,628
Total economic benefits	**(A)**	**£42,312,507**
Economic costs		
FHSF cost	(B)	£9,514,070
Public Co-funding	(C)	£3,870,102
Total public sector Cost	(D)=(B)+(C)	**£13,384,172**
Private sector cost	(E)	-
Total economic costs	**(D)+(E)**	**£13,384,172**
Return on Investment		
Initial Benefit-Cost Ratio (BCR)	**(A)–(F)-(E)/(D)**	**2.78 : 1**
Overall / Adjusted BCR	**(A)-(E)/(D)**	**3.05 : 1**

Wider Economic Benefits

Alongside those impacts monetised, the FHSF scheme will support a range of wider economic and social outcomes, including:

- **Bringing Economic Resilience**– Ensuring the financial success and vitality of Newton Abbot town centre.
- **Sustaining Footfall, Dwell Times and Spending Locally** – Supporting sustained year-round day and evening town centre vibrancy, vitality and business profitability
- **Ensuring Labour Market and Economic Success** – helping to redress structural imbalances in the local labour market, including providing a long-term response to help with macro-economic structural challenges in high streets nationally

- **Promoting Active Travel** – With associated effects on physical health improvements, reduced absenteeism, improved journey quality and environmental impacts, alongside indirect tax impacts and congestion impacts.
- **Providing Image Value** – demonstrated in the contribution that project investment will make to Newton Abbot Town Centres identity, prestige, vision and reputation
- **Delivering Social Value** – reflecting the extent to which the planned investment can bring improved health and wellbeing outcomes
- **Promoting Town Competitiveness** – evident in the future appeal of Newton Abbot Town Centre to occupiers, with potential contribution to improves productivity and profitability

4.07: Risk Appraisal

Please refer to the Green Book Guidance. Your appraisal should include consideration for:

- Optimism bias – this is the proven tendency for appraisers to be too optimistic about key project parameters, including capital costs, operating costs, project duration and benefits delivery.

- Risks – these are specific uncertainties that arise in the design, planning and implementation of an intervention.

An Optimism Bias of 15% is included on all economic case costs, which was accepted at FHSF submission stage. In practice, some OB could in theory be mitigated away, as the FHSF projects have progressed since the initial submission, and consequently, there is increased certainty over land and asset conditions alongside greater cost certainty. OB has nevertheless been retained at 15% for prudence.

OB is itself included on top of appropriate risk and contingency budgets included within the financial cost estimates in each of the projects.

4.08: Sensitivity Analysis

This is a very important part of an economic appraisal and must be carried out. It tests the vulnerability of your benefit estimates to changes in the key assumptions and variables from which they are derived. If only a slight change to a variable means that benefits fall so substantially that they are outweighed by the scheme costs, then it is likely you should not proceed with that chosen option.

Alongside the Central Case estimate, a number of sensitivities have also been included within the economic modelling to reflect projects risks.

The main risk to the delivery of the FHSF scheme outcomes comprise (a) lower than expected impact outcomes and (b) the potential for delays associated with the delivery of project outcomes and (c) the potential for slightly higher levels of national-scale displacement.

Based on these main risks, three potential scenarios have been considered within the modelling. These are as follows:

- Sensitivity 1: -20% LVU, LSI, AMAT and Distributional Impacts
- Sensitivity 2: Two-year delay in outcomes
- Sensitivity 3: +25% displacement of LVU

The sensitivity test results are also shown in the table overleaf. In all scenarios, the revised FHSF scheme still delivers VfM, with overall BCRs of above 2.30, and notwithstanding the strong strategic rationale for the scheme.

Newton Abbot FHSF – VfM Sensitivities (£m, NPV, 2022 prices and terms)				
		Sensitivity 1: -20% Economic Outcomes	**Sensitivity 2: 2-year Delay in Outcomes**	**Sensitivity 3: +25% Displacement**
National Economic benefits				
Direct LVU – Market Hall		£2,261,573	£2,639,004	£1,884,644
Direct LVU - Cinema		£397,757	£464,138	£331,464
Direct Labour Supply Impact		£595,185	£694,514	£743,981
Direct Active Travel Impact – NCN and QS		£8,523,986	£9,946,541	£10,654,983
Wider Residential LVU – all projects		£15,833,214	£18,462,757	£13,185,178
Wider Commercial LVU – all projects		£2,129,588	£2,484,991	£1,663,741
Distributional Impact – all projects	(F)	£2,938,541	£3,428,949	£2,467,779
Total economic benefits	**(A)**	**£32,668,844**	**£38,120,894**	**£30,931,770**
Economic costs				
FHSF cost	(B)	£9,514,070	£9,514,070	£9,514,070
Public Co-funding	(C)	£3,870,102	£3,870,102	£3,870,102
Total public sector Cost	(D)=(B)+(C)	£13,384,172	£13,384,172	£13,384,172
Private sector cost	(E)	-	-	-
Total economic costs	**(D)+(E)**	**£13,284,172**	£13,284,172	£13,284,172
Return on Investment				
Initial BCR	**(A)-(F)-(E)/(D)**	**2.22 : 1**	**2.59 : 1**	**2.13 : 1**
Overall/Adjusted BCR	**(A)-(E)/(D)**	**2.44 : 1**	**2.85 : 1**	**2.31 : 1**