

# Economic Impact Statement Premier Inn, Custom House, Cardiff

May 2017

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# 1. Introduction

- 1.1 This Economic Impact Statement has been prepared by Turley Economics on behalf of Barola Properties ('the applicant') to support an application for planning permission for the development of a 248 bedroom hotel and Bar + Block restaurant and bar at the former Custom House and the site of the adjoining former York Hotel public house ('the application site').
- 1.2 This forms part of the planning application documentation submitted to Cardiff City Council ('the Council') for the Proposed Development.
- 1.3 The proposed development includes the redevelopment of the Site behind the retained façade of the former Custom House to provide a hotel and food and drink offer.

## Economic Impact Assessment

- 1.4 The assessment has been undertaken based on a standard and accepted methodology for the calculation of net additional economic impacts of commercial development. The assessment is in accordance with the Homes and Communities Agency's (HCA) Additionality Guidance and draws on published statistical data.
- 1.5 The assessment considers the quantifiable impacts of the Proposed Development during both its construction and operational lifetime. Economic impact estimates are presented as net figures, accounting for leakage, displacement and multipliers.

## Study Area

- 1.6 The net additional employment and productivity impacts have been calculated within a local and wider impact area. The spatial scales used in this assessment are as follows:
  - The **local impact area** is defined as the local authority of Cardiff, on the basis that 60% of jobs in the authority are taken by residents of the authority<sup>1</sup>. This indicates a moderate level of labour market containment within this local geography; and
  - The **wider impact area** is defined Wales, on the basis that the impacts of the proposed development will be largely contained within this geography based on prevailing travel to work patterns.

## Document Structure

- 1.7 The Economic Impact Statement is set out as follows:
  - **Section 2: Construction Phase Impacts** – the economic impacts of the construction phase of the Proposed Development are assessed and quantified.
  - **Section 3: Operational Phase Impacts** – the economic impacts of the operational phase of the Proposed Development are assessed and quantified.

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<sup>1</sup> ONS (2011) Census 2011 – Location of usual residence and place of work

- **Section 4: Conclusion** – the concluding section summarises the full economic impacts of the Proposed Development.
- **Appendix 1: Infographic** – the estimated economic benefits derived from delivery of the Proposed Development are reproduced in a summary infographic.

## 2. Construction Phase Impacts

- 2.1 This section of the assessment presents the quantified economic benefits likely to be generated during the construction phase of the Proposed Development.
- 2.2 There is increasing awareness at a national level of the important contribution that the construction industry makes to the economy, supporting employment, economic output and prosperity in a wider cross section of business sectors.
- 2.3 Research published by the Construction Industry Training Board (CITB)<sup>2</sup> predicts significant growth within the UK construction industry over the period from 2016 to 2020. This confirms that the construction industry will continue to perform an important role in the UK economy.
- 2.4 It is therefore important that investment in the construction industry in Wales is maintained and supported in order to capitalise on market momentum and sustain and grow the economy.
- 2.5 Construction of the Proposed Development can make an important contribution in helping to generate and sustain construction jobs and economic activity in a sector where jobs are currently sought by residents.

### **Direct Employment**

- 2.6 The estimated construction expenditure on the proposed scheme is approximately £19.5 million<sup>3</sup>, inclusive of build/refurbishment costs, an allowance for infrastructure/external works and an allowance for professional fees / pre-development costs.
- 2.7 By applying the average turnover per employee in the construction industry in Wales, the Proposed Development has the potential to support approximately 218 person-years of direct employment with the construction sector. This equates to circa 218 full-time equivalent (FTE) temporary (gross) construction jobs over the construction period which is estimated to last for approximately 1 year.
- 2.8 Reflecting on evidence of workforce containment, it is reasonable to expect a moderate proportion of the construction jobs created by the Proposed Development to be drawn from the local labour market within Cardiff.
- 2.9 Research conducted on behalf of the UK Construction Industry Training Board (CITB) revealed that the mean (average) distance from a construction worker's home to their current site in Wales was 16 miles, which has decreased since 2012 when workers travelled an average of 26 miles<sup>4</sup>. This suggests that there will be a strong local dynamic to construction workforce catchments areas, and a high level of containment of the workforce within Wales.

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<sup>2</sup> CITB (2016) Industry Insights Construction Skills Network Forecasts 2016 - 2020

<sup>3</sup> BCIS Build Costs –rebased to Q1 2018 using BCIS All-in Tender Price Index

<sup>4</sup> BMG Research (2015) Workforce Mobility and Skills in the UK Construction Sector 2015 –Wales Report (for CITB)

- 2.10 Moreover, the latest ONS claimant count statistics demonstrate that there is latent demand for construction employment within the local and wider labour force. In total, there are 140 economically active unemployed working age residents within Wales seeking employment within the construction sector, of which 20 residents of Cardiff are seeking employment in this industry<sup>5</sup>. These residents could form a potential source of labour for the Proposed Development, helping to meet a documented need for employment both within Cardiff and Wales.
- 2.11 Once an allowance has been made for the leakage<sup>6</sup> of employment from Cardiff and Wales, the Proposed Development is expected to support approximately 214 direct net additional FTE jobs within the wider impact area of Wales, inclusive of 98 direct FTE jobs within the local impact area, during the construction phase.
- 2.12 The proportion of local employment could be enhanced further by the use of local contractors, and sub-contractors alongside measures to encourage local recruitment and apprenticeships.

### **Indirect and Induced Employment**

- 2.13 The positive economic impacts of the Proposed Development will extend beyond construction employment to include the generation of indirect benefits for the local economy. By investing in the development, there will be considerable expenditure on construction materials, goods and other services that will be purchased from a wide range of suppliers. This expenditure has far-ranging benefits both locally and further afield as it filters down the construction supply chain, benefiting a range of businesses.
- 2.14 The result is that the initial investment in the development of the site will be amplified in an economic 'multiplier' effect with linked benefits in terms of expenditure on goods and services locally. This will bring indirect employment and financial benefits for local individuals and firms involved in the skilled construction trades, and associated professions, and could help to sustain employment within this sector across the local and wider economy.
- 2.15 The construction of the Proposed Development could be expected to support a further 107 FTE jobs (per annum) within the wider impact area via indirect and induced effects, including contracts within the supply chain, salaries and onward expenditure, inclusive of 25 FTE jobs in the local impact area.

### **Net Additional Employment**

- 2.16 A total of 321 net additional FTE temporary positions per annum could therefore be generated across Wales, inclusive of 123 FTE jobs in Cardiff, during the construction period. These impacts are summarised in Table 2.1.

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<sup>5</sup> NOMIS (2016) Claimant Count by occupation (May 2017) SOC2000 Construction Sector Groups

<sup>6</sup> Leakage is a measure of the extent to which employment will be taken up by persons residing outside of the target (functional economic) area.

**Table 2.1: Net FTE Employment**

Net FTE Employment Generation	Local Impact Area	Wider Impact Area
Person-years of Employment	218	218
Construction Period (years)	1	1
FTE Employment	218	218
Direct Employment	98	214
Indirect / Induced Employment	25	107
<b>Net Additional Employment (total)</b>	<b>123</b>	<b>321</b>

Source: Turley Economics, 2017

### Productivity Uplift

- 2.17 The construction phase of the Proposed Development will significantly contribute to economic output, measured in Gross Value Added (GVA). GVA measures the value of output created (i.e. turnover) net of inputs purchased, and is used to produce a good or service (i.e. production of the output). GVA therefore provides a measure of economic productivity.
- 2.18 Estimates sourced from Experian indicate that the construction sector generates an average GVA per FTE employee of circa £58,346 annually in Cardiff<sup>7</sup>.
- 2.19 Applying the appropriate GVA measures to the net additional employment impact generated by the construction of the Proposed Development indicates that an additional £18.4 million GVA could be generated annually in the wider Wales economy during construction, of which £7.3 million could be local to Cardiff. This is summarised in the following table.

**Table 2.2: Net GVA Generation**

Net GVA Generation	Local Impact Area	Wider Impact Area
Direct GVA Impact	£6,030,000	£13,140,000
Indirect / Induced GVA Impact	£1,260,000	£5,270,000
<b>Net Additional Impact (Total)</b>	<b>£7,300,000</b>	<b>£18,400,000</b>

Source: Turley Economics, 2017

<sup>7</sup> Experian (March 2017) Local Market Forecasts Quarterly – average taken between 2012 and 2016 for construction sector in Wales.

### 3. Operational Phase Impacts

- 3.1 Upon completion, the Proposed Development will accommodate hotel, food and beverage uses, which will provide direct employment opportunities for residents of Cardiff and a wider area of Wales.
- 3.2 Further employment will also be supported indirectly through the supply chain of the hotel and restaurant uses and via induced effects arising from onward expenditure of wages in the economy. Unlike the construction impacts profiled in the preceding section, these economic impacts will persist over the long term whilst the Proposed Development remains in commercial occupation.
- 3.3 Crucially, Whitbread are committed to extending the employment opportunities generated by hotel developments to local people in need of employment. Through employment schemes, work placements and training programmes, the proposed development has the potential to directly generate employment opportunities for local residents.
- 3.4 Whitbread announced in January 2014 that it will be creating 8,000 new jobs by 2018, of which, half will be targeted at young people not in employment, education or training (NEETs)<sup>8</sup>. This will be achieved alongside an expansion of Whitbread's already impressive apprenticeship and work placement schemes, pledging an additional 2,000 apprenticeships and 4,500 work placements for young people struggling to find employment.
- 3.5 Whitbread work alongside Job Centre Plus, recruitment websites such as [notgoingtouni.co.uk](http://notgoingtouni.co.uk) and other locally organised staff recruitment initiatives and prioritise hiring employees that live close to the sites in which they work and all staff are encouraged to advance their careers through the training schemes on offer.
- 3.6 The Functional Skills programme offers the chance for employees who do not have GCSE Maths or English to develop their literacy and numeracy skills, either as part of an Apprenticeship scheme or as stand-alone qualifications. Whitbread also operates a graduate recruitment programme and actively participates in jobs fair events.
- 3.7 Whitbread's work placement programme, which is aiming to provide 4,500 work placements by 2018 through working collaboratively with Job Centre Plus and the Prince's Trust, targets NEETs in the local area who are struggling to find paid work. The work placements are designed to ensure that the job applicant benefits from a variety of work experiences and opportunities to develop a range of skills through training and runs alongside a two week Sector Based Work Academy with classroom training that leads to an official qualification. Whitbread work placements provide on-the-job training at sites with job vacancies with the aim of offering employment to promising candidates should roles be available.
- 3.8 A range of operational phase 'lifetime' economic impacts derived from the Proposed Development are presented in this section of the assessment.

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<sup>8</sup> <https://www.whitbread.co.uk>



## **Direct Employment**

- 3.9 Based on the scheme parameters and Whitbread's operational business planning, it is expected that the Proposed Development of a 248 bed Premier Inn hotel with a Bar + Block restaurant will generate circa 68 gross FTE jobs directly on-site upon completion and operation.
- 3.10 The latest ONS claimant count statistics demonstrate that there is latent demand for the employment types that are expected to be generated by the Proposed Development once operational. Within the local Cardiff labour force, there are circa 30 economically active, unemployed, working age residents within the area seeking employment within the accommodation and food services and related sectors<sup>9</sup>. These residents could form a potential source of labour for the Proposed Development.
- 3.11 A wider pool of available labour also exists at the wider scale of Wales. In total, there are a further 190 economically active unemployed working age residents across Wales seeking employment within the accommodation and food services and related sectors<sup>10</sup>.
- 3.12 When allowances have been made for leakage and displacement, taking in to account the level of available latent labour and evidence of workforce containment across the local and wider impact areas, it is estimated that circa 66 direct net additional FTE jobs could be supported within the Welsh economy, inclusive of 30 FTE jobs in Cardiff.
- 3.13 The proportion of local employment could be further enhanced as a result of Whitbread's commitment to employing local people in addition to the aim to reduce the number of young people not in employment, education or training (NEETs).

## **Indirect and Induced Employment**

- 3.14 The positive economic impacts of the Proposed Development will extend beyond employment within the Proposed Development to include the generation of indirect and induced benefits through the supply chain and the expenditure of wages within the local economy.
- 3.15 The operation of the Proposed Development is expected to support a further 33 FTE jobs (per annum) within the wider impact area via indirect and induced effects, including contracts within the supply chain, salaries and onward expenditure, inclusive of 8 FTE jobs in the local impact area.

## **Net Additional Employment**

- 3.16 The investment in the Proposed Development could support 38 net additional FTE jobs in the local economy of Cardiff both directly and via supply chain and induced effects during operation. Across the Welsh economy, 99 net additional FTE jobs could be created, inclusive of those generated locally in Cardiff. This is summarised in the following table.

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<sup>9</sup> NOMIS (2016) ONS Claimant Count (May 2017)

<sup>10</sup> *Ibid.*

**Table 3.1: Operational Phase – Employment Generation<sup>11</sup>**

Net FTE Employment Generation	Local Impact Area	Wider Impact Area
Gross Employment (FTE)	68	68
Leakage	27	1
Displacement	10	0
Direct Employment	30	66
Indirect / Induced Employment	8	33
<b>Net Additional Employment (total)</b>	<b>38</b>	<b>99</b>

Source: Turley, 2017

### Productivity Uplift

- 3.17 The operational phase of the Proposed Development will contribute positively to the economic productivity of Cardiff and the economy of Wales. Through its operation, the Proposed Development could deliver an annual uplift in productivity – measured in GVA contribution – of circa £1.7 million to the Welsh economy, of which £800,000 could be local to Cardiff. This is summarised in the following table.

**Table 3.2: Operational Phase - Net GVA Generation**

Net GVA Generation	Local Impact Area	Wider Impact Area
Direct GVA Impact	£800,000	£1,700,000
Indirect / Induced GVA Impact	£400,000	£1,600,000
<b>Net Additional Impact (Total)</b>	<b>£1,200,000</b>	<b>£3,300,000</b>

Source: Turley, 2016

### Visitor Expenditure Impacts

- 3.18 The Proposed Development will generate additional overnight visitor accommodation within Cardiff and Wales, with 248 additional hotel rooms expected to accommodate circa 60,648 overnight visitors to the local area on an annual basis, based on the average occupancy rate of 67% seen in Wales<sup>12</sup> and the assumption that hotel rooms will be occupied by an average of 1 visitor per night.
- 3.19 Visitors staying overnight in the Proposed Development will have an additional impact on the local economy over and above the effects derived from the direct operation of the Proposed Development. Aside from expenditure on accommodation, which is assumed to support the operation of the Proposed Development, visitors will generate additional economic impacts through their expenditure on wider leisure and tourism activities, in local shops, and on transport.

<sup>11</sup> Figures may not sum due to rounding.

<sup>12</sup> Wales Occupancy Survey (December 2016)

- 3.20 Evidence from the Great Britain Tourism Survey<sup>13</sup> indicates that the average spend per serviced accommodation trip in Wales is £189 per person, with the average overnight visitor staying for 3.36 nights. This implies an average spend per night of £56. The survey also estimates total domestic tourism expenditure in Wales, 34% of which is spent on accommodation<sup>14</sup>. This therefore suggests a residual spending of £37 per visitor per night, excluding accommodation. Based on the estimated additional capacity generated by the Proposed Development visitors could spend approximately £2.25 million annually in the local economy.
- 3.21 The £2.25 million annual visitor expenditure will help to support and sustain an additional 21 employee jobs per annum within local industries in the leisure and tourism sector.

### **Business Rates**

- 3.22 Businesses pay non-domestic rates (known as business rates) to contribute to the cost of the local authority providing public services within which the business property is situated. The Government has introduced a Business Rate Retention Scheme (BRRS), which became operational in April 2013. It provides a direct link between business rates growth and the amount of money local authorities have to spend on local people and local services.
- 3.23 Local authorities are now able to keep at least 50% of the growth in business rates revenue that is generated in their administrative area. The Government's intention is that this will provide a strong financial incentive for local authorities to promote economic growth, as well as providing a greater degree of discretion in terms of expenditure of this additional revenue.
- 3.24 The Government announced in October 2015 that, from 2020, local authorities will retain 100% of the uplift in business rates collected. A system of top ups, transfers and tariffs will continue to operate to help even out inequalities between the level of business rates generated by individual local authorities. This is expected to provide local authorities with an increasingly important source of income over this period, to enable them to effectively plan and budget.
- 3.25 The proposed development includes commercial uses that will be liable for payment of business rates. Based on the applicant's existing hotel operations and evidence obtained from the Valuation Office Agency (VOA)<sup>15</sup>, it is estimated that the proposed development would generate approximately £150,000 business rate revenue per annum, of which at least 50% – or circa £75,000 – could be retained by Cardiff City Council each year until 2020 and potentially 100%, or circa £150,000, per annum thereafter. This could be used to fund a range of local priorities, services, and infrastructure.

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<sup>13</sup> Visit England (2016) Great Britain Tourism Survey (GBTS) 2016

<sup>14</sup> [https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/England-documents/gb\\_tourist\\_report\\_2015.pdf](https://www.visitbritain.org/sites/default/files/vb-corporate/Documents-Library/documents/England-documents/gb_tourist_report_2015.pdf)

<sup>15</sup> Valuation Office Agency (2017) Business Floorspace

## 4. Conclusion

- 4.1 The proposed development will generate a full range of economic benefits that will start during the construction process and persist for a long period of time as the development is completed and occupied. These impacts will include employment and productivity improvements as well as wider positive impacts on the visitor economy of Cardiff. The benefits will be contained within Cardiff, but businesses and employees residing elsewhere in Wales will also benefit from the investment and expenditures from employees and visitors alike.
- 4.2 Turley Economics has conducted an independent appraisal of the scheme economic impacts and the following are the key findings of this assessment.

### **Construction phase**

- **Employment:** The proposed development has the potential to provide 123 net additional full time equivalent (FTE) jobs within Cardiff, increasing to 321 FTE jobs at the scale of Wales. These jobs will be directly in the construction sector and associated trades.
- **Productivity:** The proposed development will generate £7.3m GVA at Cardiff level and £18.4m GVA across Wales

### **Operational phase**

- **Employment:** The scheme will support 86 total direct jobs (full and part time). This equates to 68 gross direct FTE jobs.
- Taking in to account the extent to which employment impacts will be taken up by people outside Cardiff, displacement and economic multipliers the development will create 38 net additional FTE jobs within Cardiff. This increases to 99 net additional FTE jobs at the scale of Wales.
- **Productivity:** The proposed development will result in a productivity boost of £1.2m GVA in Cardiff and £3.3m GVA across Wales.

### ***Hotel visitor expenditure impacts***

- The proposed development will provide accommodation for visitors to Cardiff and Wales more generally. There is the potential for £2.25m in additional visitor expenditure per annum to be generated. This level of expenditure has the potential to support 21 leisure related jobs in existing and new businesses.

### ***Business rates impacts***

- The proposed development will create additional business rates revenue every year which will accrue to Cardiff City Council and can help to finance essential services and investments in the city on an ongoing basis. The development could result in a total business rates revenue of £150,000 per annum, with 100% of this sum being retained by Cardiff City Council in the period from 2020 onward.

4.3 An economic infographic can be found at Appendix 1.

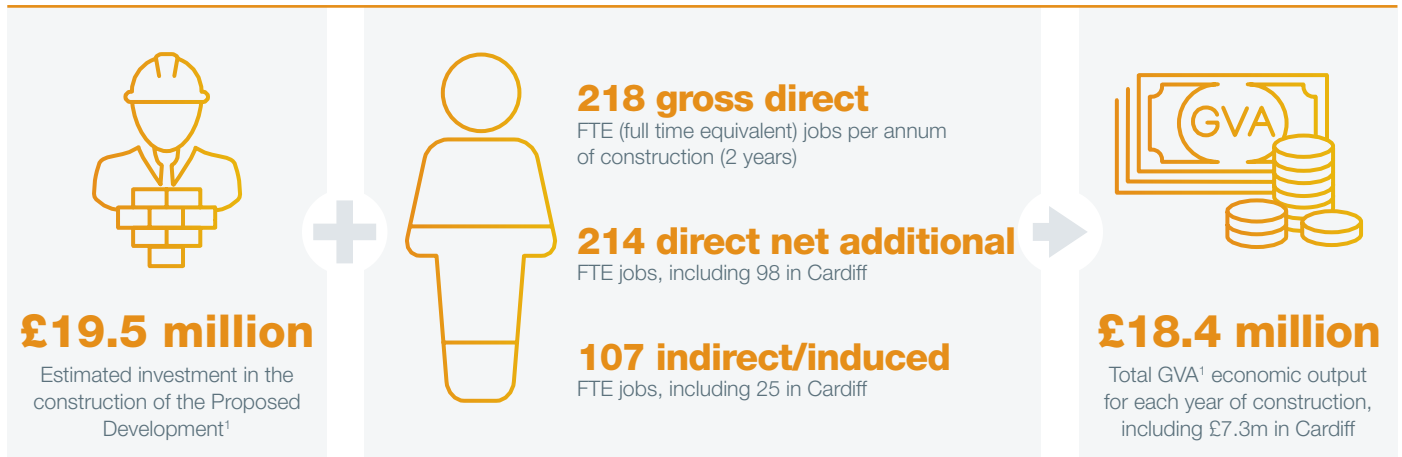
## **Appendix 1: Infographic**

# Economic Benefits Infographic

Site: Custom House, Cardiff

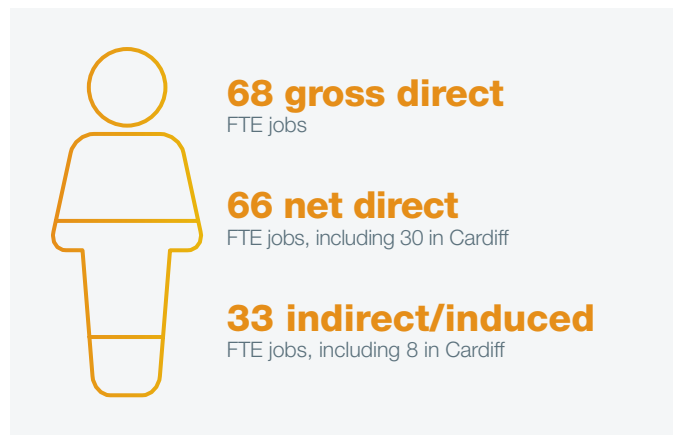
Proposed development: 248 bed hotel and a Bar + Block restaurant

## Construction Phase



## Operational Phase

### Office, Retail (shops, restaurants and cafes) and Hotel



1 Includes assumptions made regarding infrastructure costs and professional fees

2 GVA (Gross Value Added) measure the value of output created (i.e. turnover) net of inputs used to produce a good or service (i.e. production of outputs). It provides a key measure of economic productivity. Put simply the GVA is the total of all revenue into businesses, which is used to fund wages, profits and taxes.

3 Illustration of potential business rates as the VOA is currently undertaking a revaluation; draft 2017 rateable value will come into effect from 1 April 2017. Note that a system of top ups, transfers and tariffs will continue to operate meaning some authorities may not retain 100%.

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