

## 9. ECONOMIC IMPACT ASSESSMENT

9. ECONOMIC IMPACT ASSESSMENT

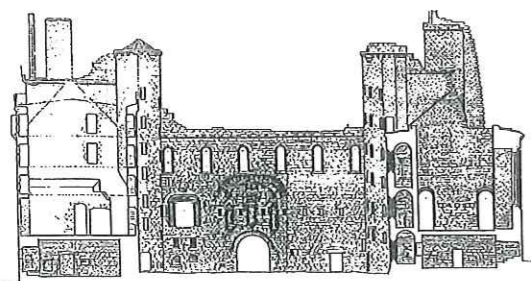
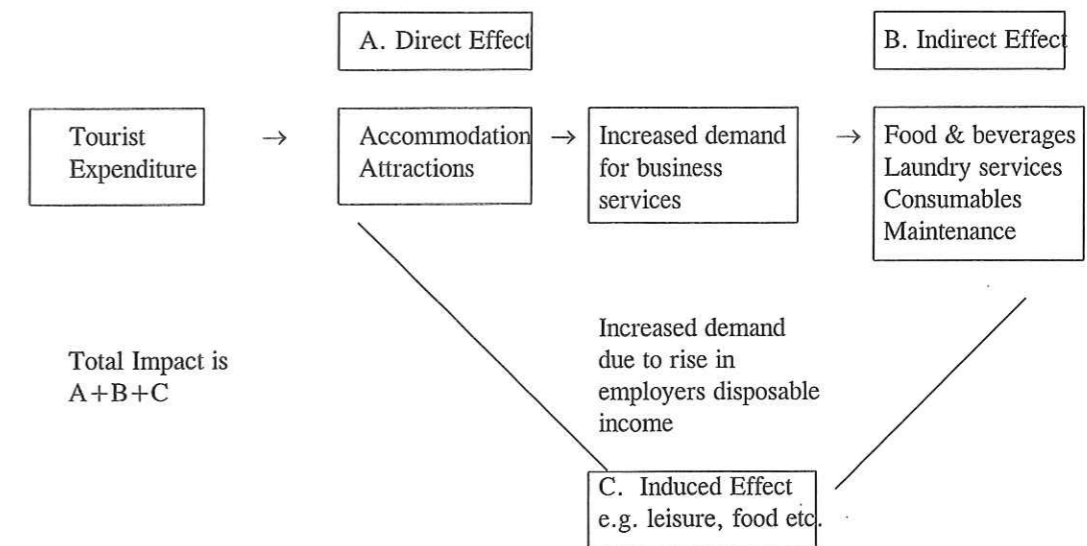
901 Introduction

An Economic Impact Assessment is a methodology established to identify the economic costs and impacts of the project. It provides an indication of what can be achieved in economic development terms from the initial capital investment. They are used to assist decision making regarding the use of scarce public sector resources in economic development terms - in this context in terms of sustaining existing jobs, creating new jobs and improving productivity.

Tourism multipliers fit into the project appraisal process by helping us access the gross impact of various tourism projects taking projected increases in visitor numbers and their spending and converting this into measures of income, output or employment. The quality of market and financial information is critical and in this context we are using our own data on capital cost and visitor projections together with Scottish Tourist Board data on elements like average visitor spend.

There is an inherent interdependency between the different sectors of the tourism economy. Any change in the level of tourist expenditure by visitors will not only affect the industry that produces final goods (or service) but also that industry's supplier and the suppliers supplier and so on. Any change in such tourism expenditure will bring about change in the economy's level of output, income, employment, government revenue and foreign exchange flows. The resultant change in one of the above variables as a resultant change in tourist expenditure is called the multiplier.

Once determined the multiplier allows the direct, indirect and induced effects of any given change in tourism spending to be estimated. This is shown in diagrammatic form:



The wider economic impact created in the surrounding area of Linlithgow and West Lothian is generated by a multiplier effect stimulated by a number of factors including:

- \* the value of the initial capital investment made in the project
- \* the wider benefits generated by the workforce involved in the construction process
- \* the impact of the jobs created by the project once completed and operational
- \* the impact of the ongoing facility once operational
- \* the impact day and staying visitors will have on the surrounding area.

In each case it is possible to estimate the level of investment in the local community that can be translated into new jobs. An element of **displacement** or discount must be applied which reflects that which would be happening anyway.

**902 Impact of the Capital Investment**

For the purposes of assessing the economic benefits from capital investment we have included £10.3m including the Palace, The Peel, car and coach parking and visitor management initiatives and also £1.5m already spent on environmental and economic initiatives in the town centre.

The impact this will have on the local economy depends to some degree on the proportion of the work which is undertaken by local Lothian companies and the proportion of goods and services which are purchased locally. In general terms, the capital cost can be split down as follows:

Element	Cost £
Building Works	8m
Furniture & Equipment	0.4m
Visitor Attraction	1.65m
Professional & Specialist Fees	1.75m
<b>Total</b>	<b>£11.8m</b>

NB. The building works element includes the £1.5m in the High Street.

We have made a series of assumptions as to how capital expenditure has been broken down as follows:

Element	Materials & Labour	Local Companies	National/UK Companies
Building Work	50 : 50	50	50
Interpretation/Visitor Attraction	30 : 70	20	80
Fit Out	80 : 20	60	40
Fees	0 : 100	50	50

- \* if we assume that the value of the building and engineering works is roughly 50 : 50 between the value of labour and materials then we need to also make some assumptions in relation to the companies appointed to do the work. The consolidation and restoration work will involve a high degree of specialist skills and although such companies exist in Scotland it may not necessarily be possible to use a Lothian company. This means they will be travelling each day - possibly staying overnight
- \* the building contracts may be phased over 3 years including archaeological investigation, consolidation and rebuilding works. The final phase will be the internal finishes, services, lifts, stairs and fit out. We can assume that perhaps 60 jobs will be involved over a 3 year period. Perhaps 75% or 45 were already employed and a further 15 represent new jobs created. It would not be unreasonable to think that a training programme employing perhaps 10 trainees per year i.e. 30 in total, might be involved in the building project over the 3-year period
- \* we can assume that 65% of the materials are purchased from other parts of Scotland but that 35% are purchased from within the region. If one job is created by each £35,000 of investment then the capital investment in materials purchased locally (£568,750) can generate sixteen full-time equivalent (FTE) jobs if one job is created by £3500 investment in materials
- \* similarly, there is a purchase of materials locally in the interpretive and visitor management aspects. Whilst this is likely in terms of the visitor management and car parking it is not necessarily the case in terms of the interpretation unless a number of small, specialist companies in and around the Central Belt are used. However, again if 35% of the materials are purchased locally (£285,250) and one job is created by each £35,000 invested, then a further 8 FTE jobs can be created making a total of 24 jobs from the initial capital investment.

**903 Impact of the Labour Content**

In terms of the impact of the labour content (£4.48m) we need to make an assumption about the use of local companies. It would not be unreasonable to assume that 75% of the contractors come from West Lothian and the Central Belt. These people will not generate extra spend in the area except through casual spend - perhaps £5/day will be spent in the town. This represents £50,000 per annum. If 1 job is created by each £35000 spent in the local community then this represents 15 FTE jobs. Those earning overtime and living in the town will also have more disposable income as will those who have been taken on for the contract and the trainees.

- \* we have assumed that FTE new jobs will be created in the construction process over 3 years. If 75% of these come from outside the area then 4 new FTE jobs are created in the town. These employees will be earning an average of £10000 (over and above their unemployment allowances) and will therefore be 'taking home' £40000 per annum. If 20% of this is spent locally on goods and services this represents £8000 pa or 0.25 FTE jobs on the basis that £32000 spent in the general economy creates 1 FTE job
- \* we have also assumed 30 trainees over 3 years. If we assume an average wage of £60 per week with an unemployment allowance of £40 some £30,000 additional salaries will be available each year to be spent locally (gross of tax). On the basis that 50% of the spend affects the local economy and one job is created per £32,000 then one new jobs can be assumed to have been created by this effect
- \* in summary the economic benefit from the construction process would create 3.5 FTE jobs in the community over 3 years.

**904 Impact from the Operation of the Site**

Based on Option 2 the operating costs of the site including the value of retail stock purchase is £223,000, it would not be unreasonable to assume that 50% of these costs relate to goods and services purchased locally i.e. £110,000. On the basis that 1 job is created by every £32,000 additionally spent in the community then this represents 3.5 FTE jobs. Clearly there are existing costs which perhaps discount the value by 20% and this reduces the net benefit to 2.75 new FTE jobs.

**905 Impact from the Staffing of the Site**

The project will create some 9/10 new FTE jobs at a cost of say 120,000 per year. Whilst some may come from within West Lothian it could be assumed that at least £100,000 of salaries become available to spend in the town and its environs. Again, on the basis that 40% of this is spent locally it represents £40,000 into the community. On the basis of 1 job is created through every £32,000 spent this represents 1.25 FTE jobs.

In addition there will be at least 10 FTE jobs involved in the catering, costumed interpreters and seasonal staff. At an average wage of £12,000 per annum this represents £120,000 pa. Assuming 5 FTE jobs are people who come into the area to work or have been previously unemployed then they generate new £60,000 income of which perhaps 40% is spent locally i.e. £24,000. This is equivalent to 0.25 FTE new jobs.

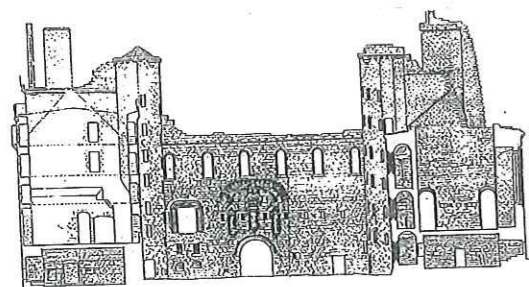
**906 Impact of Visitors a Crucial Component**

We are projecting that 80,000 new visitors will come to the palace each year from Year 3 of operation. We have assumed this is broken down into :

70% day visitors/residents	56,000
20% UK tourists	16,000
10% overseas visitors	8,000

Each segment generates different levels of spend if they come to Linlithgow for the day and there is a considerable difference if we can persuade them to stay overnight. From tourism data it has been established that domestic day visitors are likely to spend some £6.80 in the community over and above their spend at the attraction. UK tourists will spend upto £18.50 and overseas tourists £21.70 although if they stay overnight these figures rocket to £45 and £60 respectively.

At this stage we can assume that only 10% of all UK/overseas visitors stay in West Lothian but on these assumptions the additional visitor spend in the community can be estimated as follows:



Element	Number of Visitors	Spend/head	Total
Day visitors	56000	6.80	380,800
UK tourists			
- visiting	14400	18.50	266,400
- staying	1600	45.00	72,000
Overseas tourists			
- visiting	7200	21.70	156,240
- staying	800	60.00	48,000
<b>TOTAL</b>			<b>£923,440</b>

From a survey of the effects of tourism in Edinburgh in 1993 it was found that the income of £508m supported 16949 FTE jobs which is equivalent to around £32000 per job. On this basis the visitor spend in the community will generate 29 FTE.

**907 So What Does This Tell Us?**

Using the analysis set out above it is possible to estimate number of jobs generated from the initial capital investment of £11.8m (including the environmental improvements along the High Street):

Component	Spend in community	Jobs created
Initial capital investment - materials	854,000	24
Initial capital investment - labour	58,000	2
Daily operation of the Palace	90,000	2.75
Staffing of the Palace	64,000	2
Impact of visitors	923,440	29
<b>TOTAL</b>		<b>60</b>

This shows that the West Lothian community is likely to benefit to the tune of £900,000 spend in the construction phase which represents the equivalent of 26 FTE jobs. Once operational the area will attract at least £1.077m per annum spend which represents some 34 FTE jobs. As the accommodation stock increases in the area then this will undoubtedly increase. Overall the project will generate some 60 FTE jobs and sustain many more. On the basis that each job sustains 2.5 other jobs then we can assume that another 150 FTE jobs will be sustained through the wider benefits of the capital investment.

**908 Further Benefits will Undoubtedly Accrue**

West Lothian Council and LEEL are committed to enhancing the tourism product of the area and raising the profile by targeted marketing. Further their combined efforts in stimulating inward investment adds to the 'critical mass' and this initiative at Linlithgow Palace is an important component in the wider picture.

It is inevitable that with an increasing number of visitors each year, coupled with the wider initiatives mentioned, confidence in the economy will manifest itself through investment to extend existing permits and to develop new ones. This will occur throughout the tourism sector including:

- \* restaurants
- \* new hotels (there has been a long standing need to increase bed capacity in West Lothian and particularly in Linlithgow where there is an outstanding planning provision for an hotel)
- \* coach market - stimulating new activities which will strengthen the case for an hotel
- \* new bed and breakfast accommodation.

Overall, it will contribute to raising the profile of West Lothian, which will assist in a small way to generating increased inward investment.

