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# 1 Introduction

This Guide explains how to assess the additional impact or additionality of local economic growth and housing interventions. Additionality is the extent to which something happens as a result of an intervention that would not have occurred in the absence of the intervention.

It is the fourth edition of the Guide, which has been updated to include new benchmark evidence on the scale of each of the additionality factors, reference to new research, additional information and links to guidance on valuing benefits and further sources of helpful guidance within the bibliography. In this edition of the Guide, consideration has also been given to different delivery structures and their effect on additionality, the issue of persistence of benefits and agglomeration effects. Further details of the main changes since the last edition of this Guide are set out at Appendix A.

The approach to assessing additionality remains consistent with:

- HM Treasury's guide to Appraisal and Evaluation in Central Government (referred to as 'The Green Book')
- guidance on Assessing the Impacts of Spatial Interventions: Regeneration, Renewal and Regional Development (referred to as the 3Rs guidance) produced by the now Department for Communities and Local Government (DCLG)

Project appraisal entails being clear about objectives, thinking about alternative ways or options of intervening to meet them, estimating and presenting the costs and benefits of each potentially worthwhile option and taking full account of associated risks. It is an important management tool and is essential to good decision-making because it:

- provides information to redesign interventions in order to maximise their impact
- helps to test ideas and select interventions that will work
- enables decision-makers to make the best possible decisions
- produces more effective and efficient interventions that deliver real results

**Central to good appraisal is the need to assess whether the intervention concerned will bring additional benefits over and above what would have happened anyway in its absence.**

However, assessing the additional outputs and, where possible, outcomes of an intervention option is only one of the steps involved in appraising an intervention. This Guide is primarily concerned with the methodology for calculating additionality. There are many appraisal issues that affect the ability to measure additionality accurately, such as defining options, measuring outputs/outcomes and assessing the risk associated with each option. These issues are touched upon but not dealt with in any detail in this Guide.

HM Treasury recommends that the '5 Case Model' is used to assess the business case for investment decisions – this guidance is concerned with part of the 'economic case'. It therefore does not cover strategic fit ('strategic case'), the need for public funding and affordability (the 'financial case'), commercial aspects (the 'commercial case') or achievability (the 'management case').

Additionality is relevant to various stages of an intervention's lifecycle, including strategy development, project appraisal, monitoring and evaluation. However, whilst the same thought processes and logic applies to each stage, the focus of this Guide is on project appraisal.

The resources allocated to assessing the additional impact of an intervention should be proportionate to the nature and scale of the intervention. Interventions that are novel, contentious, repercussive or involve a high level of risk will require more in-depth

analysis, as will larger interventions – in other words, those that involve a significant amount of public expenditure. It is recognised that assessing additionality is not an easy task and that generally this will be carried out by specialists or those with experience in intervention development and appraisal. This Guide is generally aimed at economists and other suitably qualified and experienced professionals. However, it is also intended to be accessible to non-specialists in order to provide an understanding of the principles and importance of assessing additionality. The Guide does cover some material of a more technical nature and where it is necessary to use technical terms we have sought to explain each term or concept carefully and provide examples.

The Guide continues in the following five chapters:

- Chapter 2: sets out the basic methodology and key issues in order to assess the additional impacts of an intervention
- Chapter 3: discusses the reference case or deadweight – in other words what would happen anyway, without the intervention
- Chapter 4: explains the adjustments that need to be made to the intervention and reference options to calculate additionality
- Chapter 5: presents examples of how to calculate additionality
- Chapter 6: sets out a number of concluding remarks

## 2 Additional impacts

### 2.1 Overview

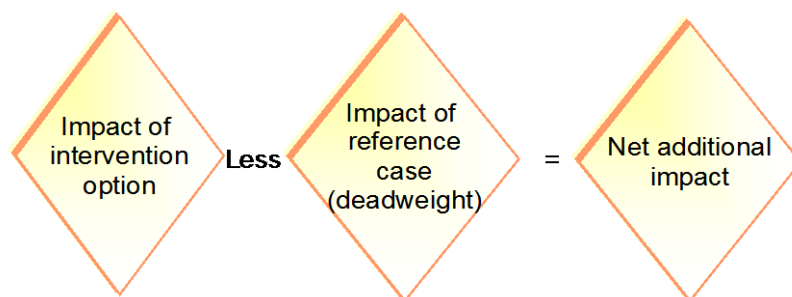
Most interventions will have both positive and negative impacts. In appraising the effects of an intervention it is important that all of these are taken into account in order to assess its additional impact or additionality – in other words, the net changes that are brought about over and above what would take place anyway.

HM Treasury's Green Book states that an impact arising from an intervention is additional if it would **not** have occurred in the absence of the intervention. DCLG's guidance on *Assessing the Impacts of Spatial Interventions* defines additionality as:

"The extent to which activity takes place at all, on a larger scale, earlier or within a specific designated area or target group as a result of the intervention"

In addition, greater **quality** can provide additional effects. The additional impact of an intervention is therefore the difference between the reference case position (what would happen anyway) and the position if the intervention option was implemented (See Figure 2.1).

**Figure 2.1: Net additionality framework**



Additionality may relate to:

- **Scale** - a greater quantity of outputs in an area.
  - **Timing** - activity may happen earlier than would otherwise have been the case. Where there are large timing differences, it may be appropriate to discount the profiles of quantified outputs and outcomes. For example, use is now often made of cost benefit analysis, with the benefits and costs being 'valued' and discounted. Further information on this can be found in Annex 7 of the 3Rs guidance.
  - **Quality** - the quality of the outputs / outcomes may be different because of a public sector intervention. For example, a new building may incorporate a high quality of design and public realm. (Further details about how to assess additional qualitative impacts are set out in Section 2.7);
- and/or
- **Specific area or group** - the extent to which the target beneficiaries actually benefit from an intervention. For example, for a key worker housing project, will all of the occupiers be key workers?

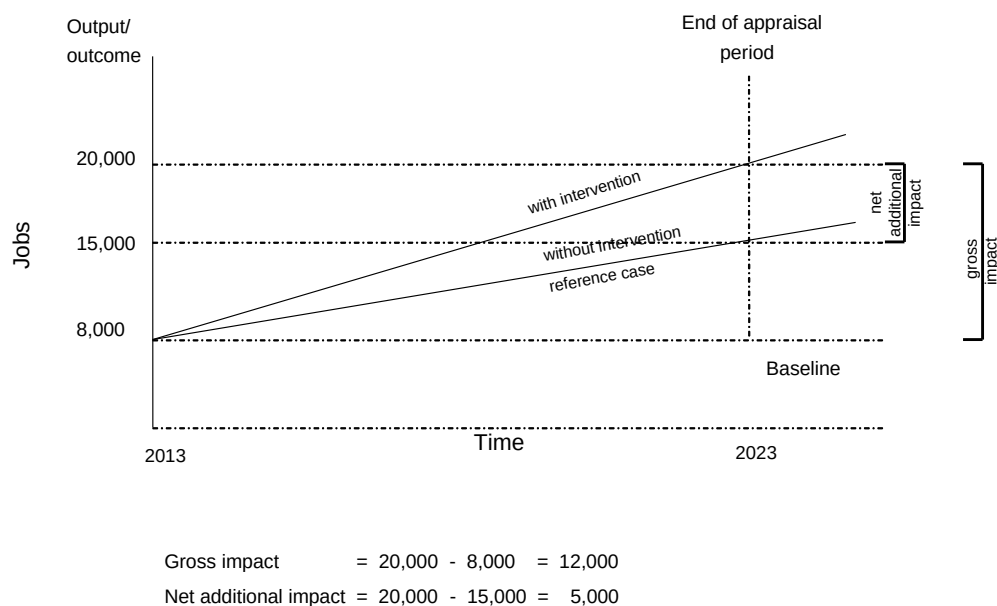
It is possible to assess the additional impacts of an intervention using two alternative approaches, as follows:

- **Top-down** - by assessing expected changes in overall indicators, such as the level of employment, total population or number of dwellings (this is also sometimes referred to as the outcome indicator approach).
- and/or
- **Bottom-up** - appraising the expected impact of individual actions or projects, through consideration of their likely outputs and outcomes.

At the strategy or programme development stage the focus will often be, albeit not exclusively, on top-down approaches, while at the project design and development stages, the principal emphasis is on bottom-up analyses. Both approaches are often used in evaluations.

Figure 2.2 below shows an example of top-down analysis of expected overall employment change in an area as a result of an intervention. It shows that, over a ten-year period, total employment in an area is expected to rise from 8,000 to 20,000. However, without the intervention, it is estimated that employment would have grown to 15,000 anyway. Thus, whilst the gross change in employment is 12,000, the net additional impact of the intervention is 5,000 jobs.

**Figure 2.2: Assessing additionality (improving reference case)**



If employment in the area were expected to decline to say 5,000 jobs if the intervention did not go ahead then the net additional impact at the end of the appraisal period would be 15,000 jobs (i.e. the difference between 5,000 jobs and 20,000 jobs). Further examples of various possible relationships between the intervention option and reference case are set out at Appendix B.

However, as noted above, in reality it will not normally be possible to appraise interventions by dynamically modelling net effects at a specific target level. In the vast majority of cases there are serious difficulties in using such top-down approaches to assess what are usually highly marginal gross and net impacts. Therefore, the focus in

project appraisal is upon a bottom-up or project specific approach to assessing additionality. In order to do this a clear analytical framework is needed.

To calculate the total net additional local effects of an intervention, a number of adjustments need to be made to both the intervention and reference case options. The approach adopted to assessing the additionality of an intervention is shown in Figure 2.3.

**Figure 2.3: Approach to assessing project level additionality - key components**



The figure introduces a number of important key concepts, as set out in the Box 2.1 below.

#### Box 2.1: Key components of additionality

- Intervention options:** these are the alternative ways or options that the public sector might choose in order to intervene to achieve its objectives. An estimate will need to be made of the level of target outputs/outcomes that would be produced under each of the alternative intervention 'do something' options. Further discussion of the generation of options is presented in Appendix C.
- Reference case:** this is the estimate of what level of target outputs/outcomes would be produced if the intervention did not go ahead. It is the 'do nothing' or do minimum option and the outputs/outcomes produced under this option are referred to as **deadweight**. In some cases, deadweight might be estimated by assuming that a proportion of the total gross additional local effects would go ahead anyway under the reference case. For example, if it were estimated that 25% of, say, 200 total net local training places would have been provided anyway, then some 50 total net local training places would be deadweight and the total net additional local would be 150. However, the preferred approach is to construct and quantify a specific reference case scenario.



- **Gross direct effects:** an estimate of the total effect of an intervention option or the reference case in terms of a specific output. This would mean consideration of wider consequential or induced effects, as well as the immediate effects. When undertaking an evaluation, it will also be appropriate, in calculating the gross direct effects, to account for any unintended consequences - consequences that were not anticipated for the targeted outputs and outcomes. It may also be relevant to consider agglomeration effects (see Section 2.8). This could include, for example, the positive effect of a housing scheme on adjacent property values or in causing private sector housing development to take place which would, for example, not otherwise have happened or would have happened later. As such it is important to consider and include positive externalities associated with the intervention.
- **Leakage effects:** the number or proportion of outputs (occurring under the reference case and the intervention options) that benefit those outside of the intervention's target area or group should be deducted from the gross direct effects. However, it is also important in an appraisal to consider positive and negative effects on other areas. Impacts outside the target area or group should not be ignored, particularly, those in other priority area or groups.
- **Displacement:** the number or proportion of intervention outputs (occurring under the reference case and the intervention options) accounted for by reduced outputs elsewhere in the target area should also be deducted.
- **Substitution effects:** this effect arises where a firm substitutes one activity for a similar one (such as recruiting a jobless person while another employee loses a job) to take advantage of public sector assistance. Again these effects need to be deducted.
- **Economic multiplier effects:** further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term development effects then need to be added.

For very large interventions, consideration will also need to be given to **crowding out** and **crowding in** effects. These effects occur where increases in public expenditure cause other variables in the economy to adjust resulting in either a decline (crowding out) or increase (crowding in) in private expenditure. These effects are normally considered only in very large appraisals concerned with regional and national level impacts. Further information on crowding out and crowding in effects is given at Appendix D.

It is important to recognise that the analytical framework presented above does have a number of limitations, in particular in accounting for macro-economic adjustments, which may reduce (or increase) the additionality of an intervention at wider spatial scales. This limits its appropriateness in discussing national economic efficiency impacts, unless it is combined with detailed macro-economic modelling.

Since it is not practicable, or indeed often possible, in the context of relatively small interventions to develop dynamic, full equilibrium models, the approach proposed is a form of partial equilibrium analysis. As such, it is a simplification and it is essential to ensure that the analysis is a sufficiently reasonable representation of reality. In a context of tighter labour and other markets, it may be important to assess price feedback effects and other adjustment mechanisms, such as changes in participation rates and migration flows. These effects can, in principle, be handled via the displacement adjustments although, in practice, this has often not occurred.

If prices are likely to change significantly as a result of an intervention, the analysis becomes more complicated. For example, when considering the additionality of economic activity associated with a commercial development, the following issues need to be considered:

- how far the individual development is additional

- how far it represents a net addition to the stock of property taking account of effects in raising land prices or depressing rentals and the consequent effects of this on private sector development activity
- how far the activity generated by the greater availability and/or reduced cost of property is additional.

Where an intervention results in effects “off the direct causal chain” the nature and additionality of these effects also need to be considered. For example, a project to provide homes or jobs for a particular target group might be judged a failure based on a narrow view of leakage but it may have had significant secondary benefits through “freeing up” homes or jobs which are taken up by the target group. It may be that different proportions for factors such as displacement need to be applied to each impact where the effects are not directly associated with the intervention.

The assessment of additionality is not a mechanistic process but depends on the appraiser’s judgement and knowledge of the intervention and the wider environment. It is important that these judgements are informed by evidence and the reasons for them explained. In order to assess the level of additionality it is necessary to consider how the intervention has affected market activity, as well as its impact on other public sector activities.

The Guide presents various estimates for the potential scale of each of the factors discussed above. However, significant care needs to be taken in using default or ready reckoner values. The following best practice framework for the use of these and other values is therefore suggested:

- Best - bespoke investigation using various data capture methods, such as surveys or the results of bespoke economic or other modelling.
- Good - values chosen through a review of previous evaluations recognising differences in:
  - (i) the policy and location (e.g. geographic, demographic or economic differences);
  - (ii) the assumptions made in the original evaluation; and
  - (iii) significant changes in situation (due to time of investigation).
- Adequate - default values chosen from available guides, where the choice has been carefully considered and the reasoning explained.
- Not adequate - default values without consideration of any of the above. Values used without reference to origin or fitness for purpose.

When applying estimates of the potential scale of each additionality factor, the sensitivity of the appraisal results to variations in these estimates should be considered. In the case of larger, complex projects it might be appropriate to use a range. For example, research undertaken on behalf of the Department for Business, Innovation and Skills (BIS 2009a) identifies average benchmarks for each additionality factor and confidence intervals around the base case.

## 2.2 Assessing the additionality of outputs and outcomes

Additionality is relevant to all outputs and outcomes. The aim of public sector interventions is to achieve desired outcomes. However, many outcomes (such as changing behaviours and attitudes) are difficult to measure and will often only occur sometime after an intervention has been implemented.

Thus, whilst interventions are concerned with delivering outcomes, the focus of attention in project appraisals is often on assessing the net additionality of outputs.

It is important to identify intervention outputs that are expected to contribute to an improvement in the desired outcomes and for these outputs, where relevant, to consider leakage, displacement, substitution, multipliers and deadweight. However, it is important to recognise that outputs are necessary but not sufficient to deliver desired outcomes. Table 2.1 shows examples taken from the New Deal for Community (NDC) Guidance that illustrates related outputs and outcomes by intervention type.

|                  | <b>Examples of Outputs</b>                                                                                                  | <b>Examples of Outcomes</b>                                                                            |
|------------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Housing</b>   | Units refurbished, demolished, built                                                                                        | Improved housing conditions, changes in tenure, reduction of turnover, satisfaction with accommodation |
| <b>Crime</b>     | No. of locks and entry phone systems installed, hours spent by a community police officer in schools, CCTV points installed | Reduction in volume of crime, reduced fear of crime relative to other areas                            |
| <b>Health</b>    | No. of home visits by health outreach workers, new community health centre                                                  | Improved mortality rates, lower illness rates relative to other areas                                  |
| <b>Education</b> | No. taking part in parent-school initiative, no. of contacts with truants, improvement to school facilities                 | Improved school attainment levels, improved school leaver destinations into employment and HE/FE       |

It is important that the outputs and outcomes are accurately estimated. A number of sources can be used to estimate the scale and timing of outputs and outcomes, including:

- project specific information, such as a business plan;
- comparable interventions;
- consultation with experts;
- standard ratios, such as, floorspace to employment density by use (see, for example, HCA (2010), Employment Densities Guide – 2<sup>nd</sup> Edition);
- specific research; and
- previous evaluation results.

Care should be taken to ensure that there is no doubling counting between the output and outcome indicators used. For example, if the number of jobs created has been weighted to allow for the wider benefits arising from the high skill level attached to these jobs, this should not be added to a regional Gross Value Added (GVA) measure that already takes into account the same benefit.

H.M. Treasury has published work on the tendency for project appraisers to be overly optimistic (referred to as optimism bias) and to redress this tendency appraisers should make explicit, empirically based adjustments to the estimates of an intervention's costs, benefits and duration. Further guidance on optimism bias can be found in Section 5 of the Green Book and in DDCLG's (2007) optimism bias guidance note.

## 2.3 Relevance by intervention type

All of the key concepts described in Figure 2.2 are relevant when it comes to considering the employment or other economic outputs generated by an intervention. However, not all interventions are designed solely to generate employment or economic outputs and outcomes. Interventions vary considerably in the outputs and outcomes they produce depending on whether they are targeted on local economic development issues relating to housing, crime, health, education or a wide range of other service areas. Whilst the net additionality of all intervention outputs and outcomes should be considered, it should be borne in mind that the applicability of the key concepts depends on the intervention type and category, as well as the individual project itself. Table 2.2 below examines for a range of different interventions when it is likely that each of the key additionality concepts (leakage, displacement, substitution, multipliers and deadweight) discussed previously may need to be addressed.

| Table 2.2: Assessing additionality of outputs by intervention type |                           |                       |                                                                                                                                                                                            |                                        |                                                                                                                                                                        |                             |
|--------------------------------------------------------------------|---------------------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Intervention type                                                  | Intervention category     | Leakage               | Displacement                                                                                                                                                                               | Substitution                           | Multiplier effects                                                                                                                                                     | Reference Case (Deadweight) |
| Housing                                                            | Social<br>Economic        | Always need to assess | May be displacement within housing market                                                                                                                                                  | May be relevant                        | May exist depending on local labour and materials used in construction. Generally not likely to be relevant except as part of long-term development multiplier effects | Always need to assess       |
| Commercial development                                             | Economic                  | Always need to assess | May be displacement within commercial property market                                                                                                                                      | May be relevant                        | Relevant to employment, investment and income associated with construction phase and occupation of the premises.                                                       | Always need to assess       |
| Transport                                                          | Economic<br>Environmental | Always need to assess | May, for example, affect modal split                                                                                                                                                       | Not likely to be relevant              | May exist depending on local labour and materials used in construction. Also relevant to induced effects.                                                              | Always need to assess       |
| Environmental improvement                                          | Environmental             | Always need to assess | Not likely to be relevant                                                                                                                                                                  | Not likely to be relevant              | May exist depending on local labour and materials used. Generally, not likely to be relevant                                                                           | Always need to assess       |
| Business support                                                   | Economic                  | Always need to assess | Displacement may arise in relation to private sector business support (e.g. banks) and product and factor market displacement                                                              | May be relevant                        | Relevant to employment, investment and income                                                                                                                          | Always need to assess       |
| Community & social                                                 | Social                    | Always need to assess | May be relevant                                                                                                                                                                            | Not likely to be relevant              | May be relevant, depends if local labour and materials used                                                                                                            | Always need to assess       |
| Crime prevention & community safety/Health                         | Social                    | Always need to assess | Not likely to be relevant, although crime may be shifted elsewhere. This is a different form of displacement, which should be described and, where practicable, quantified in an appraisal | Not likely to be relevant              | May be relevant depending on local labour and materials used                                                                                                           | Always need to assess       |
| Training                                                           | Economic                  | Always need to assess | May result in displacement of other provision                                                                                                                                              | May be relevant-substitution of labour | May be relevant                                                                                                                                                        | Always need to assess       |

## 2.4 Target area or group

The level of additional outputs and outcomes of an intervention will depend, in part, on the area or focus of analysis. Thus, for example, the level of economic linkages – and therefore multiplier effects – will be greater if a larger spatial area is being considered. As a result, when appraising an intervention the spatial level and target group within that area against which the intervention is being assessed must be clearly specified. They should relate directly to the identified need (the rationale for intervention) and be wide enough to take into account spill over or unintended effects on other groups, areas or markets.

It is quite common in project appraisals to consider effects at different spatial levels. The four most often used geographical levels are: site, local/wider areas and national. However, in other cases a specific policy priority area may be the appropriate level. Many project appraisals unless tasked otherwise concentrate on the site and local/sub-regional level. The appropriate target area should be assessed by thinking about the project rationale and objectives, the policy context and who is expected to be affected. For interventions like a website or portal, the target area of benefit could be region-wide or national.

The issues associated with each of the four spatial levels are as follows:

### **Site**

The site level is the immediate vicinity of the intervention. Very few interventions should be assessed only at the site level, as it is rare that the costs and benefits will be concentrated in the actual area of physical activity. Even for very small interventions, for example, a scheme to reclaim a fly tipping area for recreational use, the benefits will be much wider than just the improved visual amenity of the site itself. The area of benefit could be within, say, a one-mile radius of the site if this is the distance users will travel to make use of the facility.

### **Local/sub-regional**

The impact at the local level would be assessed to determine the effect on local populations or markets. For interventions that are expected to have sub-regional impacts the intervention may, for example, need to be appraised at the single or multiple local authority / Local Enterprise Partnership level depending on the spread of the costs and benefits.

The local level for interventions that generate employment effects or other economic benefits is often considered to be within the relevant travel to work area or if this is not appropriate then a 10-15 mile radius of the site concerned if it is a physical development. The precise delineation will depend on the density of the settlement pattern in relation to the location of people and business activity. For very rural areas it is usually more. For very urban areas it might well be less.

### **Wider areas**

For interventions which are intended to have wider area (for example, regional) impacts this is the level at which the costs and benefits should be measured. These will typically be very large interventions, which generate outputs that significantly add to the stock of these types of outputs at a regional level. Given these regional impacts it would also be necessary to assess the impact of the intervention at a sub-regional and possibly even local level as the impacts (costs and benefits) may positively or adversely affect local populations or markets.

### **National**

Few interventions are likely to be considered at the national level as the costs and benefits of an individual project are unlikely to be of such quantity that they would change the position of a target group or market on such a large scale or wide geographical area. An intervention would have to deliver tens of thousands of homes or jobs and/or millions of square metres of commercial floor space before its impact at the national level would have to be assessed.

When choosing the target group and spatial area for appraisal it may appear cheaper and easier to use people classifications or geographic areas for which there is existing data. However, if this does not accurately reflect the specific intervention target group or area then the measurement of the intervention's outputs and outcomes both at the appraisal and the evaluation stage will be made more difficult, if not impossible. For example, for an intervention designed to improve housing conditions at the very local level of a large housing estate, it may be tempting to use existing local authority data on housing satisfaction at the district level to act as a baseline. Then subsequent years' data could be used for monitoring purposes because it is cheap and readily available. However, it will not enable a real measure of the outputs and outcomes of the intervention to be assessed because the more local experience, which could be better or worse, may not be discernible at the district level. It is often better to supplement existing data by further analysis or carry out additional surveys to obtain information that directly corresponds to the target group or target area.

Having thought through and clearly identified the target area and group, when measuring additionality it is worth noting that the level of displacement and size of the multiplier effect are likely to vary with the size of the area under assessment. The larger the area over which the benefits of the programme are being analysed, generally the higher will be:

- the level of displacement: because there is likely to be a greater number of enterprises/organisations providing the product or service that the intervention is seeking to provide and with which it will be competing. A high level of displacement will reduce the number of additional outputs/outcomes.
- the size of the multiplier effects: these are likely to be greater as there are more opportunities for economic linkages in terms of suppliers and local expenditure than there are in a smaller geographical area. Larger multiplier effects will increase the number of additional outputs/outcomes.

The level of leakage from a target area will often be lower as the target area grows, since there are likely to be a greater number of target beneficiaries able to access the target outputs. It is also worth noting that interventions located on the boundary of an area designed to tackle spatial areas or groups are likely to suffer from higher levels of leakage than the same interventions more centrally located. This is because intervention benefits are likely to be more easily accessed by those in adjacent locations. As noted above, careful consideration needs to be given to what is the appropriate target area and group. A low level of leakage is desirable as, all things being equal, it will increase additionality and give better value for money. Moreover, it is important that each additionality factor should be calculated using the same target area or group.

## 2.5 Time period for the appraisal

The time period over which you are appraising the intervention should be set out and the reason for selecting it made clear. Normally the period chosen should be sufficiently distant to include all important costs and benefits. For physical assets it will usually extend to cover its useful lifetime. The residual value of any asset at the end of the appraisal period would need to be included in the appraisal.

Often the achievement of desired outcomes will occur only after many years following the project implementation. Outputs, on the other hand, will normally be produced earlier on.

For example, reclamation of a brownfield site for housing development could generate five hectares of reclaimed land in years one and two of the intervention and 100 housing units and 10,000 sq m of commercial floor space in years three and four with no further outputs from year five onwards. However, the outcome of a thriving community may not occur until, say, year ten or later.

In assessing the effect of an intervention one of the issues that will need to be considered is whether activity is likely to happen sooner than would otherwise be the case. For example, the intervention of the public sector may enable a project to be implemented at an earlier date. As a result, the intervention option may not only generate additional outputs compared to the reference case, but also bring forward the achievement of the target outputs. In some cases, interventions may principally be concerned with accelerating the delivery of outputs and outcomes.

To take account of time additionality, **discount factors** can be applied. Discounting involves reducing future costs and benefits to reflect the fact that society places greater value on costs and benefits that arise sooner rather than later. This provides a present value (i.e. the value that is placed on them today) of costs and benefits. In practice only interventions with a cost/benefit profile that extends over a number of years (say three or more) are usually subject to discounting.

In addition, the impacts of an intervention or policy will often change over time. Take a housing clearance and redevelopment project. During the early period there may be negative effects, due to demolition and the relocation of residents, although there could be employment opportunities in the construction industry. The main outputs and outcomes associated with new homes and communities will only occur later on.

## 2.6 Persistence of outputs and outcomes

As part of considering the time period for appraisal, it will also be important to form a view as to the persistence of the outputs and outcomes of an intervention. That is establishing the extent to which benefits persist over time is a crucial part of any assessment of overall impact. In particular, if the present value of the benefits is to be calculated, this will necessitate assumptions being made about the time profile of the impacts expected to be generated. Moreover, where the persistence of benefits would differ between varying potential options, it will be important to take account of this within the project appraisal.

The persistence of outputs and outcomes will depend on the capacity of the individual/s or organisation/s involved to sustain the impacts of an intervention. The level of persistence will also vary between different types of project. Estimates of persistence for a range of project types were produced by PriceWaterhouseCoopers (PwC) as part of their evaluation of the impact of Regional Development Agency interventions (see Section 5.3.11). These vary from between 2 to 10 years, although it should be noted that the persistence related to some intervention types could be much longer. For example, the economic life of an asset such as housing would normally be expected to be around 60 years. The DCLG paper on valuing the benefits of regeneration (DCLG, 2010) also identifies persistence effects for different types of project. In addition, consideration should be given to the potential for benefits to diminish over time, as opposed to remaining constant (i.e. whether there is any decay in the persistence effects).

Currently, there is limited evaluation evidence on the issue of persistence, and it will be important that longer term monitoring is built into projects such that this weakness can be addressed. The collection of primary beneficiary data should be explored as the basis for estimating persistence. However, this is not always feasible, particularly at the appraisal stage where it is not always clear who the specific beneficiaries will actually be. Nevertheless, effort should be made to understand the ability of the individual's or organisation's involved to sustain benefits into the future.



## 2.7 Quality of outputs and outcomes

The traditional emphasis in many assessments of additionality has been on quantitative indicators, such as the number of housing units produced by an intervention. However, in many cases these quantitative measures will not take sufficient account of the qualitative differences between intervention and reference case options. In addition, an intervention may deliver higher quality outputs and this needs to be reflected in the additionality assessment. Therefore, it is important that the qualitative effects are also assessed.

There are three main approaches to assessing additionality in qualitative terms:

- (i) **minimum thresholds** – in other words to only count gross direct outputs that exceed a minimum quality standard. Thus, for example, only housing units that meet decent homes standards may be counted as an output. Public sector support may be offered to assist the delivery of enhanced design or environmental standards. Say 100 units would be delivered to this standard under the intervention option and none under the reference case. On this basis, the gross direct housing units would be 100 under the intervention option and zero under the reference case.
- (ii) **weighting the outputs/outcomes through a scoring assessment** – where differences in the quality of outputs arise it may be appropriate to weight the outputs according to a scale, which reflects the quality aspects. Quality adjusted net additional outputs can then be more easily compared across options. As the quality of the jobs will often be affected by a consideration of what type of outcomes are needed in an area it is not possible to propose a standard scale. For example, the public sector sometimes has the opportunity to bring on board the private sector at different stages of an intervention's development and thus generate greater or lesser amounts of private sector investment. This is often a desired intervention outcome. However, earlier and greater investment by the private sector might, for example, lead to the same number but lower quality outputs and outcomes. In these cases, an explicit adjustment would be needed to weight the higher quality outputs associated with a public sector only option to ensure that like was being compared with like. The weighted outputs under the various delivery options would then be used to calculate the cost per unit of adjusted output/outcome and be taken into account in the value for money assessment.
- (iii) **valuing the outputs/outcomes** – in some cases, outputs are traded and have a market value. These values can be used in calculating the additional impact of an intervention. One obvious example is where consideration is being given to an intervention, which produces a rather low number of net additional jobs, but these jobs are qualitatively different from those that would arise in the reference case. Often the wage will approximate many of the quality characteristics of the jobs. Therefore, the level of net additional earnings (or Gross Value Added) can be calculated for each option and compared. However, this would not be appropriate if the rationale for an intervention was to create accessible employment for low skilled, disadvantaged individuals. In other cases (for example, many social or environmental outputs), valuing a non-marketed commodity is difficult. There are a number of potential techniques available to do this, such as contingent valuation and hedonic pricing, but these are often methodologically complex and can be expensive to apply. When valuing benefits (both those with a market value and those that are a non-marketed commodity) it is recommended that a value is attributed to the output once it has been adjusted to take account of each additionality factor. In other words, the valuation should be applied to the net additional benefits. Further guidance on valuing benefits is provided within the HCA's summary cost-benefit analysis guide (HCA, 2011) and DDCLG's paper on valuing the benefits of regeneration (DDCLG, 2010).

A number of examples of how to assess quality additionality are set out in Section 5.3.11.

## 2.8 Agglomeration effects

The term agglomeration refers to the concentration of economic activity over an area. Empirical evidence demonstrates that the level of agglomeration affects the productivity of firms and workers in an area, even after controlling for characteristics specific to firms and workers in that area. As identified within the BIS/Cambridge Economic Associates (CEA) research into improving the assessment of additionality, the three main sources of agglomeration benefits are: input externalities arising from the co-location of companies and their input suppliers; labour market externalities resulting from the geographic concentration of workers with relevant, specialised skills; and knowledge externalities that occur from companies in close proximity being better able to share and exchange relevant knowledge (BIS 2009a).

The potential to augment the assessment of additionality to account for agglomeration effects has been considered as part of BIS/CEA research. This explores the appropriateness of including a multiplier that captures agglomeration benefits. However, the scale of agglomeration benefits can be difficult to determine. They will vary significantly, for example, depending on the location of an intervention and the industrial composition of the companies involved. There is also limited good quality data upon which to base estimates of agglomeration effects, although new research findings are emerging. Furthermore, with any given intervention, there is likely to be some uncertainty in terms of the extent to which agglomeration effects extend beyond a localised geography and, for instance, the degree to which benefits may be offset by factors such as increased congestion.

Based on the uncertainty surrounding agglomeration effects and the desire to avoid over-estimation of benefits, the BIS/CEA research recommends that 'it would seem sensible to proceed with caution and avoid any mechanical application of yet further multipliers to the calculation of net additionality at the local level.' However, for large scale projects that involve sufficient investment to alter the industrial composition of an area, an allowance for agglomeration effects may be appropriate. Infrastructure investment, particularly in relation to transport, is also a form of intervention that has the potential to result in significant agglomeration benefits. For example, transport can act to increase the accessibility of an area to a greater number of firms and workers, thereby impacting on the level of agglomeration externalities. Guidance on assessing the agglomeration impact associated with transport interventions is provided as part of the Department for Transport's (DfT's) WebTAG (see DfT, 2009).

## 2.9 Delivery structures

Many interventions now involve the use of loans and land instruments, rather than grants. This means that the direct involvement in projects may be over a longer time period and that the public sector is expecting to receive a financial return or receipt. This will clearly affect the analysis of public sector costs and thus the appraisal of value for money. However, it would not in most cases affect the way in which the additionality of the outputs and outcomes is assessed. In some cases it may, for example, have an impact on the persistence of benefits if the delivery structure ensures that an activity continues for longer than it would have done if the nature of the intervention was different.

## 2.10 Maximising additionality

Interventions should be designed (or re-designed) so that their additional impact is maximised. It is unlikely that 100% additionality could be achieved, as not all factors will be within the control of the project developer.

The additionality of an intervention should be considered from the earliest stages of an intervention's development so that where possible leakage, displacement and substitution

are minimised and potential multiplier effects are maximised (see Box 2.2 below). Wherever possible, interventions should be designed to maximise additionally (or “design-out” non-additionality).

**Box 2.2: Maximising additionality**

**Example 1:** A project to provide new housing for key workers could minimise leakage if only those on an approved list are allowed to occupy the homes.

**Example 2:** A housing project will reduce the scale of displacement if the type of accommodation provided is designed to meet demand that is not being met by the private or public sector.

**Example 3:** A project aimed at providing specialist business advice to new start-ups in a specific area could reduce the amount of leakage by setting out eligibility criteria based on the project objectives. These might, for example, include target area and size of turnover and/or number of employees per company.

**Example 4:** A project aimed at increasing the computer skills of local people could minimise displacement by checking that there are no other providers of similar training courses either within or outside the target area that the target beneficiaries would be able to access.

**Example 5:** A project to assist a large company to locate in a particular area aimed at increasing employment opportunities for local people could maximise the multiplier effects by putting in place local procurement and local supply chain development initiatives.

**Example 6:** A project aimed at providing community facilities in a particular spatial area could restrict bookings to activities that benefit the target population and thus reduce leakage of benefits.

## 3 The reference case (assessing deadweight)

### 3.1 Overview

The reference case is the position in terms of target outputs and outcomes that would occur at the end of the intervention life if the intervention was not implemented. The quantification of outputs and outcomes under the reference case is referred to as deadweight.

The reference case is a dynamic concept and involves judgement about, amongst other things, the economic, social and environmental trends or events that are planned or are thought likely to happen over the intervention period (but assuming the intervention did not go ahead). The forecast reference case can be better or worse than the existing position (known as the baseline position) depending on the view taken of what economic, environmental or social changes will take place over the intervention period.

It is not an easy task to estimate what would happen in the future if the intervention did not go ahead and the longer the appraisal period the more difficult it is to predict with any degree of accuracy what might happen to the target outputs/outcomes compared to the baseline position.

This section sets out the issues that should be considered when assessing the baseline position and modelling the future reference case scenario. It discusses the evidence from evaluations and sets out the key question that needs to be answered in relation to deadweight.

### 3.2 Measuring the baseline position

An early and key step in carrying out an appraisal is to measure the baseline position and trends. The baseline is the state of the economic, social or environmental context at the beginning of the intervention period. This is usually described quantitatively but, depending on the nature of the intervention, can often also involve qualitative descriptions of important features. An assessment of the policy context will also normally form part of a baseline assessment.

Interventions designed to address economic and social problems, such as new housing for key workers, will need to review a wide range of quantitative and qualitative baseline and trend indicators, including market and housing need information. Interventions with economic objectives will generally focus on describing the 'economic state' of the target group or area in terms of the level of employment, unemployment, skills, job vacancies and industrial classification of employers in the travel to work area. Interventions designed to promote community capacity building would draw on socio-economic statistics but are also likely to describe the existing infrastructure and agency relationships and other capacity indicators such as attendance at community events.

### 3.3 Assessing the reference case

The starting position for making an assessment about the likely reference case is to identify all of the factors that will influence the target outputs and outcomes. For different types of outputs/outcomes different factors will be relevant.

Amongst the factors that may need to be considered are the following:

- likely changes in social, economic and environmental variables;
- the nature of the activity being considered;
- evidence from past changes in the local and comparator areas;

- the extent of market failure in the area concerned;
- impacts of health and safety, legal or other statutory requirements; and
- impacts of other relevant existing and/or planned investments/policies by the private or public sector.

Considering the impact of these contextual factors on the target outputs and outcomes will enable a reference case to be developed.

For a development project, particular attention should be paid to the assessment of the reference case when a site has a particular land-use planning allocation. Where the intervention involves the use of land, the planning context is likely to be an important consideration in determining the reference case. Where, for example, the planning authorities have made it consistently and unambiguously clear that housing development will not be permitted then it is not realistic to suggest that a piece of land proposed in the intervention option to be used for commercial development will have as its reference case a residential use option. However, a planning allocation in itself does not warrant the allocation becoming the reference case. A market assessment or other evidence which shows that the site is likely to be developed for such a use is needed. Each case has to be judged on its own merits.

The best approach to estimating the scale of target outputs and outcomes under the reference case will normally be to construct a detailed 'do nothing' or 'do minimum' (for example, health and safety requirement or statutory obligations) option. This will present what you think would have happened anyway without the intervention, based upon a reasoned case with supporting evidence. Where it is not possible for reasons of proportionality/resources or data limitations to construct a detailed reference case then it is possible to use an estimate of the proportion of activity that would have occurred anyway. Scottish Enterprise's 'Additionality and Economic Impact Assessment Guidance Note' sets out a guideline range of values for deadweight, as a percentage of the gross direct effects of the intervention option, as follows: none - 0%; low - 25%; medium - 50%; high - 75%; and total - 100%. These ready reckoners should only be used where better quality data is unavailable.

It is sometimes seen as convenient and perhaps conceptually easier to assume that nothing would happen if an intervention did not go ahead. However, it is highly unlikely that the current situation (the baseline position) will remain unchanged over the chosen appraisal period. The variables that affect local sustainable development are numerous and constantly changing. Robust justification would be needed to assume that the baseline and the reference case were the same.

When assessing the additional impacts of an intervention, care has to be taken that like is compared with like. Thus, the gross direct outputs and outcomes generated under the reference case must be adjusted for displacement, leakage and multiplier effects, where relevant, to arrive at a total net local reference case. The total net local impacts of the reference case are then deducted from the total net local effects of the intervention options to provide an estimate of their net additional impacts. Linked to this is the treatment of the costs associated with the reference option. In some cases this may be zero where there is no public sector intervention. Where the reference case is a do minimum and there is a cost involved this cost should be subtracted from the intervention cost option to arrive at a marginal cost. For example, if the intervention option costs £10 million and the reference case £2 million, the marginal cost is £8 million. The net additional outputs should be considered in relation to the gross and net marginal public sector cost in the value for money assessment.

Table 3.1 opposite sets out a worked example of estimating the reference case – explaining the assumptions used to appraise an intervention aimed at providing key worker housing over five years. Under the reference case, additional housing is expected to be 50 units based upon historical data and the expectation that the trend is likely to

continue or improve slightly due to housing pressures. Consideration of the remaining additionality factors, based on an assessment of the social, economic and physical context, reduces this gross direct output from 50 housing units to 20 housing units likely to be provided and occupied by key workers.

| <b>Table 3.1: Establishing the reference case for key worker housing</b> |      |                                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------------------------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                          |      | <b>Basis for assumption</b>                                                                                                                                                                                                                                                                                                                 |
| Gross direct housing units                                               | 50   | Local authority data shows that 10 housing units on average have come forward per annum in the target area over the last 5 years                                                                                                                                                                                                            |
| Less estimated leakage                                                   | - 30 | The latest Census of Population results show that approximately 40% of those in employment in the area are employed in key services. Previous evidence has been that the proportion of key workers accessing new housing has been broadly similar to this. The project does not place any restrictions on the characteristics of occupiers. |
| Gross local direct effects                                               | 20   |                                                                                                                                                                                                                                                                                                                                             |
| Less displacement                                                        | 0    | There is little opportunity for new developments that are accessible to key workers. Displacement is thus expected to be minimal.                                                                                                                                                                                                           |
| Net local direct effects                                                 | 20   |                                                                                                                                                                                                                                                                                                                                             |
| Plus multiplier effects                                                  | 0    | Whilst there may be economic benefits in terms of additional income and jobs arising from the use of local labour and materials in the design, construction and fit out of the new housing this is unlikely to lead to further new housing                                                                                                  |
| Total net local effects under the reference case                         | 20   |                                                                                                                                                                                                                                                                                                                                             |

### 3.4 Evidence from evaluations and research

Estimates of the level of activity that would have happened anyway are now made as a matter of routine in most evaluations of local economic growth and housing initiatives. There is thus a considerable body of evidence to refer to. The level of deadweight varies considerably across programmes reflecting the nature of the activity and the local economic circumstances.

Research undertaken on behalf of BIS by CEA has identified deadweight estimates for a range of intervention types (see Table 3.2). This research is based upon evaluations of economic development and regeneration interventions, particularly evidence gathered through the independent assessment of the impact of the spending of the now abolished nine English Regional Development Agencies.

| <b>Table 3.2: Deadweight factors by type of intervention – BIS/CEA guidance</b> |                            |                        |
|---------------------------------------------------------------------------------|----------------------------|------------------------|
|                                                                                 | <b>Sub-regional (mean)</b> | <b>Regional (mean)</b> |
| All observations                                                                | 39.5%                      | 43.0%                  |
| Business development & competitiveness                                          | 47.2%                      | 45.5%                  |
| Regeneration through physical infrastructure                                    | 7.5%                       | 33.9%                  |
| People and skills                                                               | 26.3%                      | 39.4%                  |

Note: a more detailed breakdown by project type is contained within the BIS/CEA guidance

The Final Evaluation of City Challenge (2000) identified a range of estimates of deadweight for different intervention types, including an allowance for the effect on the timing and scale of activity. The estimates of the level of deadweight were based upon two key sources - a beneficiary survey and programme and project manager consultations. Table 3.3 shows the deadweight estimates by intervention type. The assessment highlights that significant differences - for example, in relation to housing - can occur in the estimates by source.

| <b>Table 3.3: Estimated deadweight – City Challenge</b> |                                                                      |                                                    |                        |
|---------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------|------------------------|
| <b>Intervention type</b>                                | <b>Programme and Project Manager survey-based estimate (average)</b> | <b>Beneficiary survey-based estimate (average)</b> | <b>Overall average</b> |
| Development schemes                                     | 40%                                                                  | 16%                                                | 28%                    |
| Housing                                                 | 41%                                                                  | 10%                                                | 26%                    |
| Transport                                               | 37%                                                                  | 12%                                                | 24%                    |
| Environment and amenity space                           | 39%                                                                  | 21%                                                | 30%                    |
| Business support                                        | 15%                                                                  | 36%                                                | 26%                    |
| Training and access to labour market                    | 16%                                                                  | 15%                                                | 15%                    |
| Community and social                                    | 23%                                                                  | 15%                                                | 19%                    |
| Crime prevention                                        | 21%                                                                  | 16%                                                | 19%                    |
| Health                                                  | 30%                                                                  | 23%                                                | 27%                    |
| <b>Average across intervention types</b>                | <b>31%</b>                                                           | <b>17%</b>                                         | <b>24%</b>             |

Source: the, then, Department of the Environment, Transport and the Regions (DETR) (2000)

Evidence from a review of Neighbourhood Renewal Fund projects, shows relatively low levels of estimated deadweight (see Table 3.4). This is, in particular, due to the nature of the programme.

| <b>Table 3.4: Estimate of deadweight – Neighbourhood Renewal Fund</b> |                         |
|-----------------------------------------------------------------------|-------------------------|
|                                                                       | <b>Evaluator's view</b> |
| Crime                                                                 | 18%                     |
| Education                                                             | 19%                     |
| Health                                                                | 18%                     |
| Housing and environment                                               | 24%                     |
| Worklessness                                                          | 20%                     |
| Other (including community)                                           | 23%                     |
| <b>Average</b>                                                        | <b>20%</b>              |

Note: Unweighted averages

Source: AMION Consulting (2007)

### 3.4.1 Key question

The key question that needs to be answered in terms of deadweight is:

***What level of outputs and outcomes would happen anyway without the intervention?***

The possible sources of information to answer this question include:

- evidence from past changes in local and comparator areas;
- assessments of forecast market, economic and demographic trends;
- local policies and strategies; and
- evidence from previous evaluations and research.



## 4 Adjusting the reference case and intervention options

### 4.1 How to assess the additionality of each option – the factors explained

The Guide now goes on to consider leakage, displacement, substitution and multiplier effects in turn. For each type of effect we set out:

- (i) a simple definition
- (ii) a description of the factors influencing its scale. As we have already seen the size of the target area or area of benefit will significantly affect the various factors
- (iii) a review of the various approaches available to estimating the scale of each factor
- (iv) a brief review of the evidence available from evaluations and other research
- (v) a ready reckoner – which simplifies the process of assessing the net additional impacts by providing a series of estimates of the scale of each effect. However, project specific information should always be used in preference to the ready reckoner, where it is available. In addition, evidence should be presented in an appraisal to justify the ready reckoner impact selected for each effect. The ready reckoner should never be used without reference to the project context. Where there is uncertainty, it may be helpful to use ranges.
- (vi) the key questions to ask as part of a project appraisal in order to assess each factor

Each of the additionality factors will need to be applied to both the reference case and intervention option, so that the net additional impact can be calculated (see Section 5).

### 4.2 Leakage

#### 4.2.1 Definition

##### **Leakage**

The proportion of outputs that benefit those outside of the intervention's target area or group.

The target beneficiaries for many local economic growth and housing interventions are individuals, organisations or businesses who form a formal or informal group, based on a shared characteristic or characteristics. For individuals these characteristics may, for example, include key worker status, graduates, ethnic minority, gender and/or employment status. Frequently interventions are also designed to benefit groups and/or individuals living in a particular location/community or those in specific industries or with or without particular skills. The latter may or may not share other personal characteristics. Not all projects will have solely economic efficiency-type aims. Many will be focused on achieving redistributive objectives. Adjusting for leakage will help to ensure that the calculation of net additional impact takes account of these redistributive concerns. As such, leakage is used to make some allowance for distributional issues.

Given the range of local economic growth and housing type interventions and the contexts in which they are implemented, assessing the extent of benefit or output/outcome leakage is often not straightforward. A number of complex and inter-related issues need to be addressed, including:

- Users and beneficiaries: there are cases where the output/outcome under consideration may relate to the usage of a facility. In some cases the users and beneficiaries will be the same – for example, the users of a community facility. In others the target beneficiary may be indirectly related to users. The latter may include the number of tourists visiting a new facility, where the beneficiaries are local people gaining jobs as a result of visitor expenditure.
- Multiple target beneficiaries: many interventions will seek to benefit a range of beneficiary groups. For example, a new business incubator may wish to encourage graduates into employment and also to generate employment opportunities for disadvantaged local residents. The leakage rates for these would be different.
- Leakage of physical outputs: many appraisers have found it conceptually difficult to understand how leakage can relate to physical asset, such as commercial floorspace developed. Where users are from outside of the target group there is logic in reducing the floorspace claimed as being additional. However, this has not normally been done.
- Is the area or the individual the target? For example, how far is it the objective of relevant local policies to improve the lot of people who live in the area and how far to reduce the deprivation of the area? Thus, an appraiser would need to determine whether, if a resident secures employment as a result of the intervention and relocates, this is leakage or not.
- Sources/evidence for estimated leakage for geographic areas or target groups: the sources/evidence to inform an assessment of the level of leakage associated with a geographic area or a specific target group are different. In the case of the former leakage will usually relate to the place of residence of the beneficiary – for example, whether the person gaining a job lives within or outside of the target area. For jobs this can be informed by secondary source evidence on travel to work patterns. However, for specific target groups the sources upon which to make evidence-based judgements will often be less readily available. As such, in many cases, they will need to be drawn from project specific information (such as the project business plan), analogous interventions (where data is available), or primary research.
- Leakage implies that no value is attached to benefits that accrue to non-target beneficiaries: where interventions are concerned with distributional issues this can be argued to be logical. However, where the rationale relates to a market failure argument and therefore economic efficiency it is not obvious why these potential benefits should be discounted, although this may relate as much to how the beneficiary group is defined. The positive and negative impacts on other areas or groups should also be considered in an appraisal.
- Leakage in relation to outputs and outcomes: the leakage of benefits from target groups is likely to be relevant to all outcomes, but as the above discussion demonstrates, can be more of an issue in relation to outputs.

Past experience has been that leakage has been reasonably consistently applied in relation to employment outputs/outcomes. However, it has either not been applied or has been applied inconsistently in relation to other output/outcome areas. In view of the importance of targeting particular beneficiaries in relation to local economic growth and housing interventions, this guide recommends that leakage be applied consistently to all outputs/outcomes, including outputs such as the number of houses developed. As such the precise definition of the intended beneficiaries is a key part of the additionality assessment and project appraisal more generally. Where there is no specific target beneficiary then leakage will be zero. Thus, for example, if the objective is to increase

take-up of homes in an area and it does not matter who the occupiers are, then no leakage will occur in this case.

However, as with the other components, the level of analysis and resource devoted to assessing leakage should always be related to the nature of the investment. Thus, a novel, contentious, repercussive, large and/or complex intervention will require more effort, as will one where distributed effects are a particularly important objective.

#### 4.2.2 *Examples of potential leakage effects*

The potential benefits of an intervention may be lost to an area or group in a number of ways and the following discussion considers the ways in which leakage may occur and may need to be assessed for a variety of intervention types.

##### ***(i) Housing***

Interventions designed to provide new or refurbished housing units will normally need to consider the possibility of leakage. The key issue is the relationship between the character of the occupier and the target group. Where the housing units have been built with the intention of providing residences for particular groups or people from a particular area and it is possible that these intended beneficiaries will not take up the accommodation then leakage might occur and needs to be assessed.

Another form of leakage that might occur would be if existing local residents - who were the target beneficiaries - decided to "cash in" and move out of the area.

##### ***(ii) Commercial development***

This usually involves the reclamation or refurbishment of existing land or buildings or the bringing forward of new developments to provide increased capacity for commercial activity.

In terms of the beneficiaries of the building, this may be either the immediate users of the building, that is, the companies occupying space or those employed by the tenant companies. Where the rationale for the intervention is to create job opportunities for people in a particular area or target group and not all the space or jobs are likely to be taken up by those targeted, then leakage will need to be assessed. Similarly, if the development was brought forward with the intention of providing space for particular industry sectors or businesses at a particular stage in their development and the eligibility criteria is such that the possibility exists that these businesses or sectors do not use all the space then 'leakage' may occur and needs to be assessed. However, different leakage rates would apply if the target beneficiaries were both local residents gaining jobs and businesses within a specific sector.

Where a development takes place with no objective of attracting a specific group or sector and indeed is keen to attract newcomers to an area then leakage will be zero.

##### ***(iii) Transport***

Transport interventions designed to benefit particular areas or groups of individuals can also have leakage associated with the outputs and outcomes they generate. The important point is to be clear about the reasons why the intervention is to be undertaken and what is the target outcome. A new road built to improve access to an industrial area will not have leakage of outputs if the intention was purely to increase the uptake of development space on the site. However, if the primary objective was to increase uptake of jobs on the site by residents in a particular area then there is a likelihood that some leakage of benefits will occur and these will increase depending on how accessible the new road makes the site to non-target beneficiaries and whether their usage is at the expense of the target beneficiaries.

***(iv) Business support***

An intervention aimed at providing intensive business support to early stage, high-tech, start-ups in the bio-science sector located within a particular area, is, assuming the eligibility criteria for determining who can receive support are strictly applied, likely to have a very small amount of leakage associated with its outputs and outcomes. However, an intervention providing general business advice to an unspecified audience with the aim of generating jobs in a particular area is likely to have a greater degree of leakage associated with its activities as businesses may receive advice and generate jobs that do not go to target area residents or target groups.

***(v) Community and social***

Interventions aimed at improving the quality of life of a target group or those living in a particular area, such as provision of a community centre, playground or leisure facility may find it difficult to 'design out' all elements of leakage as it may be impracticable to develop or implement user policies that mean that non-target beneficiaries are excluded from using the facility provided. The level of leakage will depend on the degree to which access can be controlled. Other community interventions such as crèches or health centres have the potential to limit users more directly by allowing only those within a catchment/target area to register. Nonetheless, there is still the possibility of a degree of leakage as non-target beneficiaries may be able to benefit from literature/workshops/emergency provision offered by the Health Centre or other activities offered by the Crèche such as a summer play scheme. Where the Health Centre or Crèche serves an area wider than the target area, there is likely to be a high level of leakage. Again an important consideration will be the extent to which the usage by non-target beneficiaries is actually at the expense of use by target beneficiaries.

***(vii) Training/Education***

Training interventions can be developed with the objectives of improving skills and enabling trainees to gain a qualification. This can be aimed at the population as a whole, or, as is often the case the training will be targeted at a particular sub-set of the population - such as mothers returning to work, the unemployed, ethnic minorities, graduates, those working in a specific industry and those in a specified occupation. Training is also frequently targeted at those living in a priority area. Even for those interventions with a small target group it should be possible, in theory, to design out leakage with good project design and delivery using appropriate eligibility criteria, rigorously applied. In practice, of course, this is likely to prove difficult. Thus, the likelihood of non-target beneficiaries taking up training places should always be considered and the scale of potential leakage assessed.

**4.2.3 *Factors influencing the leakage effects***

The level of leakage will be influenced by factors such as:

- how accessible the intervention outputs are to people from outside of the target area or from outside of the target group. This will depend upon both road and public transport linkages, as well as policies to target usage:
- the nature of the output, such as new jobs, that will be created and the ability of local residents or a particular target group to access or to compete for these. In the case of jobs, for example, this would depend upon the skills of the target population. As an example, if an intervention created local employment in the retail sector, given the low required skills levels and low salaries associated with the sector, it is less likely that there would be significant interest in available positions from outside the local area. Coupled with this is the likelihood of their being a significant pool of suitable potential employees in the locality. Leakage would therefore be expected to be low. In contrast, the creation of higher quality jobs is

likely to lead to higher levels of leakage as they provide more incentive for people from outside the area to commute in order to access the employment opportunities; and

- the state of the economy in the target area - if the intervention is aimed at generating economic benefits and the economy in the target area is very buoyant with limited spare resources (labour, capital, etc) able to take up the opportunities offered by the intervention, then leakage may be high as capital and labour may have to be sourced from outside of the target area.

Interventions should be designed to limit the level of leakage. Thus, for example, development projects which will accommodate new employment opportunities, and where the objective is to increase local employment, will often need to be combined with a package of training support for local residents to ensure that they have the skills required by the businesses that will occupy the new developments.

#### 4.2.4 *Approaches to estimating leakage*

In order to estimate the likely level of leakage, information can be used from the following sources:

- published secondary sources, such as travel to work information;
- local business surveys undertaken by, for example, local authorities, will sometimes ask about the place of residence of employees. The local JobCentre Plus is also an important source of information upon which to draw;
- labour market studies again produced by, for example, a Local Enterprise Partnership may also include information on skills and travel to work flows;
- evaluations of previous programmes may have included estimates of leakage; and
- surveys/primary research.

#### 4.2.5 *Evidence from evaluations and research*

It is perhaps somewhat surprising that there is a relatively limited amount of research relating to the size of leakage effects. This undoubtedly reflects the difficult conceptual and measurement problems that exist in seeking to derive good estimates.

Research in the 1980s and 1990s into property driven regeneration initiatives (HMSO 1987, HMSO 1995A and 1995B) revealed that leakage effects depended heavily on the type of jobs created and thus the occupations of the people who got the jobs. Thus, the higher the number of managerial, professional and technical staff, the more likely it is that workers from outside the area targeted for regeneration would secure the jobs generated. Most other occupational groups had around 10% of staff recruited from outside the local area with the exception of skilled manual workers where the equivalent figure is around 20%. The study was also able to ascertain that in general companies in fairly deprived areas were filling about 40% of their vacancies from unemployed people in the local area.

The Final Evaluation of City Challenge (the, then, DETR, 2000) found that 38% of employees in businesses supported by City Challenge Partnerships lived outside of the City Challenge area and 11% outside of the local authority district.

Relatively low levels of leakage were identified through a review of Neighbourhood Renewal Fund projects (see Table 4.1) because the targeting of the interventions was effective.

| Table 4.1: Estimate leakage – Neighbourhood Renewal Fund |                  |
|----------------------------------------------------------|------------------|
|                                                          | Evaluator's view |
| Crime                                                    | 5%               |
| Education                                                | 9%               |
| Health                                                   | 9%               |
| Housing and environment                                  | 6%               |
| Worklessness                                             | 9%               |
| Other (including community)                              | 13%              |
| Average                                                  | 8%               |

Note: Unweighted averages

Source: AMION Consulting (2007)

Estimates of leakage have also been identified in the guidance on assessing additionality produced on behalf of BIS (see Table 4.2). The average (mean) leakage rate at the sub-regional level is 15.8%, compared to 11.3% at the regional level.

| Table 4.2: Leakage factors by type of intervention – BIS/CEA guidance |                     |                 |
|-----------------------------------------------------------------------|---------------------|-----------------|
|                                                                       | Sub-regional (mean) | Regional (mean) |
| All observations                                                      | 15.8%               | 11.3%           |
| Business development & competitiveness                                | 16.3%               | 11.5%           |
| Regeneration through physical infrastructure                          | 14.1%               | 10.4%           |
| People and skills                                                     | 13.5%               | 14.2%           |

Note 1: a more detailed breakdown by project type is contained within the BIS/CEA guidance

Note 2: Under the people and skills theme, the BIS/CEA average benchmark for leakage is higher at the regional level than the sub-regional level. This reflects that the averages calculated for each spatial level were not based entirely on the same set of projects. In reality, in relation to a given project you would expect the leakage rate to be lower at the regional level compared to the sub-regional level.

#### 4.2.6 Ready reckoners

Leakage effects can be assessed as follows:

| Table 4.3: Leakage |                                                                                                                   |         |
|--------------------|-------------------------------------------------------------------------------------------------------------------|---------|
| Level              | Description                                                                                                       | Leakage |
| None               | All of the benefits go to people living in the target area/the target group                                       | 0%      |
| Low                | The majority of benefits will go to people living within the target area/the target group                         | 10%     |
| Medium             | A reasonably high proportion of the benefits will be retained within the target area/target group                 | 25%     |
| High               | Many of the benefits will go to people living outside the area of benefit/outside of the target group             | 50%     |
| Very high          | A substantial proportion of those benefiting will live outside of the area of benefit/be non-target group members | 75%     |
| Total              | None of the benefits go to members of the target area/target group                                                | 100%    |

If leakage was anticipated to be very high (i.e. 75%) then only 25% of the intervention output (i.e. 100% – 75%) would be expected to benefit members of the target group or those living in the target area of benefit.

#### 4.2.7 Key Question - Leakage

In order to address the issue of leakage in an appraisal, the following questions need to be answered:

**Who are the target beneficiaries?**

**Are the outputs/outcomes likely to benefit non-target group(s) at the expense of the target group(s)? If yes, by how much?**

### 4.3 Displacement

#### 4.3.1 Definition

**Displacement**

The proportion of intervention outputs/outcomes accounted for by reduced outputs/outcomes elsewhere in the target area.

#### 4.3.2 Examples of displacement

Displacement arises where the intervention takes market share (called product market displacement) or labour, land or capital (referred to as factor market displacement) from other existing local firms or organisations. For example, an intervention may help a business to expand its operations. However, this business may take market share from other local firms producing the same goods or services, resulting in them losing trade and possibly staff. Alternatively, the supported business may use up scarce local factors of production (such as skilled labour) or bid up factor prices.

In terms of housing, a supported scheme may result in a decrease in demand in adjoining areas or elsewhere in the target area. Another longer term form of displacement could be the gentrification of an area, with low income residents being displaced. Displacement may also occur between tenures – for example, from private rented to social rented. In the latter case, issues such as the quality of accommodation would need to be considered in the appraisal.

Another form of displacement may occur if crime prevention initiatives cause criminal activities to happen elsewhere outside of the target area.

#### 4.3.3 Factors influencing the scale of displacement

The scale of displacement effects will vary depending upon the nature of activity supported and local markets. For example, if the supported business has few local competitors then the level of product market displacement will be low. In terms of factor market displacement, an intervention may result in an increase in demand for construction workers. If these are in short supply, the result may be delays to this or other interventions or an increase in costs.

#### 4.3.4 Approaches to estimating displacement

An assessment of the likely level of displacement can be informed by:

- **market analyses:** relevant local markets (including product, property and labour) will need to be carefully assessed;

- **surveys and studies:** some local business surveys will ask questions such as where are your competitors located and where are your main markets. This information can be used to inform an assessment of displacement; and
- **evaluations.**

#### 4.3.5 Evidence from evaluations and research

There is a considerable body of evidence concerning estimates of the scale of displacement associated with initiatives at the local and regional level. The level of displacement at the regional level (North East) associated with various business support activities is set out in Table 4.4. A high level of variation is evident.

| <b>Table 4.4: Displacement – Objective Two Business Support</b>                                          |             |                 |
|----------------------------------------------------------------------------------------------------------|-------------|-----------------|
|                                                                                                          | <b>Jobs</b> | <b>Turnover</b> |
| Generic business support                                                                                 | 49%         | 63%             |
| Access to finance                                                                                        | 19%         | 14%             |
| Targeted support (including new markets, technological development and support for sectors and clusters) | 42%         | 23%             |

Source: Regeneris (May 2006).

There is also evidence that smaller companies tend to be associated with higher displacement than larger companies. The reason for this is that small companies will have more tendency to trade a higher proportion of their output locally than larger companies (see, for example, the evaluation of TEC Delivered Services, HMSO, 1995).

The Final Evaluation of City Challenge assessed displacement for a number of intervention types. Displacement was considered to be low at the City Challenge level, but increased rapidly beyond the local area (see Table 4.5). The high levels of displacement at the county, region and UK level reflect the fact that City Challenge was concerned principally with redistribution, rather than removing major supply side constraints.

At the local level, displacement ranged from 8% for training and education and business support projects to 17% for commercial development schemes.

| <b>Table 4.5 : Displacement rates City Challenge</b> |                              |                                   |                 |               |               |           |
|------------------------------------------------------|------------------------------|-----------------------------------|-----------------|---------------|---------------|-----------|
| <b>Intervention type</b>                             | <b>Within City Challenge</b> | <b>Immediately adjoining area</b> | <b>District</b> | <b>County</b> | <b>Region</b> | <b>UK</b> |
| Development                                          | 17%                          | 21%                               | 38%             | 71%           | 89%           | 91%       |
| Housing                                              | 10%                          | 19%                               | 38%             | 84%           | 100%          | 100%      |
| Training and Education                               | 8%                           | 17%                               | 31%             | 77%           | 78%           | 80%       |
| Business support                                     | 8%                           | 19%                               | 31%             | 49%           | 75%           | 75%       |

Source: DETR (2000)

Note: Displacement/substitution in the case of Training and Education only applies to jobs created through training as opposed to qualifications gained.

The recent review of Neighbourhood Renewal Fund projects identified similarly low displacement rates to City Challenge at the local level (see Table 4.6). In relation to crime, displacement effects principally related to the adverse impacts of the intervention on levels of crime outside of the target area. The displacement effects in terms of education and health, on the other hand, were mainly concerned with the intervention replacing other public sector provision.



| Table 4.6: Displacement rates – Neighbourhood Renewal Fund |                  |
|------------------------------------------------------------|------------------|
|                                                            | Evaluator's view |
| Crime                                                      | 9%               |
| Education                                                  | 13%              |
| Health                                                     | 11%              |
| Housing and environment                                    | 15%              |
| Worklessness                                               | 13%              |
| Other (including community)                                | 7%               |
| Average                                                    | 11%              |

Note: Unweighted averages

Source: AMION Consulting (2007)

The research undertaken on behalf of BIS has set out a range of average (mean) displacement rates at the sub-regional and regional levels (see Table 4.7). An overall displacement rate of 21.5% at the sub-regional level is identified, compared to an average of 29.6% at the regional level.

| Table 4.7: Displacement factors by type of intervention – BIS/CEA guidance |                     |                 |
|----------------------------------------------------------------------------|---------------------|-----------------|
|                                                                            | Sub-regional (mean) | Regional (mean) |
| All observations                                                           | 21.5%               | 29.6%           |
| Business development & competitiveness                                     | 19.5%               | 29.3%           |
| Regeneration through physical infrastructure                               | 38.7%               | 37.4%           |
| People and skills                                                          | 17.9%               | 24.7%           |

Note 1: a more detailed breakdown by project type is contained within the BIS/CEA guidance

Note 2: Under the regeneration through physical infrastructure theme, the BIS/CEA average benchmark for displacement is lower at the regional level than the sub-regional level. This reflects that the averages calculated for each spatial level were not based entirely on the same set of projects. In reality, in relation to a given project you would expect the displacement rate to be higher at the regional level compared to the sub-regional level.

#### 4.3.6 Ready reckoners

In the absence of specific local information the level of displacement can be assessed as follows:

| Table 4.8: Displacement |                                                                                       |                     |
|-------------------------|---------------------------------------------------------------------------------------|---------------------|
| Level                   | Displacement                                                                          | Displacement effect |
| None                    | No other firms/demand affected                                                        | 0%                  |
| Low                     | There are expected to be some displacement effects, although only to a limited extent | 25%                 |
| Medium                  | About half of the activity would be displaced                                         | 50%                 |
| High                    | A high level of displacement is expected to arise                                     | 75%                 |
| Total                   | All of the activity generated will be displaced                                       | 100%                |

If the level of displacement was estimated to be low (i.e. 25%), then 75% of the outputs would be taken forward (i.e. 100% – 25%).

#### 4.3.7 Displacement and crowding out

There is often confusion between displacement effects and crowding out. The former relates to the impact of an intervention on other, normally similar, activities within the target area. The latter is concerned with macro-economic adjustments that result from an

intervention. Crowding out effects are normally only considered for very large interventions.

#### 4.3.8 *Key question - displacement*

The following key question needs to be answered:

***Will the intervention/option reduce existing activity from within (or outside) the target group or area? If yes, by how much?***

## 4.4 Substitution

### 4.4.1 *Definition*

This effect arises where a firm substitutes one activity for a similar one (such as recruiting a jobless person while another employee loses a job) to take advantage of public sector assistance. It can be thought of as “within firm” displacement.

### 4.4.2 *Examples of substitution*

Substitution is a very specific form of non-additionality that has in the past been largely subsumed within the displacement effect and as a result not considered sufficiently.

If a grant was introduced to encourage local employers to recruit long-term unemployed people, some employers may replace existing employees with new workers in order to secure the grant. Such substitution effects should be deducted in assessing the net output/outcome. However, care needs to be taken when assessing substitution effects if the target group are, for example, the long-term unemployed. In this case some degree of substitution may be considered acceptable.

Substitution has been an issue for wage subsidy programmes and work experience programmes. Employers have an incentive to dismiss unsubsidised workers and replace them with subsidised workers. A particular concern is that the finite duration of assistance could tempt employers to dismiss subsidised workers when subsidies run out and bring in a new cohort of subsidised workers.

Substitution could be an issue where the strategy is to persuade local employers to recruit more workers locally and fewer from outside the area. On the other hand, it might be argued that non-local workers could get other work anyway. However, it would be more of a concern if the attempt to increase local recruitment resulting in the new local workers taking the place of other local recruits.

Substitution could also arise in relation to other factor inputs such as land and property. A firm renting premises could, for example, take advantage of accommodation provided by the public sector at a reduced cost by relocating from its current building. In the case of a residential development, a developer could switch to undertake a public sector funded scheme, rather than an alternative scheme elsewhere in the local area. An individual could purchase a newly-built home, which was, in part, funded by the public sector, rather than acquire an older, existing property.

### 4.4.3 *Factors influencing the scale of substitution*

The scale of substitution effects will vary depending upon the nature of the activity supported, the degree to which substitution is an intended effect and the ability of recipients to engage in substitution where it is an unintended effect. Substitution will tend

to be larger, for example, where no controls have been established on recipients regarding the potential substitution activities.

#### 4.4.4 *Approaches to estimating substitution*

An assessment of the likely level of displacement and substitution can be informed by:

- direct questioning of recipients – on their expected behaviour;
- surveys and studies – of previous initiatives;
- evaluations – for example, the Department for Work and Pensions has commissioned a number of evaluations that have assessed the level of substitution associated with an initiative. A full discussion of concepts and their application can be found in report ESR 14, available via <http://webarchive.nationalarchives.gov.uk/http://www.dwp.gov.uk/jad/1999/esr14rep.pdf>;
- evidence from evaluations and research;

#### 4.4.5 *Evidence from evaluations and research*

There is a limited amount of research concerning the size of substitution effects. This is mainly due to, as noted, substitution often being subsumed within displacement. However, a range of substitution estimates are identified within the additionality guidance produced by BIS/CEA (see Table 4.9). These estimates are considered to be relatively low, which may be because many of the evaluations underpinning the BIS/CEA research did not fully assess the level of substitution as a separate factor to displacement.

| <b>Table 4.9: Substitution factors by type of intervention – BIS/CEA guidance</b> |                            |                        |
|-----------------------------------------------------------------------------------|----------------------------|------------------------|
|                                                                                   | <b>Sub-regional (mean)</b> | <b>Regional (mean)</b> |
| All observations                                                                  | 2.7%                       | 3.5%                   |
| Business development & competitiveness                                            | 2.7%                       | 3.4%                   |
| Regeneration through physical infrastructure                                      | -                          | 2.2%                   |
| People and skills                                                                 | -                          | 4.4%                   |

Note: a more detailed breakdown by project type is contained within the BIS/CEA guidance

#### 4.4.6 *Ready reckoners*

Where there is no specific information on substitution the following effects could be applied appropriately:

| Table 4.10: Substitution |                                                                                 |                     |
|--------------------------|---------------------------------------------------------------------------------|---------------------|
| Level                    | Substitution                                                                    | Substitution effect |
| None                     | No substitution takes place                                                     | 0%                  |
| Low                      | There are expected to be some substitution effects, although relatively limited | 25%                 |
| Medium                   | About half of the activity would be substituted                                 | 50%                 |
| High                     | A high level of substitution is expected to arise                               | 75%                 |
| Total                    | All of the activity would be affected by substitution                           | 100%                |

#### 4.4.7 Key question - substitution

The key question in relation to substitution is as follows:

***Will the intervention/option result in a firm substituting one activity or input for a similar one to take advantage of public funding? If yes, where and by how much?***

## 4.5 Economic multiplier effects

### 4.5.1 Definition

#### **Multiplier Effects**

Further economic activity (jobs, expenditure or income) associated with additional local income and local supplier purchases.

### 4.5.2 Types of economic multiplier

The economic impact (jobs, expenditure or income) of an intervention is multiplied because of knock-on effects within the local economy. Two types of multiplier can be identified:

- a **supply linkage multiplier** (sometimes referred to as an indirect multiplier) due to purchases made as a result of the intervention and further purchases associated with linked firms along the supply chain.
- an **income multiplier** (also referred to as a consumption or induced multiplier) associated with local expenditure as a result of those who derive incomes from the direct and supply linkage impacts of the intervention.

A number of impact studies have also identified a longer-term development multiplier associated with the retention of expenditure and population in an area.

Many appraisals use a combined or composite multiplier. Thus, for example, if at the regional level the supply linkage multiplier was 1.1 and the income multiplier 1.2, the composite multiplier would be 1.32 (i.e.  $1.1 \times 1.2$ ). Applying the multiplier gives an estimate of the total direct and multiplier effects. For example, say an intervention created 100 jobs, then the total direct and multiplier effects would be 132, if the composite multiplier were 1.32. The multiplier effects alone would be 32 (i.e.  $100 \times 0.32$ ).

#### 4.5.3 *Factors influencing the scale of multiplier effects*

The scale of the multiplier effects will be influenced in particular by:

- supply linkage multiplier: the extent of supply chain linkages in area of analysis. These linkages vary substantially by sector and area;
- income multiplier: the proportion of additional income spent within area of analysis.

#### 4.5.4 *Approaches to estimating multiplier effects*

There are a number of ways in which multipliers can be estimated, including:

- Surveys of businesses and employees: businesses can be asked about the local content of the purchases they make and this information can be used to calculate the local supply linkage multiplier effects, assuming that the proportion of expenditure net of non-recoverable indirect taxes incurred on local goods and services is similar throughout the supply chain. If the purchases made at a particular point in the supply chain is  $x$  per annum and a proportion  $S$  is spent on local inputs the effects down the remainder of the chain is estimated as:  $x(1+S+S^2+S^3+\dots+S^n)$  or  $x.1/(1-S)$ . In addition, estimates can be calculated of the income multiplier using data on local consumption patterns in the local economy. If the total net direct and supply multiplier increase in local business turnover is  $E$ , a proportion  $m$  of this turnover is paid on average in net local incomes, and a proportion  $q$  of net local incomes is on average spent on the products of local businesses, then the total impact on turnover, including induced effects, may be estimated as  $E(1+mq+m^2q^2+m^3q^3+\dots+m^nq^n)$  or  $E.1/(1-mq)$ .
- Again the assumption is that behaviour is similar at each point in the supply chain.
- Previous research/evaluations: a number of previous studies have assessed the scale of multiplier effects- see, for example, research by Oxford Economics (2012) into the economic impact of the UK film industry.
- Economic models: various commercial and academic organisations have developed models of the national economy and of local economies. For example, one such model is LM3. These can be used to assess the scale of multiplier effects resulting from a particular investment or change in the level of employment.
- Input-output tables: these tables provide estimates of supply linkages between sectors and can be used to estimate the supply linkage or indirect multiplier effects.

#### 4.5.5 *Evidence from evaluations and research*

The scale of income and supply linkage multiplier effects vary according to the mix of economic activity that exists in an area and the type of intervention that is being undertaken. The Scottish Government provides information on multiplier effects for individual Scottish industries, which demonstrates the extent of the difference between various sectors. For example, the composite employment multiplier effect at the Scottish level for the refined petroleum and nuclear fuel industry is 13.41, compared to a composite multiplier of 1.47 for other service activities. Construction has a composite multiplier of 2.19, while retail distribution is 1.31 and Research and Development is 1.46. Further data from the Input-Output tables can be accessed via the following link:

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Input-Output>.

As an example of evidence from econometric studies, Oxford Economics recently produced a set of output multiplier estimates at the UK level, using data from the ONS Annual Business Survey and their own detailed econometric model of the UK economy (see Table 4.11). In using data from secondary sources such as the Scottish Input-Output tables or from econometric studies, care should be taken to consider the spatial level at which the multipliers relate to. As noted in Section 2, the size of the multiplier effects is likely to be greater the larger the area over which the benefits of an intervention are being assessed.

| <b>Table 4.11: Output multipliers (UK, 2011)</b> |                                    |
|--------------------------------------------------|------------------------------------|
| <b>Sector</b>                                    | <b>Composite output multiplier</b> |
| Electricity production and distribution          | 2.8                                |
| Construction                                     | 2.7                                |
| Iron and steel                                   | 2.2                                |
| Motor vehicles                                   | 2.1                                |
| Sports goods and toys                            | 2.3                                |
| Machine tools                                    | 2.0                                |
| Hotels, catering, pubs etc                       | 2.2                                |
| Computer services                                | 1.9                                |
| Legal activities                                 | 1.8                                |
| Education                                        | 1.8                                |
| Economy average                                  | 2.2                                |

Source: ONS, Oxford Economics (2012)

Table 4.12 below is based on the extensive evidence generated by a number of studies including the Evaluation of the Enterprise Zone Experiment. It provides composite income and supply linkage multiplier estimates that are appropriate for four types of property related activity, namely B1 Office, B2/B8 (general industrial/warehousing), Recreation and Retailing. The estimates are provided for the local area and regional level. At the local level the range is between 1.21 and 1.38. At the regional level the range is between 1.38 and 1.56. Generally speaking retailing projects generate the lowest combined income and supply linkage effects.

| <b>Table 4.12: Composite multiplier effect by type of area: site related problems but active private sector</b> |                   |               |
|-----------------------------------------------------------------------------------------------------------------|-------------------|---------------|
| <b>Intervention type</b>                                                                                        | <b>Local area</b> | <b>Region</b> |
| B1 Office                                                                                                       | 1.29              | 1.44          |
| B2/B8                                                                                                           | 1.29              | 1.44          |
| Recreation                                                                                                      | 1.38              | 1.56          |
| Retailing                                                                                                       | 1.21              | 1.38          |

Source: Based on Rhodes et al, (1994) and Enterprise Zone research (HMSO, 1995).

For specific sectors and interventions, multiplier values can be higher than those shown in the table. For example, The Toyota Impact Study identified a composite employment multiplier at the level of Derbyshire, Nottinghamshire, Leicestershire, Staffordshire and the West Midlands of 1.6. Research by the then Dti into broadband projects identified multiplier effects ranging between two to four times the direct effect.

Sub-regional and regional multipliers for a range of intervention types are set out within the BIS/CEA additionality guidance (see Table 4.13). At the sub-regional level, an overall

average composite multiplier of 1.25 is identified, while at the regional level the overall average is 1.45.

| <b>Table 4.13: Composite multipliers by type of intervention – BIS/CEA guidance</b> |                            |                        |
|-------------------------------------------------------------------------------------|----------------------------|------------------------|
|                                                                                     | <b>Sub-regional (mean)</b> | <b>Regional (mean)</b> |
| All observations                                                                    | 1.25                       | 1.45                   |
| Business development & competitiveness                                              | 1.25                       | 1.51                   |
| Regeneration through physical infrastructure                                        | 1.33                       | 1.40                   |
| People and skills                                                                   | 1.66                       | 1.36                   |

Note 1: a more detailed breakdown by project type is contained within the BIS/CEA guidance

Note 2: Care should be taken in applying the sub-regional estimate under the people and skills theme, as this is based on fewer than 10 observations. In addition, the BIS/CEA average multiplier benchmark for people and skills is lower at the regional level than the sub-regional level. This reflects that the averages calculated for each spatial level were not based entirely on the same set of projects. In reality, in relation to a given project you would expect the multiplier to be higher at the regional level compared to the sub-regional level.

#### 4.5.6 Ready reckoners

The ready reckoner values below express general ranges at the very local (neighbourhood) level, and the regional level. The following range of multiplier effects can be used:

| <b>Table 4.14: Multiplier effects</b> |                                                                          |                                                   |                                              |
|---------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------|
| <b>Level</b>                          | <b>Multiplier</b>                                                        | <b>Composite multiplier (Neighbourhood level)</b> | <b>Composite multiplier (Regional level)</b> |
| Low                                   | Limited local supply linkages and induced or income effects              | 1.05                                              | 1.3                                          |
| Medium                                | Average linkages. The majority of interventions will be in this category | 1.1                                               | 1.5                                          |
| High                                  | Strong local supply linkages and income or induced effects               | 1.15                                              | 1.7                                          |

Source: Based upon the, then, DETR (October 2000)

#### 4.5.7 Key question – multipliers

The following key question needs to be answered in relation to multiplier effects:

***How many, if any, additional outputs and outcomes will occur through purchases along local supply chains, employee spending rounds and longer term effects as a result of the intervention/option?***

## 5 Calculating additionality

### 5.1 Introduction

This section sets out how to calculate additionality. It contains a number of illustrative worked examples of how to assess additionality for different intervention types. A worked example from the evidence base is also presented. In addition, the ratio of net additional to gross outputs is also discussed.

The principal focus of the examples in this section is on calculating, in a quantitative sense, the level of additionality associated with an intervention output. Within an appraisal, consideration would also need to be given to:

- timing effects; and
- quality.

Wherever possible, the additionality of outcomes should be a key concern of an appraisal. A qualitative assessment of the likely level of outcome additionality should form part of an appraisal. This would mean answering each of the questions posed in the preceding section. However, the emphasis in most appraisals is on assessing the additionality of those outputs that are expected to lead to the desired outcomes. Applied appropriately the additionality framework has the potential to significantly improve practice. However, failure to do so correctly could produce partial or misleading analyses.

### 5.2 How to calculate additionality

In order to calculate net additionality, the level of total net local activity under each option – intervention and reference case – needs to be assessed. This involves making adjustments, where appropriate, for leakage, displacement, substitution, and multiplier effects. The total net additional local impact is then calculated by deducting the total gross additional local effects of the reference case from the total net local effects of the intervention options.

The calculation of the total net additional local impact of an intervention can be summarised using the following equation:

$$AI = [GI \times (1-L) \times (1-Dp) \times (1-S) \times M] - [GI^* \times (1-L^*) \times (1-Dp^*) \times (1-S^*) \times M^*]$$

Where:

AI= Net additional impact

GI= Gross impact

L=Leakage

Dp= Displacement

S=Substitution

M=Multiplier

\* denotes reference case and hence deadweight

The net additional impact is therefore the adjusted intervention option minus the adjusted reference case.

The multiplicative formulation described in the equation represents the relationship in its simplest form. It implies, for example, that leakage effects occur to the same extent to



the gross effects, as they do to displacement and multiplier effects. For many interventions, this may be a reasonable assumption. However, for others, more specific assessments may need to be made and detailed, individual calculations of each factor prepared.

The calculation should be based upon evidence-based judgements and involves being explicit about assumptions and the expected implications of a set of actions.

For example, if an intervention was initiated to create local jobs, the following issues would need to be assessed:

- **leakage** - can local people physically get to where the job opportunities are expected to be? Do local people have the necessary skills to compete for the jobs? What linked programmes are in place to ensure local people can access the opportunities?
- **displacement** - will the new jobs taken up by local people result in a reduction of other local people in employment? Have the potential adverse effects been minimised by targeting appropriate sectors?
- **substitution** - will local employers just take on a local person and release another to take advantage of public funding?
- **multiplier effects** - will those local people who gain employment spend their income on goods and services that support local jobs? Will firms purchase more local goods and services?

## 5.3 Illustrative worked examples by intervention type

### 5.3.1 *Housing*

The public sector is seeking to promote the creation of new homes, particularly within mixed-use schemes, in an area containing a large number of historic buildings. Public sector support has been requested towards an intervention involving a former waterfront mill site that will deliver a mixture of commercial development and housing in a variety of new and refurbished buildings.

It is expected that the intervention will deliver 50 housing units and 2,000 sq m of commercial floorspace. Without public sector support it is likely that one of the old mill buildings on the site, which is in the best state of repair, would be brought forward by the private sector and would deliver 20 housing units. No speculative housing development has taken place on the site, although in the wider area there is evidence of unsupported private sector development along the rest of the river frontage. This has been reasonably successful to date. It is expected that the intervention will cause some decrease in the number of housing units built in the target area. The intervention is targeted on a number of deprived communities living in sub-standard accommodation with associated disadvantages in the local area. However, the intervention is intended to help to create a more diverse local community by attracting in new residents. Consequently, the leakage of benefits is in this particular case zero.

Table 5.1 sets out an assessment of the net additional housing units in sustained or long-term demand generated by this intervention option at the site level. It is important to note that housing units are one of a basket of outputs of this project for which the net local additional effects would need to be calculated. The other outputs may include new business start-ups, jobs, business support and environmental outputs

| Table 5.1: Housing development – at site level (units in sustained demand) |                                    |                     |                |               |
|----------------------------------------------------------------------------|------------------------------------|---------------------|----------------|---------------|
|                                                                            |                                    | Intervention Option | Reference Case | Additionality |
| A                                                                          | Gross direct housing units         | 50                  | 20             |               |
| $B=A*0$                                                                    | Estimated leakage - none           | 0                   | 0              |               |
| $C=A-B$                                                                    | Gross local direct effects         | 50                  | 20             |               |
| $D=C*0$                                                                    | Displacement – none                | 0                   | 0              |               |
| $E=C-D$                                                                    | Net local direct effects           | 50                  | 20             |               |
| F=Not applicable                                                           | Multiplier                         | N/A                 | N/A            |               |
| $G=E+F$                                                                    | Total net local effects            | 50                  | 20             |               |
| $H=G(\text{Intervention option}) - G(\text{Reference case})$               | Total net additional local effects |                     |                | 30            |

Note: There may be multiplier effects of the expenditure associated with the housing construction, the 'not applicable' refers to the likelihood that this spend will result in more housing units being built.

Table 5.2 considers the same output at the target area level.

| Table 5.2: Housing development – at target area level (units in sustained demand) |                                    |                     |                |               |
|-----------------------------------------------------------------------------------|------------------------------------|---------------------|----------------|---------------|
|                                                                                   |                                    | Intervention Option | Reference Case | Additionality |
| A                                                                                 | Gross direct housing units         | 50                  | 20             |               |
| $B=A*0$                                                                           | Estimated leakage - none           | 0                   | 0              |               |
| $C=A-B$                                                                           | Gross local direct effects         | 50                  | 20             |               |
| $D=C*30\%$                                                                        | Displacement – 30%                 | 15                  | 6              |               |
| $E=C-D$                                                                           | Net local direct effects           | 35                  | 14             |               |
| F=Not applicable                                                                  | Multiplier                         | N/A                 | N/A            |               |
| $G=E+F$                                                                           | Total net local effects            | 35                  | 14             |               |
| $H=G(\text{Intervention option}) - G(\text{Reference case})$                      | Total net additional local effects |                     |                | 21            |

As an alternative example, an intervention aimed at improving housing conditions could fund the refurbishment of existing vacant units in order that they are expected to be in long-term or sustained demand. Leakage would apply if non-target community residents occupied the refurbished housing units. On the basis of past local evidence, leakage is estimated to be 20%. If the refurbishment of the 100 units means that a local provider who would have built 50 new houses now will build only 10 new houses then displacement is some 40 housing units. In addition, it is expected that 10% of the 100 units refurbished would have taken place anyway. This would not be sufficiently large to result in displacement). On the basis of these assumptions, the total net additional local housing units would be 32 (see Table 5.3).

| Table 5.3: Housing development – at target area level (units in sustained demand) |                                          |                     |                |               |
|-----------------------------------------------------------------------------------|------------------------------------------|---------------------|----------------|---------------|
|                                                                                   |                                          | Intervention Option | Reference Case | Additionality |
| A                                                                                 | Gross direct housing units               | 100                 | 10             |               |
| $B=A*20\%$                                                                        | Estimated leakage – 20%                  | 20                  | 2              |               |
| $C=A-B$                                                                           | Gross local direct effects               | 80                  | 8              |               |
| $D^1=C*50\%$                                                                      | Displacement (Intervention option) – 50% | 40                  |                |               |
| $D^2=C*0\%$                                                                       | Displacement (Reference case) - zero     |                     | 0              |               |
| $E=C-D$                                                                           | Net local direct effects                 | 40                  | 8              |               |
| F=not applicable                                                                  | Multiplier                               | N/A                 | NA             |               |
| $G = E+F$                                                                         | Total net local effects                  | 40                  | 8              |               |
| $H=G(\text{Intervention option})-G(\text{reference case})$                        | Total net additional local effects       |                     |                | 32            |

Some wider benefits might result as other residents in the area carry out improvements to their properties as a result of the intervention.

Further details of how to assess the additionality of housing interventions are included at Appendix E.

### 5.3.2 Business support

A business support project is proposed in order to help create jobs for local people in an area with high unemployment. It is expected to create 500 full-time equivalent jobs and the intervention's impact is being assessed at the neighbourhood level.

Research by the local council suggests that, given the recruitment and training support available, local people will take-up most of the jobs and thus the level of leakage will be low. Without the support (the reference case) it is estimated that some 80 full-time equivalent local jobs would be created in the businesses supported at the end of the appraisal period.

There are a number of other competing firms in the area and the level of displacement is therefore expected to be medium. The businesses concerned are known to have strong local supply linkages and thus the multiplier effects are anticipated to be high. Leakage, displacement and multiplier impacts similar to those under the intervention option would be expected to apply to the reference case position.

Using the ready-reckoners set out in Section 4 the estimated level of total local net additional jobs can be calculated as shown in Table 5.4.

| Table 5.4: Business support - employment       |                                    |                     |                |               |
|------------------------------------------------|------------------------------------|---------------------|----------------|---------------|
|                                                |                                    | Intervention Option | Reference Case | Additionality |
| A                                              | Gross direct jobs                  | 500                 | 80             |               |
| B=A*10%                                        | Estimated leakage –10%             | 50                  | 8              |               |
| C=A-B                                          | Gross local direct effects         | 450                 | 72             |               |
| D=C*50%                                        | Displacement – 50%                 | 225                 | 36             |               |
| E=C-D                                          | Net local direct effects           | 225                 | 36             |               |
| F=E*(1.15-1)                                   | Multiplier – 1.15                  | 34                  | 5              |               |
| G=E+F                                          | Total net local effects            | 259                 | 41             |               |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects |                     |                | <b>218</b>    |

Therefore the business support project is anticipated to create some 218 total net additional local jobs.

In undertaking an appraisal of a business support project, consideration would also often need to be given to the net additional outcomes generated, such as increased economic activity (Gross Value Added).

### 5.3.3 Commercial development

As part of a programme to tackle under-use and dereliction within a run-down City Centre, public sector support totalling £800,000 is being considered towards the demolition of a derelict building and construction of 8,000 sq m of workspace. The objective of the scheme is to bring new economic activity and jobs for local people into the City Centre and adjoining wards. The area has a large number of under-used and empty, derelict buildings. Over the last 10 years little commercial development has taken place either of a pre-let or speculative nature. The workspace will comprise offices (3,000 sq m) and industrial floorspace (5,000 sq m).

The Local authority has advised that there is evidence of unmet demand from businesses in the area. They have also indicated that the businesses occupying the new space are likely to be in the lower end of the skilled manufacturing and service sectors, although some hi-tech businesses might locate there. Displacement is expected to be low, albeit

slightly higher in terms of floorspace than jobs. Without the intervention it is estimated that 1,500 sq m of floorspace would be refurbished and brought back into industrial use anyway.

Due to the historically low economic activity and the multiple social problems, the area has become the target for a number of policy initiatives, with a total investment of £10 million. The building and site are readily accessible by public transport and within walking distance of a number of residential areas in the local travel to work area, some of which are within the top 20% most deprived in the country. It is also accessible by car and public transport to other residential areas outside of the local area.

Table 5.5 sets out the estimate of the net additional floorspace created.

|                                                |                                    | <b>Intervention Option</b> | <b>Reference Case</b> | <b>Additionality</b> |
|------------------------------------------------|------------------------------------|----------------------------|-----------------------|----------------------|
| A                                              | Gross direct floorspace (sq m)     | 8,000                      | 1,500                 |                      |
| B=A*25%                                        | Estimated leakage -25%             | 2,000                      | 375                   |                      |
| C=A-B                                          | Gross local direct effects         | 6,000                      | 1,125                 |                      |
| D=C*20%                                        | Displacement – 20%                 | 1,200                      | 225                   |                      |
| E=C-D                                          | Net local direct effects           | 4,800                      | 900                   |                      |
| F=not applicable                               | Multiplier                         | N/A                        | N/A                   |                      |
| G=E+F                                          | Total Net local effects            | 4,800                      | 900                   |                      |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects |                            |                       | <b>3,900 sq m</b>    |

The calculation of the number of net additional jobs created is summarised in Table 5.6.

|                                                |                                    | <b>Intervention Option</b> | <b>Reference Case</b> | <b>Additionality</b> |
|------------------------------------------------|------------------------------------|----------------------------|-----------------------|----------------------|
| A                                              | Gross direct jobs                  | 311                        | 33                    |                      |
| B=A*25%                                        | Estimated leakage – 25%            | 78                         | 8                     |                      |
| C=A-B                                          | Gross local direct effects         | 233                        | 25                    |                      |
| D=C*15%                                        | Displacement – 15%                 | 35                         | 4                     |                      |
| E=C-D                                          | Net local direct effects           | 198                        | 21                    |                      |
| F=E*(1.1 -1)                                   | Multiplier – 1.1                   | 20                         | 2                     |                      |
| G=E+F                                          | Total net local effects            | 218                        | 23                    |                      |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects |                            |                       | <b>195</b>           |

Note: The number of jobs able to be accommodated calculated using standard employment density ratios and allowing for an 80% occupancy rate (source: HCA (2010)).

The outcomes associated with commercial development will include net additional local employment and GVA generated by the intervention.

Alternatively, if the intervention option will result in the same number of employment opportunities as the reference case, but of a higher standard, then it may be appropriate to measure additionality in terms of total GVA from employment in the local area. However, this will depend upon the objectives of the intervention. For example, this approach may well not be appropriate for an intervention that is seeking to create accessible jobs, which may be low paid and thus low GVA.

The public sector is considering an investment in the development of 1,000 sq m of office space. Without public sector intervention, a private sector developer would construct a warehousing building of the same size on the site. In this example, we have assumed that if the building is occupied for warehousing use, then using the HCA's employment densities, it will accommodate 14 jobs, many of them within lower order occupations. As office accommodation, it will accommodate 83 jobs with a high proportion of business and public service professionals. Leakage has been set at 0% as, under this example, the GVA impact is the principal outcome being measured and GVA is a work-place based measure (therefore, the residence of employees is not of relevance). The GVA generated

is calculated using regional average GVA per employee figures. In this example, the total net additional local GVA is £3.4m per annum.

| Table 5.7: Commercial development – GVA          |                                                         |                     |                |                   |
|--------------------------------------------------|---------------------------------------------------------|---------------------|----------------|-------------------|
|                                                  |                                                         | Intervention Option | Reference Case | Additionality     |
| A                                                | Gross direct jobs                                       | 83                  | 14             |                   |
| $B=A*0\%$                                        | Estimated leakage (intervention option) – N/A           | -                   |                |                   |
| $B=0\%$                                          | Estimated leakage, reference case) – N/A                |                     | -              |                   |
| $C=A-B$                                          | Work-place based direct effects                         | 83                  | 14             |                   |
| $D=C*15\%$                                       | Displacement – 15%                                      | 12                  | 2              |                   |
| $E=C-D$                                          | Net work-place based direct effects                     | 71                  | 12             |                   |
| $F=E*(1.1-1)$                                    | Multiplier – 1.1                                        | 7                   | 1              |                   |
| $G=E+F$                                          | Total net work-place based effects                      | 78                  | 13             |                   |
| H (Intervention option)                          | Average annual GVA per employee for office use (£)      | 50,000              |                |                   |
| H (Reference case)                               | Average annual GVA per employee for warehousing use (£) |                     | 29,000         |                   |
| I                                                | Average annual GVA per employee in the region (£)       | 39,000              | 39,000         |                   |
| $J=(ExH)+(FxI)$                                  | Total net local effects                                 | 3,823,000           | 387,000        |                   |
| $K=I$ (Intervention option) - I (Reference case) | Total net additional local effects                      |                     |                | <b>£3,436,000</b> |

Note: The number of jobs able to be accommodated calculated using standard employment density ratios (source: HCA (2010)).

In examples such as this, it will be for the appraiser to determine which occupational groups to use to calculate GVA arising through the development, or whether a combination of occupational groups should be used.

An alternative approach would be to use figures for turnover per head or income per head by sector, which can be derived through such sources as the Annual Business Survey or the Annual Survey of Hours and Earnings respectively.

#### 5.3.4 Transport

Public sector funding is being considered towards the construction of a new road, which will link a new social housing development and an existing residential area with an established industrial area and the main public transport interchange, which is about to be extended. The objective is to enable current isolated communities and disadvantaged individuals to access employment and other opportunities. The road will also enable pedestrians and cyclists to access the industrial areas more quickly and more safely than the existing route, which would require crossing a busy dual carriageway.

The road will be approximately 1.5km long and will become an adopted road on completion. There are no other public sector or private sector funders. The target beneficiaries are local residents who are expected to account for 80% of usage - giving a leakage rate of 20%.

Given the main users of the road and purpose of the intervention, it is not expected that the road would be constructed by the private sector in the planned location or that any alternative route would be constructed in the foreseeable future that would serve the same purpose. It is possible that the owner of the industrial area may construct a small portion of the road to further facilitate road traffic access into and out of the industrial park. However, under the reference case only a limited number of the users would be from the local community (a leakage rate of 80%). The additionality of the intervention outputs, in terms of number of trips by target beneficiaries is assessed in Table 5.8.

| Table 5.8: Additionality of trips - annual number of trips by target beneficiaries |                                               |                     |                |               |
|------------------------------------------------------------------------------------|-----------------------------------------------|---------------------|----------------|---------------|
|                                                                                    |                                               | Intervention Option | Reference Case | Additionality |
| A                                                                                  | Gross direct trips on new road                | 50,000              | 20,000         |               |
| $B^1 = A \times 20\%$                                                              | Estimated leakage (intervention option) – 20% | 10,000              | N/A            |               |
| $B^2 = A \times 80\%$                                                              | Estimated leakage (Reference case) - 80%      | N/A                 | 16,000         |               |
| $C = A - B$                                                                        | Gross local direct effects                    | 40,000              | 4,000          |               |
| D=Not applicable                                                                   | Displacement                                  | N/A                 | N/A            |               |
| $E = C - D$                                                                        | Net local direct effects                      | 40,000              | 4,000          |               |
| F=Not applicable                                                                   | Multiplier                                    | N/A                 | N/A            |               |
| $G = E + F$                                                                        | Total net local effects                       | 40,000              | 4,000          |               |
| $H = G$ (Intervention option) - $G$ (Reference case)                               | Total net additional local effects            |                     |                | <b>36,000</b> |

The net additional local change in accessibility and the associated benefits (such as enhanced quality of life and increased economic activity) would need to be assessed in order to measure outcome additionality.

### 5.3.5 Tourism

The creation of a new museum is proposed, on a key site within a major city. It is intended that the intervention will stimulate economic activity within the surrounding area by creating a significant additional cultural attraction and tourist draw. Overall, it is expected that the intervention would create 300 jobs. If the intervention were not to go ahead it is envisaged that the existing development would remain on the site for the foreseeable future. As such, under the reference case some 100 jobs would be safeguarded.

An analysis of the anticipated level of jobs benefiting residents within the sub-region (target area) suggests that leakage under the proposed intervention will be low, with a leakage rate of 10%. Whilst, it is likely that the new Museum will draw some visitors away from existing attractions, it is intended that the Museum will represent a unique tourism product that is not offered elsewhere in the sub-region. As such, the overall level of displacement is expected to be low, at 25%. A medium to high level multiplier effect, of 1.5, is considered to be appropriate for the proposed intervention. This has been based upon local research relating to the extent of multiplier effects within the creative industries.

Leakage under the reference case is 5 jobs, based upon interviews with existing employers. The continuation of the existing activity is not assumed to result in displacement effects. A multiplier of 1.3 has been estimated, again as a result of interviews. Table 5.9 summarises the net additional number of jobs created or safeguarded under the proposed intervention after taking account of leakage, displacement, multiplier effects and deadweight.

| Table 5.9: Employment additionality arising from the redevelopment of a museum |                                              |                     |                |               |
|--------------------------------------------------------------------------------|----------------------------------------------|---------------------|----------------|---------------|
|                                                                                |                                              | Intervention Option | Reference Case | Additionality |
| A                                                                              | Gross jobs                                   | 300                 | 100            |               |
| B=A*10%                                                                        | Estimated leakage (intervention option) -10% | 30                  | N/A            |               |
| B=A*5%                                                                         | Estimated leakage (reference case) - 5%      | N/A                 | 5              |               |
| C=A-B                                                                          | Gross local direct effects                   | 270                 | 95             |               |
| D <sup>1</sup> =C*25%                                                          | Displacement (intervention option) - 25%     | 68                  | N/A            |               |
| D <sup>2</sup> =C*0%                                                           | Displacement (reference case) - 0%           | N/A                 | 0              |               |
| E=C-D                                                                          | Net local direct effects                     | 202                 | 95             |               |
| F=E*(1.5-1)                                                                    | Multiplier (intervention option) – 1.5       | 101                 | N/A            |               |
| F=E*(1.3-1)                                                                    | Multiplier (reference case) – 1.3            | N/A                 | 29             |               |
| G=E+F                                                                          | Total net local effects                      | 303                 | 124            |               |
| H=G (Intervention option) - G (Reference case)                                 | Total net additional local effects           |                     |                | <b>179</b>    |

### 5.3.6 Environmental

A request for public sector support has been received to reclaim a two hectare site currently used for unofficial fly-tipping in order for it to be brought back into use as an adventure playground and country park. There is substantial support for this at the local level as there are few alternative facilities nearby. Over the years the site has become increasingly neglected and unsightly, it is also a health hazard. The project site is adjacent to a number of residential areas and is easily accessible by pedestrians, cyclists and motorists. The areas from which pedestrians and cyclists are likely to come are high priority areas in terms of social need. Car borne users might come from a wide range of areas. However, the facility is not targeted at any specific group or area. Under the reference case, without public sector support, the site would be fenced off in order to prevent further fly-tipping, although a small playground would be provided.

The additionality of the hectares of land reclaimed for soft end use is assessed in Table 5.10.

| Table 5.10: Additionality of land reclaimed    |                                         |                     |                |               |
|------------------------------------------------|-----------------------------------------|---------------------|----------------|---------------|
|                                                |                                         | Intervention Option | Reference Case | Additionality |
| A                                              | Gross direct hectares of land reclaimed | 2                   | 0.25           |               |
| B=A*0                                          | Estimated leakage - none                | 0                   | 0              |               |
| C=A-B                                          | Gross local direct effects              | 2                   | 0.25           |               |
| D=Not applicable                               | Displacement                            | N/A                 | N/A            |               |
| E=C-D                                          | Net local direct effects                | 2                   | 0.25           |               |
| F=Not applicable                               | Multiplier                              | N/A                 | N/A            |               |
| G=E+F                                          | Net local effects                       | 2                   | 0.25           |               |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects      |                     |                | <b>1.75</b>   |

The outcome additionality associated with environmental interventions would need to consider, for example, the net additional local impact on quality of life. Alternatively, measures such as the enhancement in property values or willingness to invest could be considered for the intervention and reference case options.

### 5.3.7 Community and Social

A comprehensive package has been developed aimed at addressing the social, environmental and economic issues faced by a rural area. As part of the package, the public sector is appraising an intervention comprising the acquisition of a site, construction and operation of a 250 sq m community centre. The Centre will be used for a wide range of purposes, including toddler groups, after school club, training in literacy

and numeracy, outreach for Citizen's Advice Bureau (CAB) sessions, community meetings, lectures and events and it will also enable computer training and act as an information access point. Many of these activities, such as Citizens Advice Bureau (CAB) sessions, do not currently take place in the local area.

Table 5.11 shows the calculation of the additionality of the number of community meetings involving more than 5% of target population. (This is one of a number of relevant outputs where the additionality of the project's outputs would need to be assessed. The other might include numbers of trainees and crèche places provided/used). It is estimated that five meetings of this scale would take place in the existing Parish Hall. In addition, five of the meetings held in the new centre would be primarily for non-local residents.

|                                                        |                                                                                       | <b>Intervention Option</b> | <b>Reference Case</b> | <b>Additionality</b> |
|--------------------------------------------------------|---------------------------------------------------------------------------------------|----------------------------|-----------------------|----------------------|
| A                                                      | Gross direct number of meetings total attendance of more than 5% of target population | 50                         | 5                     |                      |
| $B^1 = A \times 10\%$                                  | Leakage (intervention option) - low (10%)                                             | 5                          | 0                     |                      |
| $B^2 = A \times 0$                                     | Leakage (reference case) - none                                                       |                            |                       |                      |
| $C = A - B$                                            | Gross local direct effects                                                            | 45                         | 5                     |                      |
| $D = C \times 0$                                       | Displacement - none                                                                   | 0                          | 0                     |                      |
| $E = C - D$                                            | Net local direct effects                                                              | 45                         | 5                     |                      |
| F=Not applicable                                       | Multiplier                                                                            | N/A                        | N/A                   |                      |
| $G = E + F$                                            | Net local effects                                                                     | 45                         | 5                     |                      |
| $H = G$ (Intervention option)<br>$-G$ (Reference case) | Total net additional local effects                                                    |                            |                       | <b>40</b>            |

The capital cost of the centre will be fully funded by the public sector and income from charges will help to pay some of the running costs. The target area, which the centre is intended to serve, is quite large geographically, containing five small villages within a five mile radius of the centre with a combined population of 1,500 people. It is expected that the majority of users will come from the target area although it is possible that for a small number of the events and activities a number of the users will come from outside of the target area. For example, the CAB sessions might attract users from outside of the target area, as might a number of training sessions. In the absence of the centre the small parish hall would continue to be used as it is at present for a limited range of local activities such as the toddler group and lectures of local interest. It is likely that the parish hall will continue to be used at the same level regardless of whether or not the centre is built.

The additionality of the number of community users of CAB outreach services is shown in Table 5.12. It is estimated that 66 individuals would use the CAB services at the new centre, compared with 11 under the reference case.

|                                                        |                                    | <b>Intervention Option</b> | <b>Reference Case</b> | <b>Additionality</b> |
|--------------------------------------------------------|------------------------------------|----------------------------|-----------------------|----------------------|
| A                                                      | Gross direct                       | 66                         | 11                    |                      |
| B=estimated leakage                                    | Leakage (specific estimate)        | 13                         | 0                     |                      |
| $C = A - B$                                            | Gross local direct effects         | 53                         | 11                    |                      |
| $D = C \times 0$                                       | Displacement - none                | 0                          | 0                     |                      |
| $E = C - D$                                            | Net local direct effects           | 53                         | 11                    |                      |
| F=Not applicable                                       | Multiplier                         | N/A                        | N/A                   |                      |
| $G = E + F$                                            | Total net local effects            | 53                         | 11                    |                      |
| $H = G$ (Intervention option)<br>$-G$ (Reference case) | Total net additional local effects |                            |                       | <b>44</b>            |



Again, the outcome associated with such interventions would principally be based around net additional improvements to quality of life. For very large interventions, it would be possible to use survey-based contingent valuation exercises to measure such effects. However, the results of such surveys are likely to provide an overestimate of the overall effects. For example, if local residents were asked how many times per month they would expect to use a proposed new community swimming pool many of them would overstate expected usage in order to ensure that the development proceeds.

### 5.3.8 *Crime prevention and community safety*

A potential investment in Closed Circuit Television (CCTV) is being considered to help reduce the level of car theft, burglaries, violent attacks and street crime. The police have been consulted and they have advised that the measure is likely to be effective and could, for example, reduce the number of car thefts by 50% from 100 per annum to 50 or fewer. No other source of funding is available. The Police have advised that they will shortly be implementing a number of new initiatives that are aimed at reducing crime in the area, with a target reduction of at least 10%. If the CCTV were installed those new initiatives would not happen. The target beneficiaries are those suffering from crime. Crime could be displaced to other areas. However, in this case, such displacement is not expected to happen.

Table 5.13 sets out a calculation of the additionality of the reduction in car thefts. (Car theft is again just one of a number of relevant outputs that could measure the additionality of the project, others include, reduction in burglary and personal attacks and in the fear of crime).

|                                                |                                    | Intervention Option | Reference Case | Additionality |
|------------------------------------------------|------------------------------------|---------------------|----------------|---------------|
| A                                              | Gross reduction in car thefts      | 50                  | 10             |               |
| B=A*0                                          | Estimated leakage - none           | 0                   | 0              |               |
| C=A-B                                          | Gross local direct effects         | 50                  | 10             |               |
| D=Not applicable                               | Displacement                       | N/A                 | N/A            |               |
| E=C-D                                          | Net local direct effects           | 50                  | 10             |               |
| F=Not applicable                               | Multiplier                         | N/A                 | N/A            |               |
| G=E+F                                          | Net local effects                  | 50                  | 10             |               |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects |                     |                | <b>40</b>     |

As a further example, an intervention aimed at reducing fear of crime might install locks and entry phones in 50% of the 200 houses in the target community. If 10% of homes installed phones and locks at their own expense then deadweight is 10% (20 homes). Leakage is likely to be zero as the eligibility criteria will limit installation to homes in the target area. There are also wider effects that might be relevant and worth considering where an intervention's success encourages those outside the target area to adopt new practices. In this instance if the adjacent community recognised the benefits of installing locks and entry phones and 10 locks and phones were fitted, which would otherwise not have been, then this would increase the additional impact of the intervention, if the target area also included these homes. However, the initiative may have the effect of displacing crime to other areas and thus potentially increasing the fear of crime in these areas.

### 5.3.9 *Training and education*

An Information Technology training programme is proposed, targeting a specific neighbourhood. Evidence of residence in the target area will be a criterion for eligibility to ensure no leakage of benefits outside of the area. This course will involve the provision of one week (30 hours) of intensive training per trainee in a range of software packages, together with job search support. There are already a number of training providers

serving the local area, although the nature of the training is more limited in its scope and duration and it is not expected that this intervention will cause a reduction in demand for the existing training provision. In appraising the intervention it will also be essential to consider these qualitative aspects of the intervention. It is estimated that of the 40 trainees, perhaps eight of them would have undertaken another comparable course available elsewhere in the absence of this intervention.

Table 5.14 shows the calculation of the additionality of the number of trainees.

|                                                |                                    | Intervention Option | Reference Case | Additionality |
|------------------------------------------------|------------------------------------|---------------------|----------------|---------------|
| A                                              | Gross direct trainees              | 40                  | 8              |               |
| B=A*0                                          | Estimated leakage - none           | 0                   | 0              |               |
| C=A-B                                          | Gross local direct effects         | 40                  | 8              |               |
| D=Not applicable                               | Displacement                       | 0                   | 0              |               |
| E=C-D                                          | Net local direct effects           | 40                  | 8              |               |
| F=Not applicable                               | Multiplier                         | N/A                 | N/A            |               |
| G=E+F                                          | Total net local effects            | 40                  | 8              |               |
| H=G (Intervention option) - G (Reference case) | Total net additional local effects |                     |                | <b>32</b>     |

As a further example, an intervention aimed at improving school attainment levels may improve school facilities. Where it is expected that a portion of these facilities would have been improved without the intervention going ahead this would be deadweight. If as a result of the new facilities, existing facilities were decommissioned before they were no longer fit for purpose then this would be displacement. If the facilities were used by non-school users then this could be leakage depending on the objectives and target beneficiaries. The size of the multiplier effect would depend on the amount of local labour and local materials used in the construction and operation of the new facilities.

### 5.3.10 Health

An intervention aimed at lowering mortality rates may build a local community health centre. A full appraisal of such an intervention would involve consideration of health impacts. This would normally take account of changes in life expectancy (including expected life years where lives are lost or saved) and changes in quality of life. This approach is known as the quality-adjusted life year (QALY). However, in the case of this example, we are considering only the additionality of the usage of the facility.

If existing facilities had to close down because of the new facilities there would be some displacement. It would also be necessary to consider how the target population might otherwise have obtained medical advice. All non-target users would be classified as leakage. The wider effects might be that non-target but priority population in an adjacent area will adopt the good health practices of the target community as a result of the health centre.

### 5.3.11 Quality

#### Minimum thresholds

Public sector funding is required to support the development of a residential scheme at a site on the edge of the city centre. It is intended that, in total, some 150 units will be delivered, each of which will be to a high standard of design and sustainability.

In the absence of public sector support, it is still thought likely that the site would be brought forward for residential use and that the number of units created would be the same as under the intervention option. However, due to the cost implications associated with achieving a high standard of design and sustainability, it is expected that under the reference case only 50% of the residential units delivered would meet the desired standard.

Table 5.15 sets out the estimated number of net additional housing units associated with the intervention option, after consideration has been given to the quality of the outputs created.

| Table 5.15: Housing development – minimum threshold            |                                                      |                     |                |               |
|----------------------------------------------------------------|------------------------------------------------------|---------------------|----------------|---------------|
|                                                                |                                                      | Intervention Option | Reference Case | Additionality |
| A                                                              | Gross direct housing units                           | 150                 | 150            |               |
| $B^1 = A \times 0\%$                                           | Below minimum threshold (intervention option – none) | 0                   | -              |               |
| $B^2 = A \times 50\%$                                          | Below minimum threshold (reference case - 50%)       | -                   | 75             |               |
| $C = A - B$                                                    | Gross direct housing units                           | 150                 | 75             |               |
| $D = C \times 0$                                               | Estimated leakage – none                             | 0                   | 0              |               |
| $E = C - D$                                                    | Gross local direct effects                           | 150                 | 75             |               |
| $F = E \times 25\%$                                            | Displacement                                         | 38                  | 19             |               |
| $G = E - F$                                                    | Net local direct effects                             | 112                 | 56             |               |
| $H = \text{Not applicable}$                                    | Multiplier                                           | N/A                 | N/A            |               |
| $I = G + H$                                                    | Total net local effects                              | 112                 | 56             |               |
| $J = I(\text{Intervention option}) - I(\text{Reference case})$ | Total net additional local effects                   |                     |                | 56            |

The extent of public sector support required to secure outputs that meet or exceed the minimum threshold should be compared against unit cost benchmarks, in order test for value for money. For example, a housing scheme delivering homes at a high standard of design and sustainability might have a public sector unit cost of £35,000 per home above the minimum threshold, which can be benchmarked against other comparable schemes.

### Weighting the outputs/outcomes through a scoring assessment

The development of new public realm is proposed in the form of improvements to a town centre's main high street. The intervention will principally concern works to enhance the local environment and include new, distinct, high quality open space and landscaping, as well as the creation of pedestrian areas and public art. Overall, some 3,000 sq m of public realm will be developed.

Under the reference case, it is envisaged that improvement works to the high street would be undertaken, but to a lower specification of design. Less priority would be given to pedestrian use and the incorporation of public art, and the emphasis on creating a distinct 'sense of place' would be lost. The quantum of public realm developed would still be expected to be approximately 3,000 sq m, although the quality of this space would be poor compared to the intervention option.

The objective of the intervention is to create an environment that will attract additional economic activity to the town. The quality of public realm is therefore important. Consequently, the outputs under each option have been scored in terms of their impact on the image of the town, based upon the following scoring range:

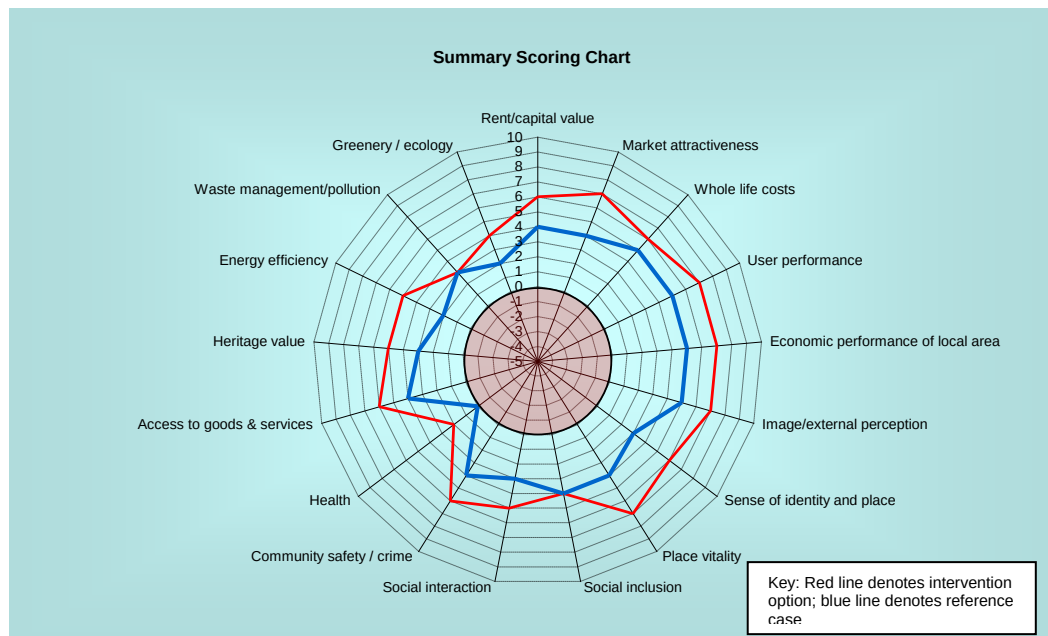
|      |   |                                           |
|------|---|-------------------------------------------|
| 9-10 | = | an extremely significant positive impact; |
| 7-8  | = | a significant positive impact;            |
| 4-6  | = | a positive impact;                        |
| 1-3  | = | a marginal positive impact; and           |
| 0    | = | a neutral/no change position.             |

The additional output score generated under each option are shown in Table 5.16.

| Table 5.16: Public realm development – Output score |  |                     |                |               |
|-----------------------------------------------------|--|---------------------|----------------|---------------|
|                                                     |  | Intervention Option | Reference Case | Additionality |

|                                                |                                    |        |       |               |
|------------------------------------------------|------------------------------------|--------|-------|---------------|
| A                                              | Gross direct sq m                  | 3,000  | 3,000 |               |
| B=A*0%                                         | Estimated leakage – none           | 0      | 0     |               |
| C=A-B                                          | Gross local direct effects         | 3,000  | 3,000 |               |
| D=C*0%                                         | Displacement – none                | 0      | 0     |               |
| E=C-D                                          | Net local direct effects           | 3,000  | 3,000 |               |
| F=Not applicable                               | Multiplier                         | N/A    | N/A   |               |
| G=E+F                                          | Total net local effects            | 3,000  | 3,000 |               |
| H <sup>1</sup> =                               | Output score (intervention option) | 7      | -     |               |
| H <sup>2</sup> =                               | Output score (reference case)      | -      | 3     |               |
| I=G*H                                          | Weighted total net local effects   | 21,000 | 9,000 |               |
| J=I (Intervention option) – I (Reference case) | Total net additional local effects |        |       | <b>12,000</b> |

Where more than one output is being considered, it may be appropriate to weight each output according to its relative importance. One approach to presenting a weighting and scoring analysis of multiple outputs is in the form of a summary spider diagram, as shown below.



### Valuing the outputs/outcomes

A residential led scheme is proposed that will create 100 new housing units on a former derelict site, within the town centre. As part of meeting the required environmental standards, the energy use of each dwelling will be minimised through improvements to the buildings fabric to reduce energy demand, along with the provision of efficient energy supply and renewable energy sources.

If no public sector support is provided, the same number of units would be constructed as under the intervention option, but they will be built to a lower environmental standard. Consequently, the energy consumption associated with these units will be greater, leading to higher levels of carbon dioxide (CO<sub>2</sub>) emissions. It has been assumed that, on average, the residential units delivered under the reference case will emit 1.8 tonnes of CO<sub>2</sub> per annum. In comparison, it is expected that the intervention option will achieve a 25% reduction in energy consumption (e.g. 1.35 tonnes of CO<sub>2</sub>, and hence carbon emissions, per dwelling).

The value of reducing CO<sub>2</sub> emissions has been applied to each option, based upon a central carbon value of £57 per tonne (DECC 2011), to provide a total social cost saving per annum. Table 5.17 sets out the results of this analysis.

| Table 5.17: CO <sub>2</sub> emissions – valuing the outputs |                                                          |                     |                |               |
|-------------------------------------------------------------|----------------------------------------------------------|---------------------|----------------|---------------|
|                                                             |                                                          | Intervention Option | Reference Case | Additionality |
| A                                                           | Gross direct housing units                               | 100                 | 100            |               |
| B=A*0                                                       | Estimated leakage – none                                 | 0                   | 0              |               |
| C=A-B                                                       | Gross local direct effects                               | 100                 | 100            |               |
| D=C*25%                                                     | Displacement*                                            | 25                  | 25             |               |
| E=C-D                                                       | Net local direct effects                                 | 75                  | 75             |               |
| F=Not applicable                                            | Multiplier                                               | N/A                 | N/A            |               |
| G=E+F                                                       | Total net local effects                                  | 75                  | 75             |               |
| H <sup>1</sup> =G*1.35                                      | CO <sub>2</sub> emissions p.a. (intervention option)     | 101                 | -              |               |
| H <sup>2</sup> =G*1.8                                       | CO <sub>2</sub> emissions p.a. (reference case)          | -                   | 135            |               |
| I=H*£57                                                     | Social cost p.a.                                         | £5,757              | £7,695         |               |
| J=(I(Intervention option) - I(Reference case))              | Total net additional local effects (annual savings p.a.) |                     |                | £1,938        |

\*It has been assumed that the units displaced under the intervention option would have been of a similar environmental standard and therefore would have resulted in the same level of social cost saving per unit. If the outputs displaced are of a lower quality, this should be reflected by a reduced displacement rate.

In this example, a project involves the provision of 3,000 sq m of high quality office space. Based on an assumed employment density of 1 job per 12 sq m of floorspace, the project is expected to create 250 gross direct jobs. Without the provision of public sector support, it is expected that a similar quantum of office floorspace would be provided, but that this would be of a lower standard and not attract the high value users targeted by the project.

A medium level of leakage (25%) has been assumed for the intervention case, whereas a low level of leakage (10%) has been applied to reference case on the basis that the jobs provided under the reference case will be more accessible for the local labour force. However, the level of displacement under the intervention case is assumed to be low (25%) given that the project will be attracting new uses to the local area. In comparison, the displacement rate under the reference case is assumed to be medium (50%). A composite multiplier of 1.3 has been applied to both the intervention case and reference case.

On the basis of the Annual Business Survey and given the nature of the businesses expected to take up the space provided, the appropriate GVA per employee figure is assumed to be £52,000 under the intervention case and £38,000 under the reference case. The project would therefore generate an annual net GVA impact of £3.9 million. The cumulative GVA impact, assuming 10 years' persistence and a 3.5% discount rate, would be around £32.8 million.

| Table 5.18: Gross Value Added – valuing the outputs |                                                          |                     |                |               |
|-----------------------------------------------------|----------------------------------------------------------|---------------------|----------------|---------------|
|                                                     |                                                          | Intervention Option | Reference Case | Additionality |
| A                                                   | Gross direct jobs                                        | 250                 | 250            |               |
| B <sup>1</sup> =A*25%                               | Leakage (intervention option) – medium (25%)             | 63                  | -              |               |
| B <sup>2</sup> =A*10%                               | Leakage (reference case) – low (10%)                     | -                   | 25             |               |
| C=A-B                                               | Gross local direct effects                               | 188                 | 225            |               |
| D <sup>1</sup> =C*25%                               | Displacement (intervention option) – low (25%)           | 47                  | -              |               |
| D <sup>2</sup> =C*50%                               | Displacement (reference case) – medium (50%)             | -                   | 113            |               |
| E=C-D                                               | Net local direct effects                                 | 141                 | 112            |               |
| F=E*(1.3-1)                                         | Multiplier                                               | 42                  | 34             |               |
| G=E+F                                               | Total net local effects                                  | 183                 | 146            |               |
| H <sup>1</sup> =G*£52,000                           | GVA p.a. (intervention option)                           | £9.5m               | -              |               |
| H <sup>2</sup> =G*£38,000                           | GVA p.a. (reference case)                                | -                   | £5.6m          |               |
| I=H(Intervention option) - H(Reference case)        | Total net additional local effects (annual savings p.a.) |                     |                | £3.9m         |
| J (assuming 10 years persistence and 3.5%)          | Cumulative net additional GVA impact                     |                     |                | £32.8m        |

|                |  |  |  |  |
|----------------|--|--|--|--|
| discount rate) |  |  |  |  |
|----------------|--|--|--|--|

The assumption of 10 years of persistence used in the above example is based on estimates of persistence set out within BIS's Impact Evaluation Framework Plus (IEF+) guidance (BIS 2009b). As noted in Section 2, there is relatively limited research on the persistence of benefits associated with local economic growth and housing interventions. In addition, collecting the necessary beneficiary data to estimate persistence for a given project is not always feasible, particularly at the appraisal stage. Therefore, in the absence of suitable primary data, it is recommended that the persistence estimates identified by BIS are adopted (see Table 5.19)

| <b>Table 5.19: Persistence of benefits (BIS IEF+)</b>                   |                                        |
|-------------------------------------------------------------------------|----------------------------------------|
| <b>Intervention type</b>                                                | <b>Persistence of benefits (years)</b> |
| Individual enterprise level support                                     | 3                                      |
| Sector/cluster support                                                  | 3                                      |
| Promotion and development of science, R&D and innovation infrastructure | 3                                      |
| Inward investment promotion                                             | 5                                      |
| Bringing land back into use                                             | 10                                     |
| Public realm                                                            | 10                                     |
| Image, events and tourism                                               | 2                                      |
| Skills and workforce development                                        | 3                                      |
| Matching people to jobs                                                 | 1                                      |
| Supporting the development of educational infrastructure                | 10                                     |
| Other – place                                                           | 2                                      |
| Cross-cutting themes – place                                            | 10                                     |

## 5.4 Gross to net additionality ratios

Another way of comparing the additionality of interventions is to consider their gross to net additionality ratios - the net additional outputs as a percentage of gross outputs. Under this approach, interventions which demonstrate high ratios would be more beneficial in terms of additional outputs than interventions with lower gross to net additionality ratios, where the gross direct effects are the same.

The use of gross to net additionality ratios is an alternative approach to calculating additionality, which is simpler than deriving individual estimates for deadweight, leakage, displacement and multiplier effects. However, this approach should only be used where a rough estimate of additionality is required – for example, at the project development stage. A detailed project appraisal should include a full assessment of each of the additionality factor.

A number of evaluations have calculated gross to net additionality ratios. For example, the Interim Evaluation of the Coalfields Regeneration Programmes in England (SQW, 2007) identified an overall additionality rate of 70 – 80%. This high level of additionality may be because of the targeted nature of interventions within a relatively small geographic area.

The mid-term report into ten Single Regeneration Budget (SRB) case studies (DTLR 2002) included details of aggregated additionality ratios by intervention outputs at the local SRB level. These ranged from 30% for the number of full-time equivalent jobs

safeguarded to 80% for the number of employee volunteering schemes. Net additionality ratios for 61 different outputs are set out in Table 5.20 below.

| Table 5.20: Summary of net additional outputs for the ten case studies (all years) |                                                                                                  |                                   |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------------------|
|                                                                                    | Description                                                                                      | Net additional outputs as % gross |
| <b>Jobs, training and education</b>                                                |                                                                                                  |                                   |
| 1a1                                                                                | FTE jobs created                                                                                 | 32                                |
| 1a2                                                                                | FTE jobs safeguarded                                                                             | 30                                |
| 1a3                                                                                | FTE construction jobs (person weeks)                                                             | 33                                |
| 1b                                                                                 | Pupils benefiting from projects assigned to enhance/improve attainment                           | 54                                |
| 1c                                                                                 | People trained obtaining qualifications                                                          | 58                                |
| 1d                                                                                 | Residents accessing employment through training advice or targeted assistance                    | 55                                |
| 1e                                                                                 | Training weeks                                                                                   | 62                                |
| 1f1                                                                                | People trained obtaining jobs                                                                    | 48                                |
| 1f2                                                                                | ▪ Who were formerly unemployed                                                                   | 45                                |
| 1g                                                                                 | Entering self-employment                                                                         | 46                                |
| 1j                                                                                 | Young people benefiting from projects to promote personal and social development                 | 48                                |
| 1k1                                                                                | Employers in collaborative projects with educational institutions to improve student performance | 62                                |
| 1k2                                                                                | Students in collaborative projects                                                               | 50                                |
| 1l                                                                                 | Teachers who have had a placement into business in the last period                               | 60                                |
| <b>Economic growth</b>                                                             |                                                                                                  |                                   |
| 2a                                                                                 | New business start-ups                                                                           | 31                                |
| 2b1                                                                                | Business/commercial floorspace improved (m <sup>2</sup> )                                        | 27                                |
| 2b2                                                                                | New business/commercial floorspace (m <sup>2</sup> )                                             | 44                                |
| 2c1                                                                                | New businesses supported                                                                         | 36                                |
| 2c2                                                                                | ▪ Surviving 52 weeks                                                                             | 36                                |
| 2c3                                                                                | ▪ Surviving 78 weeks                                                                             | 35                                |
| 2d                                                                                 | Businesses advised as a result of SRB assisted activities                                        | 33                                |
| <b>Housing</b>                                                                     |                                                                                                  |                                   |
| 3a1                                                                                | Private dwellings completed                                                                      | 48                                |
| 3a2                                                                                | Private dwellings improved                                                                       | 45                                |
| 3a3                                                                                | Local authority dwellings completed                                                              | -                                 |
| 3a4                                                                                | Local authority dwellings improved                                                               | 37                                |
| 3a5                                                                                | Housing Association dwellings completed                                                          | 39                                |
| 3a6                                                                                | Housing Association dwellings improved                                                           | -                                 |
| 3b                                                                                 | Dwellings in tenant management organisation                                                      | 65                                |
| <b>Community safety/crime prevention</b>                                           |                                                                                                  |                                   |
| 5a1                                                                                | Benefiting community safety initiatives                                                          | 53                                |
| 5a2                                                                                | ▪ Aged over 60                                                                                   | 46                                |
| 5a3                                                                                | ▪ Females                                                                                        | 44                                |
| 5b1                                                                                | Dwellings with upgraded security                                                                 | 51                                |
| 5b2                                                                                | Commercial buildings with upgraded security                                                      | 56                                |
| 5c                                                                                 | Community safety initiatives                                                                     | 54                                |
| 5d1                                                                                | Youth crime prevention initiatives                                                               | 51                                |

|                                     |                                                |    |
|-------------------------------------|------------------------------------------------|----|
| 5d2                                 | ▪ Nos attending crime prevention initiatives   | 63 |
| <b>Environmental improvements</b>   |                                                |    |
| 6a                                  | Land improved / reclaimed for open space (ha)  | 58 |
| 6b                                  | Land improved / reclaimed for development (ha) | 58 |
| 6c                                  | No buildings back into use                     | 53 |
| 6d1                                 | Roads built (km)                               | -  |
| 6d2                                 | Roads improved (km)                            | 67 |
| 6e                                  | No traffic calming schemes                     | 60 |
| 6f                                  | No waste management / recycling schemes        | 50 |
| <b>Community facilities</b>         |                                                |    |
| 7a1                                 | People access to new health facilities         | 66 |
| 7a2                                 | People with access to new sport facilities     | 66 |
| 7a3                                 | People with access to new cultural facilities  | 66 |
| 7a4                                 | New health facilities                          | 60 |
| 7a5                                 | New sports facilities                          | 64 |
| 7a6                                 | New cultural facilities                        | 65 |
| 7b1                                 | Using improved health facilities               | 66 |
| 7b2                                 | Using improved sports facilities               | 62 |
| 7b3                                 | Using improved cult facilities                 | 66 |
| 7b4                                 | Health facilities improved                     | 52 |
| 7b5                                 | Sports facilities improved                     | 61 |
| 7b6                                 | Cultural facilities improved                   | 63 |
| <b>Voluntary / community sector</b> |                                                |    |
| 8a1                                 | Voluntary organisations supported              | 68 |
| 8a2                                 | Community organisations supported              | 75 |
| 8c                                  | Individuals involved in voluntary work         | 65 |
| 8d                                  | Employee voluntary schemes                     | 80 |
| 8e                                  | Community enterprise start ups                 | 77 |
| <b>Childcare</b>                    |                                                |    |
| 10a                                 | Childcare places provided                      | 65 |

Source: the, then, Department for Transport, Local Government and the Regions (DTLR) (2002)

Table 5.21 shows the calculation of gross direct to total net additional local impacts for a range of Neighbourhood Renewal Fund project types.



| <b>Table 5.21: Gross to net additionality ratio – Neighbourhood Renewal Fund (Evaluators views)</b> |                                                     |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------|
|                                                                                                     | <b>Gross direct to local net additional local %</b> |
| Crime                                                                                               | 71%                                                 |
| Education                                                                                           | 64%                                                 |
| Health                                                                                              | 66%                                                 |
| Housing and environment                                                                             | 61%                                                 |
| Worklessness                                                                                        | 63%                                                 |
| Other                                                                                               | 62%                                                 |
| <b>Average</b>                                                                                      | <b>66%</b>                                          |

Note: Unweighted averages

Source: AMION Consulting (2007)

The research produced on behalf of BIS in terms of the assessment of additionality also sets out a range of gross to net additionality ratios (see Table 5.22). The overall average net additionality ratio at the sub-regional level is 45.8%, compared to a regional average of 50.3%.

| <b>Table 5.22: Net additionality ratios by type of intervention – BIS/CEA guidance</b> |                            |                        |
|----------------------------------------------------------------------------------------|----------------------------|------------------------|
|                                                                                        | <b>Sub-regional (mean)</b> | <b>Regional (mean)</b> |
| All observations                                                                       | 45.8%                      | 50.3%                  |
| Business development & competitiveness                                                 | 35.9%                      | 49.7%                  |
| Regeneration through physical infrastructure                                           | 54.2%                      | 50.8%                  |
| People and skills                                                                      | 54.0%                      | 55.1%                  |

Note: a more detailed breakdown by project type is contained within the BIS/CEA guidance

## 6 Conclusion

This Guide has explained how to appraise the additional impacts of an intervention, using evidence-based judgements.

The preceding discussion has made it clear that the assessment of additionality forms a critical part of any project appraisal. It is recognised that assessing additionality is not always a straightforward process, and it requires project knowledge and judgement as well as information on which to base an assessment of leakage, displacement, substitution, multiplier effects and deadweight. However, without an assessment of additionality we do not know what the intervention is adding over and above what would have happened anyway. In the absence of this information we cannot tell if the intervention offers good value for money.

This document has identified a number of issues that must be addressed if an intervention's additionality is to be correctly assessed and where possible maximised:

- (i) *What would happen anyway? (The reference case);*
- (ii) *Who do we want to benefit and will they?*
- (iii) *Will activity elsewhere in the target group or area be reduced?*
- (iv) *Will there be additional benefits as a result of further expenditure?*

As well as scale effects (i.e. the quantity of outputs/outcomes), it is important to also assess whether an intervention will result in a different quality of and/or timing of benefits.

Good practice is to always use values derived from local experience and research. In the absence of such primary information, project developers and appraisers may on occasions need to use ready reckoner values referred to in this Guide for the different additionality factors. Where these are used justification will be needed as to their appropriateness. They must not be used as replacements for detailed, project specific knowledge and research. **In assessing additionality, the important thing is not to calculate a spuriously precise figure, but rather to be clear about the likely scale and nature of an intervention's additional impacts.** Like many other aspects of economic appraisal it is possible to contrive figures - using the additionality assessment in this way is a waste of time. Where there is uncertainty, it may be helpful to consider using ranges.

The process of assessing additionality is more than an input into the value for money judgement. It is relevant to all stages of an intervention's lifecycle. It can be used in a positive way as a tool that the project developer should use to test the intervention as it is developed, with a view to re-designing it so that:

- as many of the outputs as possible reach the intended beneficiaries;
- existing outputs/outcomes are not unintentionally displaced;
- linkages are made to maximise the benefits; and
- the public sector does not support activity that individuals or the private sector or other organisation would have done anyway.

Overall, the assessment of additionality is an important element in maximising the impact and value for money of an intervention and ensuring that it delivers real results.

## **GLOSSARY**

|                              |                                                                                                                                                                                                                                                                                                    |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Additionality</b>         | The extent to which an activity is undertaken on a larger scale, takes place at all, or earlier, or within a given geographical area as a result of the intervention. Thus, an impact arising from an intervention is additional if it would not have occurred in the absence of the intervention. |
| <b>Agglomeration effects</b> | The benefits firms obtain when they locate near to each other. These effects are related to the concepts of economies of scale and network effects.                                                                                                                                                |
| <b>Deadweight</b>            | Output that would have occurred without the intervention.                                                                                                                                                                                                                                          |
| <b>Displacement</b>          | The proportion of intervention outputs accounted for by reduced outputs elsewhere in the target area.                                                                                                                                                                                              |
| <b>Intervention</b>          | Project, programme or policy implemented or supported by the public sector to achieve its objectives                                                                                                                                                                                               |
| <b>Leakage</b>               | The proportion of outputs that benefit those outside of the intervention's target area or group.                                                                                                                                                                                                   |
| <b>Market failure</b>        | A situation where barriers exist to the normal and efficient operation of a local economy. Examples may include information barriers, where local people do not know about nearby job vacancies.                                                                                                   |
| <b>Multiplier effects</b>    | Further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term effects.                                                                                                                                                 |
| <b>Outcomes</b>              | The wider effects or impact on an area of an intervention, for example the reduction in crime level over a set period of time.                                                                                                                                                                     |
| <b>Outputs</b>               | The physical products or measurable results of individual projects, for example, the number of firms assisted and training places taken up.                                                                                                                                                        |

|                       |                                                                                                                                                            |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Persistence</b>    | The period of time over which the benefits generated will endure.                                                                                          |
| <b>Present value</b>  | The future value of a cost or benefit expressed in present terms by means of discounting.                                                                  |
| <b>Reference case</b> | The position in terms of target outputs over a set period of time if the intervention did not take place.                                                  |
| <b>Substitution</b>   | Where a firm substitutes one activity for a similar activity (such as recruiting a different job applicant) to take advantage of public sector assistance. |
| <b>Target area</b>    | The area within which benefits will be assessed.                                                                                                           |

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| HMSO (1995A)        | Evaluation of the Enterprise Zone                                                                                |
| HMSO (1995B)        | Evaluation of the Enterprise Zone                                                                                |
| HMSO (1995)         | Evaluation of DTI Funded TEC Services in Support of Small and Medium Sized Businesses                            |
| ODPM (2003)         | Assessing the Impact of Spatial Interventions: Regeneration, Renewal and Regional Development (known as the 3Rs) |

|                                   |                                                                                                                                                                  |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Oxford Economics (September 2012) | The Economic Impact of the UK Film Industry                                                                                                                      |
| Rhodes, J and other (1994)        | English Partnerships: Evaluation Evidence, Parameter Values and Expenditure Weights. A Report Prepared for English Partnerships. (September, 1994 – unpublished) |
| Scottish Enterprise (2008)        | Additionality & Economic Impact Assessment Guidance Note                                                                                                         |
| SQW (2007)                        | Interim Evaluation of the Coalfields Regeneration Programmes in England – Final Evaluation Report                                                                |

## **APPENDIX A**

### **Major changes since the third edition of this Guide**

## Changes since the third edition (October 2008) of this Guide

There are six principal changes since the third edition of this Guide as follows:

(i) *New benchmark evidence*

*BIS has produced new evidence on the scale of each of the additionality factors, based on evaluations of economic development and regeneration interventions. This new evidence has been incorporated into the Guide within each of the relevant sections relating to deadweight, leakage, displacement, substitution and economic multiplier effects.*

(ii) *Valuing the benefits*

*Additional text and links to further guidance has been added to Section 2 in terms of the approach to valuing net additional benefits. An additional example of how to value the net additional benefits has also been added to Section 5.*

(iii) *Multiplier benchmarks*

*Additional information from the Scottish Input-Output tables and Oxford Economics has been added to Section 4 to provide further benchmark data in relation to multiplier effects. Average multipliers covering a range of interventions, based on research undertaken for BIS, have also been included.*

(iv) *Persistence*

*In previous editions of the Guide, although the time period for appraisal was discussed, there was no mention of considering the persistence of the benefits created. A new section has been added to Section 2, outlining the issue of persistence, and estimates of persistence for a range of intervention types have been included within Section 5.*

(v) *New research and guidance*

*A number of useful research papers and guides have been published since the last edition of the Additionality Guide. This edition of the Guide has incorporated references to this research and included a list of sources of new guidance within the bibliography.*

(vi) *Agglomeration effects*

*Recent research studies, including the BIS/CEA research into improving the assessment of additionality, have identified the benefits of spatial agglomeration and the importance of taking these benefits into account when assessing the overall impact of an intervention. Additional discussion of agglomeration effects has therefore been added to Section 2 of the Guide, along with references to further sources of guidance.*



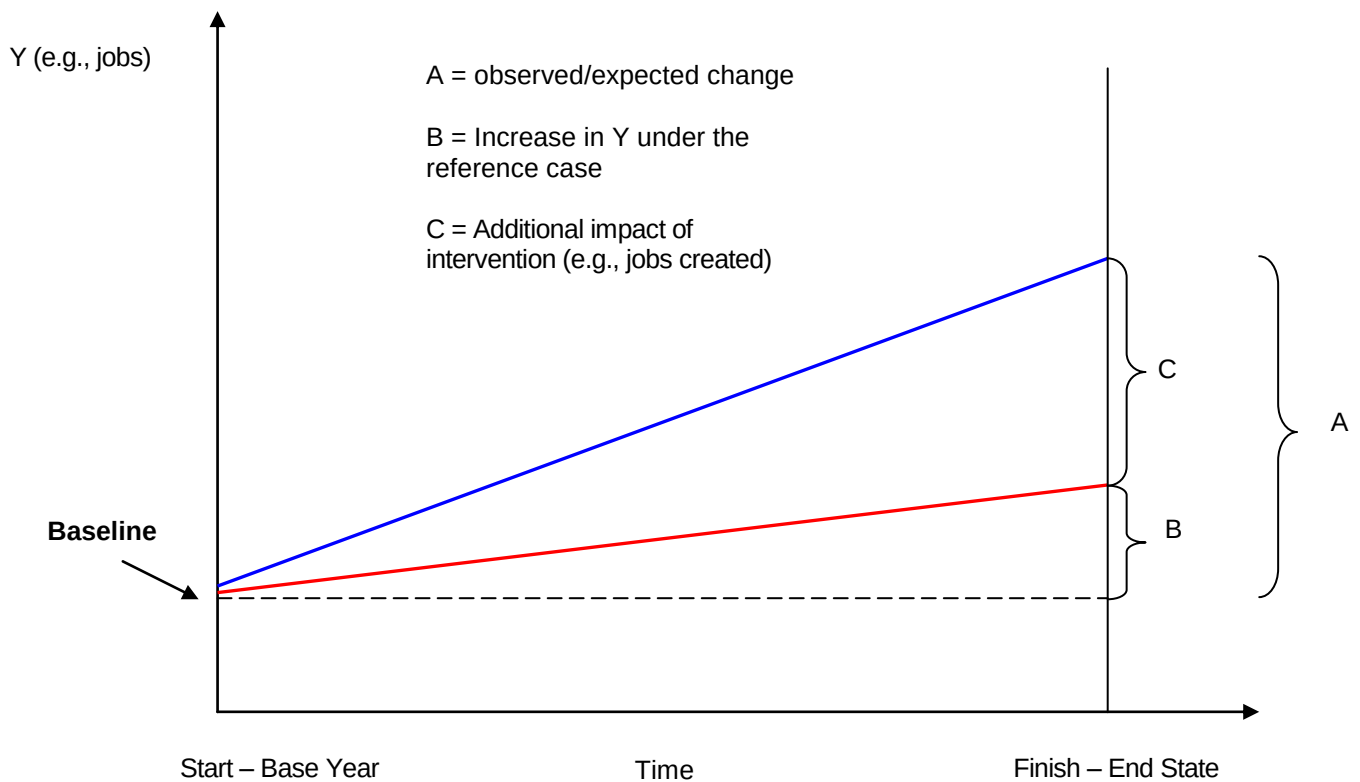
## **APPENDIX B**

### **Illustrations of additionality in the context of different reference cases**

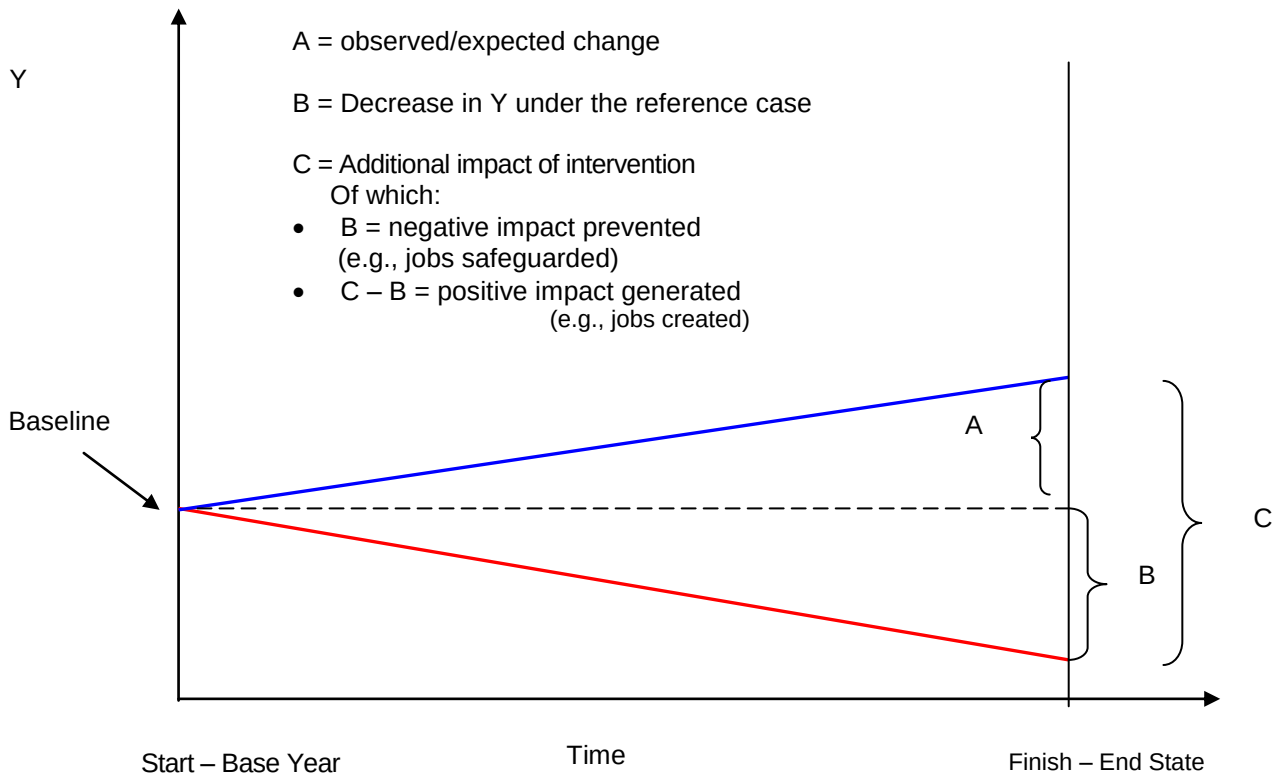
## Illustrations of additionality in the context of different reference cases

This Annex provides illustrations of three different reference cases. The first case involves an improving reference case where the intervention involves an additional improvement. The second case involves a deteriorating reference case, but where the improvement associated with the intervention is sufficient to deliver a net overall improvement. The third case is one showing a deteriorating reference case, where the intervention partially offsets this deterioration, but not totally – leading to a net deterioration – but not as large as the one that would have occurred without the intervention.

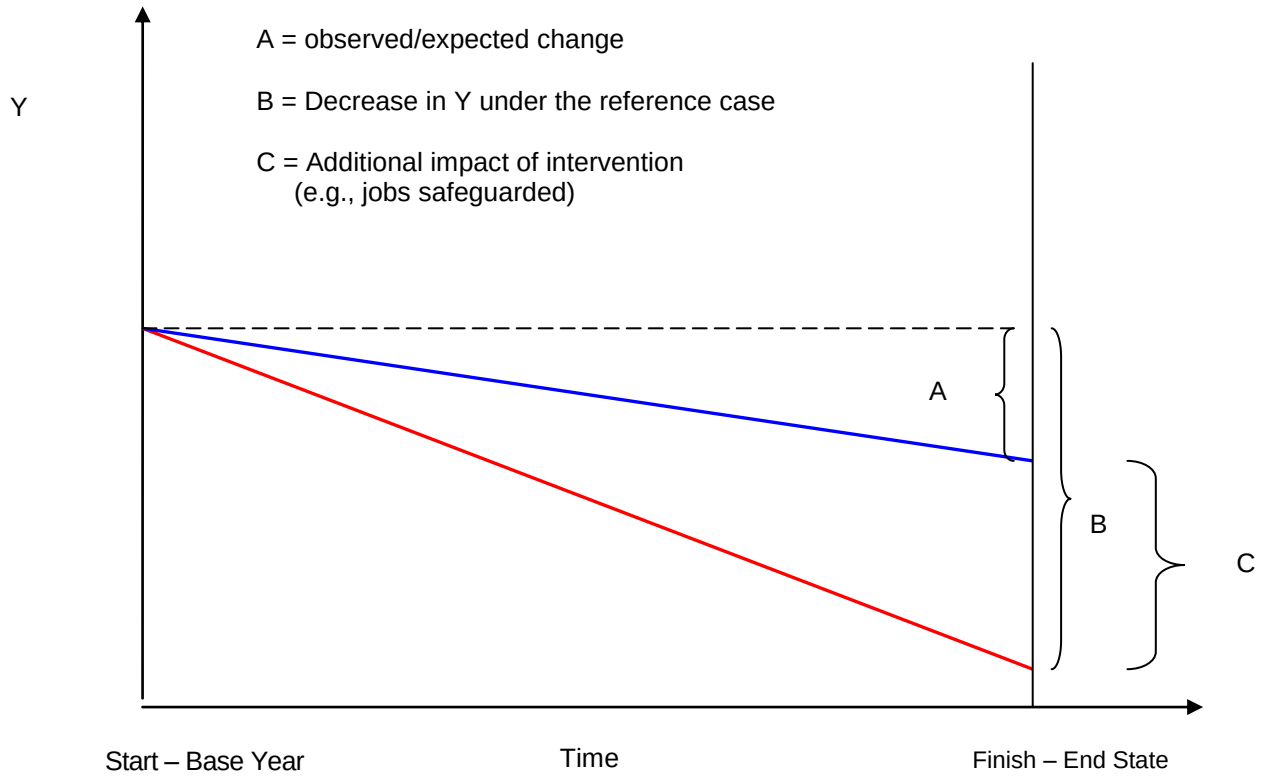
### Case 1 - improving reference case



**Case 2 – deteriorating reference case with overall improvement**



**Case 3 – deteriorating reference case with overall deterioration**



## **Appendix C**

### **Interventions options**

## Intervention options

The public sector intervenes to achieve specific objectives and generate particular outputs and outcomes in a specified period of time. There will always be a number of alternative options or ways in which the public sector might intervene. As a minimum these will include: different timings; increasing or decreasing the scale of investment; increasing or decreasing the quality of the outputs, and varying the delivery arrangements. Whilst not all of these will be feasible options in each case, very few, if any interventions could not be delivered in a different way and still meet the majority or all of its objectives.

The identification and assessment of alternative intervention options is central to project appraisal. Without a proper assessment of the options it will be difficult to have confidence in any assessment of the value for money of the intervention. Comparing the intervention option alone with the reference case will tell you only about the additionality of that option, it will not tell us whether or not greater additionality and more value for money could be achieved by delivering the intervention in a different way.

It is usual to start the process by generating and reviewing an initial list (long-list) of intervention options. In drawing up the initial list it is good practice to consult those who are the intended beneficiaries, others who have experience in delivering similar interventions and internal or external experts. Where this initial list is too long to make appraisal of all options possible, the list can be reduced to a shorter-list using appropriate criteria. The short-listing criteria could include constraints of a physical, legal or planning nature that make the intervention not feasible or it could be based on an analysis that showed some options were better than others at producing the same or more outputs at less cost.

The options on the shorter list - which depending on intervention size or nature should include at least four options - will then be subject to detailed appraisal. The full range of outputs and outcomes of the short-listed option need to be identified, then the level and timing of them estimated.

## **APPENDIX D**

### **Crowding out and crowding in**

## Crowding out

### (i) Definition

**Crowding out** - The tendency for outputs (other than those that increase the rate of capacity growth through a supply side improvement) to be entirely offset because of macro-economic adjustments

### (ii) Examples of crowding out

Crowding out is a specific case of an impact that needs a slightly different type of consideration. In assessing additionality there should be some recognition of the Government's overall macro-economic policy which determines the overall level of demand in the economy. That policy is currently aimed at ensuring that, over the longer term, expansion of demand is broadly in line with increases in capacity. This implies that boosting prosperity is a matter of raising the rate of capacity growth, through supply side improvements, as this will allow demand to be expanded without generating inflation. Thus, increasing economic activity through programmes and policies that do not increase capacity growth will be totally offset elsewhere in the economy, either directly through displacement or indirectly through higher taxes, interest rates and wages as a consequence of the extra Government expenditure. This indirect impact is called crowding out and it implies that if there is no supply side impact associated with an intervention then no additional outputs will be generated at the national level.

### (iii) Factors affecting the scale of crowding out

This will largely be determined by the extent to which the impacts arise as a result of supply side improvements. Where a specific impact arises as the result of a supply side improvement there is no reason to expect that there will be a compensating macro-economic adjustment. This will need to be taken into account when an intervention has a range of impacts only some of which have an impact on the supply side of the economy.

### (iv) Approaches to estimating

Crowding out is of most relevance in relation to impacts at the national level and hence a degree of proportionality must be applied in taking the effect into account. Typically it will be more important in the case of policies and programmes. Large interventions, or interventions where the costs and benefits are finely balanced, however may also need to consider the effect. It may be assumed that:

- for areas covering up to 5% of the UK population, crowding out can reasonably be ignored. Population is used here as a proxy for the magnitude of the impact. This will be relevant to some but not all interventions. An alternative would be the share of UK GDP; and
- for areas of 5-20% of the UK working population, it is reasonable to present results without taking account of crowding out so long as this is explicitly stated.

For programmes covering more than 20% of the UK working population, explicit account should be taken of crowding out, and estimates of net outputs reduced accordingly. It should be assumed that in the absence of a demonstrated supply side improvement, crowding out is 100% at the national level.



## **Crowding In**

It is also possible that an intervention might result in crowding in effects, whereby variables in the economy adjust and result in an increase in private expenditure. Thus, investment in the physical and human capital infrastructure might result in a more efficient level of activity and therefore crowd in, rather than crowd out, private sector investment. The public sector can thus create the conditions for increased private sector activity.

## **APPENDIX E**

### **Housing and Additionality**

## Housing and Additionality

### 1.0 Introduction

This Appendix presents further examples of how to assess the additional impact of housing programmes and projects. It also identifies some of the key sources of information needed to assess additionality in relation to housing.

The appendix includes examples of housing interventions within both low demand and growth areas. Like the rest of the Additionality Guide the focus in this appendix is on project appraisal and therefore an ex-ante assessment of expected impacts.

### 2.0 Additionality in low demand and growth areas

The additionality framework needs to be applied with due care and consideration in different situations – with thought given to the rationale/objectives for intervening and the market and policy contexts. Thus, for example, interventions that lead to increasing house prices in low demand areas could be seen as a positive market development, but would probably be negative in a growth area.

In relation to low demand areas, the focus will often be on changing the scale and nature of demand within a specific location. As such, supply-side interventions are undertaken in order to stimulate increased demand by enhancing the attractiveness of the area.

Conversely, in growth or high demand areas, interventions may be concerned with increasing affordability - for example, by increasing the supply of affordable or key worker homes to meet existing unmet demand, thereby increasing household numbers. There may be an increase in household formation in the intervention option and care must be taken when assessing displacement. New households that would otherwise not have existed would not be displaced. They will also result in other wider benefits, such as reducing travel distances, by altering commuting patterns and allowing people to live closer to work. The rationale for intervening will often be about ensuring sufficient local supply of key workers, such as teachers and nurses.

Whilst the additionality framework can in principle handle these differences, it will need to be applied flexibly and thoughtfully - not as a template to be imposed mechanically.

### 3.0 Examples of how to assess the additionality of a housing programme or project

#### 3.1 Programme level additionality

In developing a programme, additionality can be considered through:

- (i) an overall assessment of expected changes in conditions (**the macro or top-down approach**) under different scenarios;
- (ii) assessing each of the factors (leakage, displacement/substitution, multiplier effects and deadweight) in turn, based upon aggregating programme/project level activities (**the micro or bottom up approach**). This involves making evidence-based judgements and being explicit about the assumptions for each additionality factor and the expected implications of a set of actions.

The **macro approach** would typically be based upon trend analyses or forecasting models, again comparing reference and intervention options. Model-based approaches can allow the potential repercussions off the direct causal chain to be considered. However, in many cases producing such forecasts is not straightforward and will involve subjective judgements about underlying assumptions. A wide range of indicators could potentially be assessed, including:

- changes in stock and changes in the stock in long-term or sustained demand, that is housing units for which there is expected to be long-term demand. A distinction needs to be drawn between occupation demand (from owners and for rent) and non-occupation demand (buy to rent and speculative). The latter will have a price effect, but may or may not result in occupation of the stock. In most cases it is the former which will be the primary concern;
- changes in the condition of the stock – this might include a deterioration in the physical condition of the housing stock;
- changes in the relative price of the stock and total stock value;
- changes in rates of out-migration (as a measure of resident satisfaction);
- changes in the tenure mix (again as a measure of social change and willingness to buy and thus confidence or the addition of a new type of dwelling, e.g. low cost home ownership to meet a defined need);
- levels of private sector investment in the stock – this might include improvements made by local owner occupiers; and
- supporting socio-economic indicators – such as crime and worklessness.

In undertaking a **micro-based approach** the expected trends in key variables, such as changes in household formation, will still need to be considered. The appropriate output/outcome indicators will need to be identified for any given intervention, but the range of indicators will be the same as those for the macro-approach. For most housing projects, a combination of indicators may need to be considered, which could be drawn from the following, depending on the objectives of the project:

- (i) housing units which are in sustained demand. Care needs to be taken because housing units can differ significantly in their scale and nature – for example, a one bedroom flat and a five-bedroom detached house. The appropriate type of housing unit for any specific project should be determined by reference to the policy objectives and the rationale for intervening;
- (ii) sustained change in housing stock value – such effects can be very difficult to measure on an ex-ante basis and considerable care will need to be taken in using this indicator;
- (iii) condition of the stock; and
- (iv) wider impacts - including local environment and quality of life.

In each case, information and evidence would need to be provided concerning amongst other things:

- Key assumptions – the rationale for the assumptions used in assessing additionality. This would normally include information about key market segments and specific areas or neighbourhoods;
- Phasing and timing issues – consideration of the likely effects over time;
- Sensitivity analysis – consideration of the effect of varying key assumptions. This would be linked to key market drivers and to the risk assessment for the programme or project;
- Monitoring – details of the monitoring framework, including the indicators to be tracked, that will be established to monitor additionality and, in particular, displacement effects.

### 3.2 Project level additionality

#### Growth area examples

##### (i) New build housing project

In developing a project, as with a programme, additionality can be assessed by considering each of the factors in turn. For example, for a project involving the development of 120 new housing units on a cleared site, of which 30% will be affordable, for which there is believed to be long-term demand, the following factors would need to be considered at the growth area level:

- **Reference case (deadweight)** – for this example, if it is expected that 20% of the units developed on the site would have been affordable anyway in line with the local plan requirement. The original scheme would have been constructed at a lower density, with some 100 units likely to have been delivered. Thus, 20 affordable units would be the gross direct effects under the reference case.
- **Leakage** – if non-target households (i.e. those earning more than the minimum level specified) were to occupy any of the affordable units then leakage would occur. However, only those people on the Council's list would be allowed to occupy the affordable homes and therefore leakage would be zero in both the reference and intervention case options.
- **Displacement/substitution** – if demand for the units is expected to come from outside of the local area or from households that would not otherwise exist then no displacement would occur. In this case, there is excess demand for affordable housing and, as such, no displacement.
- **Multiplier effects** – since the focus of this analysis is on housing units then this factor is not relevant in this case.

Table E1 shows how the example would be worked through to calculate project level additionality in terms of the number of affordable units in sustained demand.

|                                               |                                     | Intervention option | Reference case |
|-----------------------------------------------|-------------------------------------|---------------------|----------------|
| A                                             | Gross direct effects                | 36                  | 20             |
| B                                             | Less leakage from target group/area | 0                   | 0              |
| C=A-B                                         | Gross local direct effects          | 36                  | 20             |
| D                                             | Less displacement / substitution    | 0                   | 0              |
| E=C-D                                         | Net local direct effects            | 36                  | 20             |
| F                                             | Plus multiplier effects             | -                   | -              |
| G=E+F                                         | Total gross local effects           | 36                  | 20             |
| H=G(intervention options) - G(reference case) | Total net additional local effect   | 16                  |                |

The total net additional local effect of the project will be 16 affordable residential units in sustained demand (the total net effect for the intervention option minus the total net effect for the reference case).

In this case the project is not expected to result in the stimulation of additional, unassisted developments, although some stimulation of confidence is expected. However, it will result in a range of wider benefits that will also need to be considered in the appraisal. These might include environmental benefits as a result of removing an eyesore, as well

as demonstration effects that will help to change developer and occupier perceptions of the area.

*(ii) Major brownfield housing development in a growth area*

A major housing scheme, comprising 600 homes with 40% key worker and associated employment and leisure uses, is proposed on a brownfield site within a growth area with public support. The site is located within walking distance of the city centre. The scheme will include high design and other standards. As a result of the ground conditions, the affordable housing component and high standards the scheme needs public sector funding. Without the project, the less contaminated portion of the site, which is relatively easily developed would be expected to come forward, providing 200 homes.

The project is designed to help accommodate the significant growth in households that is projected in the growth area and specific criteria will be imposed in selecting potential occupiers for the key worker housing for which there is also very substantial demand – as such leakage is expected to be zero. In terms of displacement there is unmet demand and, as such, product market displacement is also zero. However, factor market displacement, as a result of the limited availability of construction resources is expected to occur. The level of factor market displacement is estimated to be 10%.

Table E2 shows an assessment of the total net additional local housing units in sustained demand.

| Table E2: Example 2 – Key worker houses in growth areas (housing units in sustained demand) |                                                              |                     |                |
|---------------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------|----------------|
|                                                                                             |                                                              | Intervention option | Reference case |
| A                                                                                           | Gross direct effects                                         | 600                 | 200            |
| B                                                                                           | Less leakage from target group/area                          | 0                   | 0              |
| C=A-B                                                                                       | Gross local direct effects                                   | 600                 | 200            |
| D                                                                                           | Less displacement (factor and product market) / substitution | 60                  | 20             |
| E=C-D                                                                                       | Net local direct effects                                     | 540                 | 180            |
| F                                                                                           | Plus multiplier effects                                      | -                   | -              |
| G=E+F                                                                                       | Total gross local effects                                    | 540                 | 180            |
| H=G (intervention options) -G(reference case)                                               | Total net additional local effect                            | 360                 |                |

**Low demand area examples**

*(i) Mixed use refurbishment*

In this example, it is assumed that public sector support has been requested towards a project on a canal-side former mill complex in a low demand area that will deliver a mixture of commercial development and housing in a variety of new and refurbished buildings. The Mill complex is Grade II listed.

The target area for the project is the site itself and the wider local authority area. It is expected that the project will deliver 50 housing units and 2,000 sq m of commercial floorspace (assumed to be B1 office space). Without public sector support it is likely that one of the former mill buildings on the site, which is in the best state of repair, would be brought forward by the private sector, and would deliver approximately 20 housing units and 500 sq m of commercial floorspace. It is not expected that the project will cause a large decrease in the number of housing units built elsewhere in the target area since demand is low, although because of the nature and quality of this scheme sustained demand is anticipated. As such a displacement rate of 20% has been assumed.

The objective of the public sector supporting the housing component of this project is to generally attract new residents to the area. Thus 'leakage' of housing benefits is not considered an issue in this case. However, jobs taken by people outside of the local authority area have been assessed.

Table E3 sets out an assessment of the net additional housing units in sustained demand generated by the proposed intervention option at the level of the site itself and at the target area.

| <b>Table E3: Example 3 - Housing in low demand area (housing units in sustained development) – at site and target area levels</b> |                                    |                     |                   |                |                   |               |                   |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|-------------------|----------------|-------------------|---------------|-------------------|
|                                                                                                                                   |                                    | Intervention Option |                   | Reference Case |                   | Additionality |                   |
|                                                                                                                                   |                                    | Site level          | Target area level | Site level     | Target area level | Site level    | Target area level |
| A                                                                                                                                 | Gross direct housing units         | 50                  | 50                | 20             | 20                |               |                   |
| B = Not applicable                                                                                                                | Estimated leakage                  | N/A                 | N/A               | N/A            | N/A               |               |                   |
| C = A-B                                                                                                                           | Gross local direct effects         | 50                  | 50                | 20             | 20                |               |                   |
| D = estimated displacement                                                                                                        | Displacement – 20%                 | 0                   | 10                | 0              | 4                 |               |                   |
| E = C-D                                                                                                                           | Net local direct effects           | 50                  | 40                | 20             | 16                |               |                   |
| F = Not applicable                                                                                                                | Multiplier                         | N/A                 | N/A               | N/A            | N/A               |               |                   |
| G= E+F                                                                                                                            | Total gross local effects          | 50                  | 40                | 20             | 16                |               |                   |
| H = G (Intervention option) – G (Reference case)                                                                                  | Total net additional local effects |                     |                   |                |                   | <b>30</b>     | <b>24</b>         |

Note: There may be multiplier effects of the expenditure associated with the housing construction, the 'not applicable' refers to the likelihood that this spend will not result in more housing units being built.

Table E4 considers the net additional employment outputs at the target area level. The site level has not been considered in this case since the focus is on creating local employment opportunities.

| Table E4: Example 3 - Employment in low demand areas – target area levels |                                                                                       |                     |                |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                           |                                                                                       | Intervention Option | Reference Case |
| A (@ 20 sq m per job)                                                     | Gross direct employment                                                               | 100                 | 25             |
| B = estimated leakage                                                     | Estimated leakage - 20% (Jobs taken up by people resident outside of the target area) | 20                  | 5              |
| C = A-B                                                                   | Gross local direct employment                                                         | 80                  | 20             |
| D = estimated displacement                                                | Displacement - 40%                                                                    | 32                  | 8              |
| E = C-D                                                                   | Net local direct employment                                                           | 48                  | 12             |
| F = Combined income & supply multiplier                                   | Multiplier at 1.2                                                                     | 10                  | 2              |
| G= E+F                                                                    | Total gross local effects                                                             | 58                  | 14             |
| H = G (Intervention option) – G (Reference case)                          | Total net additional local effects                                                    | 44                  |                |

Table E5 considers the overall effects of housing and employment at the site and target area levels.

| Table E5: Example 3 - Summary of housing and employment additionality – at site and target area levels |                     |                   |                |                   |               |                   |
|--------------------------------------------------------------------------------------------------------|---------------------|-------------------|----------------|-------------------|---------------|-------------------|
|                                                                                                        | Intervention Option |                   | Reference Case |                   | Additionality |                   |
|                                                                                                        | Site level          | Target area level | Site level     | Target area level | Site level    | Target area level |
| Gross direct housing units in sustained demand                                                         | 50                  | 50                | 20             | 20                | 50            | 50                |
| Gross to net housing additionality effect                                                              | 100%                | 80%               | 100%           | 80%               | 60%           | 48%               |
| Total net additional local housing effects                                                             | 50                  | 40                | 20             | 16                | 30            | 24                |
| Gross direct employment                                                                                | 100                 | 100               | 25             | 25                | 100           | 100               |
| Gross to net employment additionality effect                                                           | -                   | 58%               | -              | 56%               | -             | 44%               |
| Total net additional local employment effects                                                          | -                   | 58                | -              | 14                | -             | 44                |

Note: This table presents the results of the calculation of additionality in a slightly different way.

## (ii) Student housing

Another example of how project level additionality can be assessed using a more qualitative approach is set out in Table E6. In this case, the key output and outcome areas to be considered are housing and economy. The analysis includes discussion of both supply and demand side displacement.



| <b>Table E6: Example 4 – Student housing in low demand area</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Programme:</b>                                               | Student housing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Intervention option:</b>                                     | Subsidised refurbishment of 100 vacant housing units for students by the local University                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Reference case:</b>                                          | Ad hoc refurbishment of 20 units based on past trends                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                 | <b>Housing</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Economy</b>                                                                                                                                                                                                                                                                                                                                                                                                           |
| Leakage                                                         | <ul style="list-style-type: none"> <li>No leakage due to project design (i.e. units exclusively for students)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>Students spend outside area</li> <li>Issue of supply of local facilities to meet demands from students (e.g. local fast food restaurants). Further investigation and possible linked programme.</li> </ul>                                                                                                                                                                        |
| Displacement                                                    | <ul style="list-style-type: none"> <li>It is estimated that 10 of the students would have occupied private rented accommodation in the low demand area. However, much of this is in a poor state of repair and would give students a lower standard of living.</li> <li>Issue about potential future vacancies in private rented stock. Linked to private rented programme which forms another strand of low demand area activity.</li> <li>Students may be disruptive and cause other residents to move away. Careful choice of units and design of works is required.</li> <li>Students would have found accommodation in wider area (say sub-region), therefore the vast majority of demand will be displaced at this level (i.e. it is existing demand rather than new at the sub-regional level).</li> </ul> | <ul style="list-style-type: none"> <li>Reduction in private rented/room letting and the economic activity associated with this.</li> <li>Students cause other residents to move away resulting in a loss of local expenditure.</li> <li>At the wider level, the vast majority of this economic activity would have happened anyway since the students would have been spending their student loans elsewhere.</li> </ul> |
| Economic multipliers                                            | <ul style="list-style-type: none"> <li>Not relevant because the focus is on housing outputs and outcomes.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <ul style="list-style-type: none"> <li>Purchases by local shopkeepers due to increased turnover and increased local spending as a result of greater local incomes.</li> </ul>                                                                                                                                                                                                                                            |
| Deadweight                                                      | <ul style="list-style-type: none"> <li>20 units would be expected to be provided anyway through refurbishment. The remaining 80 units would, on the basis of past trends, have remained vacant.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>Economic activity associated with the 20 units</li> </ul>                                                                                                                                                                                                                                                                                                                         |
| Net Additionality                                               | <ul style="list-style-type: none"> <li>Likely to result in additional quantitative and qualitative benefits at the local, low demand area level. Careful choice of units and design will be needed to ensure that student accommodation does not result in disruption to existing households.</li> <li>The majority of the students would not have been living in the low demand area in the absence of this programme.</li> <li>At the wider sub-regional level the demand would have arisen anyway and therefore the activity in a quantitative sense would not be net additional. However, there would be</li> </ul>                                                                                                                                                                                           | <ul style="list-style-type: none"> <li>Again net additional local benefits would be expected, although the availability of appropriate facilities will require further consideration.</li> <li>At the wider level the majority of the student related economic activity is likely to be displaced.</li> </ul>                                                                                                            |

|  |                                                                                                                                                                                                                                                                                                                                                         |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | <p>qualitative benefits in terms of the standard of accommodation. The areas from which demand is likely to be displaced are significantly more buoyant than the target low demand area.</p> <p>Wider level, net additional benefits would include positive environment affects and increased vitality of the area. Vacancy rates would be reduced.</p> |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

Note: Care needs to be taken to ensure that, where housing units are being considered, that the nature of the units delivered under each scenario is comparable. Where this is not the case and different market segments are being targeted, then significant care needs to be taken in assessing additionality and in undertaking the project appraisal more generally.

### ***Examples of how to use the ready reckoners in housing projects***

A project is being assessed at a growth area level and involves the provision of 50 starter homes. In the absence of the project it is estimated that only 5 starter homes would otherwise come forward in the area. However, some of these new households would have been expected to find local accommodation in the form of older, poor quality stock. Thus, the project would result in qualitative benefits. Based on local market information and answering the questions set out in the main Additionality Guide, the expected additionality effects in relation to the number of units in sustained demand at the growth area level are estimated as follows:

| <b>Table E7: Ready reckoner assumptions - starter homes in growth areas</b> |                            |                       |
|-----------------------------------------------------------------------------|----------------------------|-----------------------|
|                                                                             | <b>Intervention option</b> | <b>Reference case</b> |
| Leakage                                                                     | Low – 10%                  | Low – 10%             |
| Displacement/substitution                                                   | Medium – 50%               | High – 75%            |
| Multiplier effects                                                          | N/A                        | N/A                   |

Table E8 presents a quantitative assessment of additionality for the starter homes project at the growth area level.

| <b>Table E8: Ready reckoner worked example – starter homes (growth area level) - units in sustained demand</b> |                                                                                                                           |                            |                       |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------|
|                                                                                                                |                                                                                                                           | <b>Intervention option</b> | <b>Reference case</b> |
| A                                                                                                              | Gross direct effects                                                                                                      | 50                         | 5                     |
| B                                                                                                              | Less leakage from target group/area - i.e. homes going to none target group (Intervention – 10% and reference case – 10%) | 5                          | 1                     |
| C=A-B                                                                                                          | Gross local direct effects                                                                                                | 45                         | 4                     |
| D                                                                                                              | Less displacement (factor and product market) substitution (Intervention – 50% and reference case – 75%)                  | 23                         | 3                     |
| E=C-D                                                                                                          | Net local direct effects                                                                                                  | 22                         | 1                     |
| F                                                                                                              | Plus multiplier effects                                                                                                   | N/A                        | N/A                   |
| G=E+F                                                                                                          | Total net local effects                                                                                                   | 22                         | 1                     |
| H=G (intervention option)-G(reference case )                                                                   | Total net additional local effects                                                                                        | <b>21</b>                  |                       |

Another example would be a project to promote executive homes within a low demand area. In this case, the level of additionality, at the low demand area level, would be significantly higher since very little of this activity would have taken place anyway. In this example, it is assumed that 100 executive homes would be constructed under the intervention option and none under the reference case. For this project, the expected additionality effects, based on local market analysis and land use planning allocations at the low demand area level, are as follows:

| <b>Table E9: Executive Homes – Low Demand Area level</b> |                            |                       |
|----------------------------------------------------------|----------------------------|-----------------------|
|                                                          | <b>Intervention option</b> | <b>Reference case</b> |
| Leakage                                                  | None - 0%                  | None - 0%             |
| Displacement/substitution                                | None - 0%                  | None - 0%             |
| Multiplier effects                                       | N/A                        | N/A                   |

As a result, the total number of net additional executive homes would be 100 at the low demand area level (i.e. 100 less zero).

However, the level of additionality of the executive homes project would be significantly lower at the sub-regional level. The project would be expected to draw demand from both the City Centre and sub-urban areas, where demand is high. The estimated level of additionality, based upon market analysis, are as follows:

| <b>Table E10: Executive Homes - sub-regional level</b> |                            |                        |
|--------------------------------------------------------|----------------------------|------------------------|
|                                                        | <b>Intervention option</b> | <b>Reference case</b>  |
| Leakage                                                | None - 0%                  | No homes built in area |
| Displacement/substitution                              | High - 75%                 | No homes built in area |
| Multiplier effects                                     | N/A                        | N/A                    |

Table E11 presents the results of the assessment of additionality at the sub-regional level.

| Table E11: Ready reckoner worked example – Executive homes (low demand, sub-regional level) - units in sustained demand |                                                                                                            |                     |                |
|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                                         |                                                                                                            | Intervention option | Reference case |
| A                                                                                                                       | Gross direct effects                                                                                       | 100                 | 0              |
| B                                                                                                                       | Less leakage from target group/area (Intervention and reference case – 0%)                                 | 0                   | 0              |
| C=A-B                                                                                                                   | Gross local direct effects                                                                                 | 100                 | 0              |
| D                                                                                                                       | Less displacement (factor and product market) substitution (Intervention – 75% and reference case - zero ) | 75                  | 0              |
| E=C-D                                                                                                                   | Net local direct effects                                                                                   | 25                  | 0              |
| F                                                                                                                       | Plus multiplier effects                                                                                    | N/A                 | N/A            |
| G=E+F                                                                                                                   | Total net local direct effects                                                                             | 25                  | 0              |
| H=G (intervention option) - G (reference case)                                                                          | Total net additional local effects                                                                         | 25                  |                |

#### 4

### Information sources

A wide-range of data will need to be considered to assess additionality in relation to a housing programme or project.

In order to make informed decisions about what programmes and projects will minimise negative effects and to ensure that the maximum additional benefits are being delivered, information will be required on a range of subjects, including potentially:

- (i) **Population, migration, household and economic forecasts** – these forecasts should include information about areas within and outside the intervention area boundary. They provide the framework within which the assessment of additionality will be undertaken. The economic, social and other factors that have been assumed to 'drive' or underpin the forecasts should be explained and the likely housing implications considered. Wherever possible forecasts should relate to the specific areas of impact under consideration and consider the type of housing demanded. Alternative future scenarios will often need to be considered to test the robustness of the proposed programme or project.
- (ii) **Policy context and other public sector initiatives** – in particular, planning, housing and economic development policies will need to be reviewed. These will include local authority and Local Enterprise Partnership policies. In addition, other public sector initiatives, in particular those concerned with economic growth, education and health will need to be considered.
- (iii) **Existing and forecast housing land supply** – this should be based upon existing and proposed local authority and Local Enterprise Partnership and other housing policies, together with an assessment of outstanding planning permissions, within the various areas of impact and broken down into market segments (including type of dwelling and tenure). Alternative housing land supply scenarios may again need to be developed and tested.
- (iv) **Housing market conditions** - this will include an analysis of current conditions and past trends for the local and wider area. The types of data

that will need to be considered include: house prices; land prices; rental levels; stock by type of dwelling and tenure; sale periods; turnover within the stock; vacancy rates by type and void information and housing management data for social rented accommodation. It will often be necessary to assemble and analyse neighbourhood level data to understand how the housing market is operating within a local area.

- (v) **Affordability** - Housing Needs Studies, income and house price data, information from key local public sector employers, e.g. Police and National Health Service (NHS).
- (vi) **Surveys** – these are likely to be a key source of data in assessing leakage, displacement and deadweight. Information may be collected from a number of primary sources:
  - *Individual/households* – can be questioned about their views, likely future needs, aspirations, attitudes and location decisions.
  - *Direct questioning of developers* – on their expected behaviour and on their proposed approach to marketing and expected sources of demand.
  - *Mover/beneficiary survey* – occupiers of recent developments, supported projects or in/out movers, can be questioned about where they moved from, why and what they would have done if the homes they moved to were not available.
  - *Focus groups* – detailed discussions with groups of, for example, residents or recent movers can be useful in providing in-depth discussions about complex residential choice decisions.
  - *Other specific surveys* – for example, housing chain surveys to determine in detail the nature of housing movements within and beyond the local area.
  - *Business views*, again obtained using surveys.
- (vii) **Monitoring data and evaluation results.**

In each case the analysis should consider the likely timing of changes and these should be related to the nature and phasing of the programme or project.

In relation to displacement there are a number of specific indicators that may need to be assessed and then subsequently monitored, depending on the objectives of the scheme, these may include:

*(i) Housing stock, mix and condition/standard*

Tracking changes in the total number and nature of the stock will be important in order to assess potential displacement effects. The information assembled should include data about the mix of housing (number of bedrooms, flat or houses), as well as the condition of the stock.

*(ii) New starts and completions*

The level of new development activity underway and completions should also be monitored. Identifying trends in activity within and outside the area can help to inform judgements about displacement.

*(iii) Occupancy - Hard to let/vacancy/void rates*

Vacancy is a further key indicator, and monitoring of adjacent areas will indicate whether problems being tackled in an area are being displaced to adjacent areas. Registered Social Landlords (RSL) are able to provide indicators of hard to let premises. Void rates is another useful indicator.

*(iv) House prices and rental levels*

The issue here is the extent to which they are affected by the programme or project, taking into account general trends. Property Agents, financial institutions, the District Valuer and RSL's are good sources of this information.

*(v) Tenure patterns*

Another key indicator is tenure mix, typically owner occupied, private rented, and social housing. Changes need to be monitored against typical conditions in the area itself and in other areas. Displacement often takes the form of 'gentrification' where relatively more affluent buyers force out lower income residents, who may be forced to move elsewhere.

*(vi) Houses of Multiple Occupation (HMOs)*

HMO's are an important indicator of pressures at the lower end of the private rented sector. Often, these will be displaced from the intervention area, and move to adjacent areas, potentially causing social and environmental nuisance.

*(vii) Turnover*

Turnover can be an indicator of vitality in a housing market, but high levels could be an indicator of displacement. However, it might reflect the transitory nature of the areas and their populations. As such careful analysis and cross-checking with, for example, survey results will often be needed if indicators like turnover are to be correctly interpreted.

*(viii) Overcrowding*

A further possible indicator, which may be relevant in a limited number of circumstances, is the degree of overcrowding where housing demand increases and housing supply is unable to cope.

*(ix) Density/number of units*

Density (and therefore the total number of units in an areas - in particular, occupied units) is again a possible factor in displacement. Typical low demand area terraced properties are a very efficient use of land, achieving 50-60 dwellings per hectare. Replacement dwellings may be at lower density (say 30 dwellings/hectare plus), which could also affect local businesses, especially shops and local services.

*(x) Building costs*

Engineering the supply of housing in a local area will attract development activity, involving both main contractors and sub-contractors of various types. There may well be a tendency to 'bid up' prices, as well as to displace activity from other, non-supported surrounding areas. A measure of this would be to monitor local building cost inflation, which local quantity surveying firms could assist with.

*(xi) Community*

Many communities have remained together in lower cost housing because of the ability to house extended families in close proximity, and because they may not wish to take traditional forms of mortgage. Acquisition and re-housing of such families can bring significant displacement of communities to other adjacent areas, or indeed between urban areas in different parts of the sub-region. These displacement effects could be identified through surveys.

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