

APPENDIX 2 Information Note



Job Name: CWFWEIQ Economic Modelling Update
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Prepared By: Ryan Kane, Liam Gleeson
Reviewed By: Kyle Barrie
Approved By: Nick Skelton
Note Title: CWFWEIQ Economic Modelling Update

1 Introduction

Context

- 1.1 The Clyde Waterfront and West End Innovation Quarter (CWFWEIQ) outline business case (OBC) and associated impact assessment was completed in 2018.
- 1.2 Since then, the capital cost of delivering the Govan-Partick Bridge has increased significantly beyond the anticipated budget. Rather than redesigning, retendering, or halting the planned work, Glasgow City Council has retained the sub-project in the programme reflecting its strategic importance and its catalytic role.
- 1.3 The cost increases and fixed £113.9 million programme budget has necessitated removal of eight sub-projects from the City Region Deal programme. In addition, the combined effects of rising costs, Brexit, COVID-19 (and related changes in demand and working practices), the adoption of Net Zero targets and related actions, and the potential effects of COP26 on riverside interest will impact the programme's Value for Money.

Commission Scope

- 1.4 Glasgow City Council has commissioned Stantec to update the 2018 CWFWEIQ economic impact model to reflect the changes above and estimate the economic impact of the revised CWFWEIQ programme.
- 1.5 This note presents the results of the updated economic impact assessment, including an updated benefit cost ratio (BCR) – the key Value for Money metric required by the City Region Deal Project Management Office.

2 Proposed Changes to the CWFWEIQ Programme

- 2.1 The OBC included a £14.7 million allocation to the Govan-Partick Bridge. The tendered works cost of £29.5 million means overall project costs have increased to £40 million including design fees, project management costs and contingency. Glasgow City Council intends to progress with the project as the bridge is central to the strategic rationale underpinning the programme.
- 2.2 As the programme budget is fixed at £113.9 million, Glasgow City Council is proposing to remove eight sub-projects and seek funding for these from alternative sources. These include:
 - Developing the Economic Role of SEC / Pacific Quay - Expressway Bridge
 - Access and Integrity of the Waterfront - Govan Graving Docks

- Access and Integrity of the Waterfront - SEC – Active Travel
- Access and Integrity of the Waterfront - The Briggait / Lancefield Quay
- Access and Integrity of the Waterfront - Yorkhill Quay
- Developing the Economic Role of Yorkhill Hospital Site
- Developing the Economic Role of SEC / Pacific Quay - Cessnock Pedestrian Link
- Developing the Economic Role of SEC / Pacific Quay - Canting Basin Bridge

2.3 As with all sub-projects, the capital cost estimate for the Govan-Partick bridge was prepared before detailed design. Further changes to the investment programme may be required as detailed cost estimates are prepared for other sub-projects.

3 External changes since the OBC

COVID-19

- 3.1 Since approval of the OBC, the ongoing COVID-19 pandemic has delayed many of the developments originally forecast. This unforeseen externality has impacted the phasing predicted in the business case.
- 3.2 Further, the wider shift to remote working has influenced the commercial property market. In the short term, this has reduced demand for traditional office space as more employees can work from home. Take-up of office space in Q2 2021 was down by 23% compared to the same period the previous year.¹
- 3.3 Council engagement with commercial developers indicates that office development on Clydeside is less viable than when the business case was first prepared in 2018. Many of the forecast employment sites are now more likely to be brought forward as residential.

Shifting policy context

- 3.4 Since approval of the OBC, Glasgow City Council has published Glasgow's City Centre Living Strategy which aims to establish a city centre population of 40,000 by 2035.
- 3.5 The strategy highlights unmet demand for housing in the city centre, alongside an increasing number of residential planning applications lodged in the city centre. It includes an action plan to encourage more residential development.
- 3.6 Alongside this, greater emphasis is being given to net zero policies and projects. This ties in with Council ambitions to promote dense, sustainable residential development in the city centre.
- 3.7 Taken together, these policies reinforce a greater emphasis on residential development along the Clyde at the expense of commercial land uses.

¹ Stantec Co-Star Analysis. Accessed November 2021.

APPENDIX 2 Information Note

4 Site assessment

- 4.1 The economic rationale for the CWFWEIQ programme was underpinned by the development sites it would unlock, accelerate, and promote. The OBC identified 18 sites along the Clyde which would be influenced by the investment programme.
- 4.2 Stantec has undertaken an assessment of these sites to determine how they have been influenced by the socioeconomic effects caused by COVID-19 and the shifting policy context. Many of the forecasts made in the OBC have been revised to account for delays to build out and potential changes of use.

5 Theory of Change

- 5.1 Critical to understanding changes in Value for Money is how the input (fixed City Deal funding), affects the outputs, outcomes and impacts that the CWFWEIQ programme seeks to achieve. To help with this, Stantec have prepared an updated logic model presented in Figure 5-1 below.

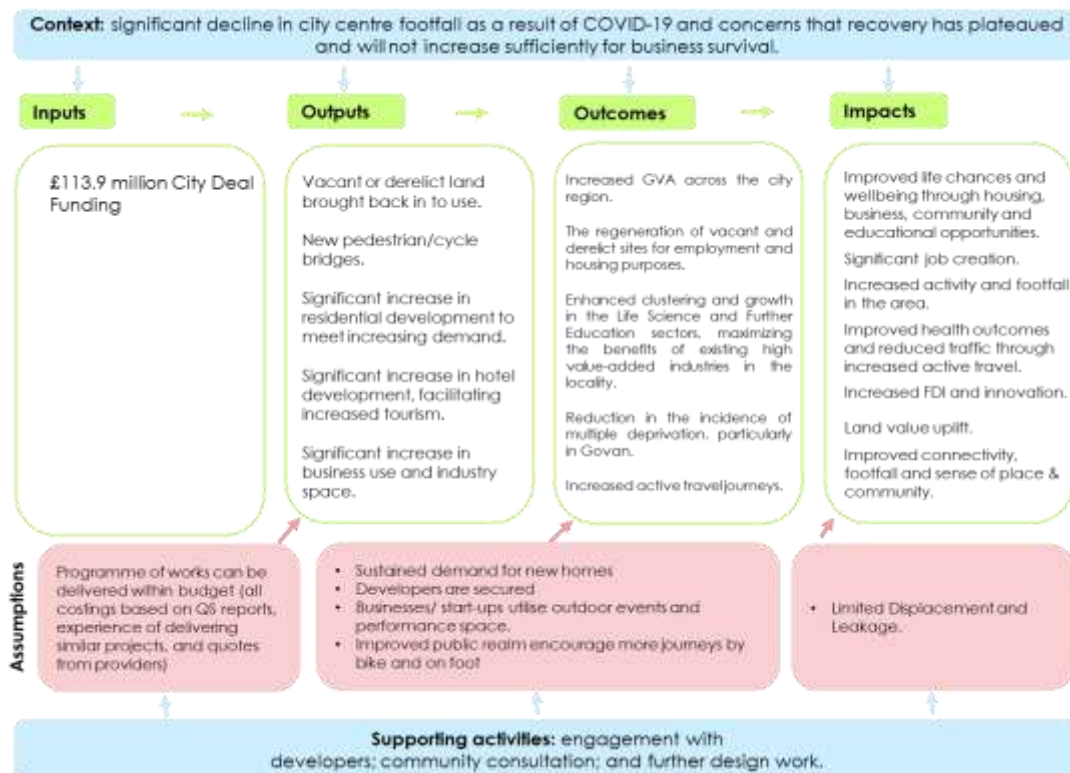


Figure 5-1: Logic Model

6 Economic impact assessment

Impact assessment parameters

- 6.1 Stantec developed a bespoke economic impact model to appraise the likely benefits of the CWFWEIQ programme in 2018. This estimated construction and operational net employment and monetises project benefits as gross value added (GVA).
- 6.2 The impact model has now been updated to take account of the latest HM Treasury Green Book (2020). All parameters have been updated applying the most recent socio-economic data to the analysis. This has had the following effects on the assessment:
- **Price base changes:** productivity parameters have been updated to reflect the latest Annual Business Survey. In line with general price increases, this has increased the GVA per job relative to those used in the OBC. This means that, even if nothing else changed, the GVA benefits of the original forecast will be higher in the revised assessment.
 - **Base year changes:** the base year for the OBC appraisal was 2018 and the revised appraisal now starts in 2021. This has an impact on the future present value of costs and benefits as those profiled later are now discounted less.
- 6.3 These parameters are summarised in Annex 1 of this note.

Economic outputs

Development Floorspace

- 6.4 Table 1 overleaf shows the change in development floorspace associated with the revised programme.

Table 1: Development floorspace (sqm. gross external area)

	Outline business case			Revised assessment		
	Counterfactual	Intervention	Additional	Counterfactual	Intervention	Additional
Employment	151,245	334,850	183,605	138,337	252,196	113,859
Residential	22,200	36,160	13,960	107,058	211,919	104,861
Total	173,445	371,010	197,565	245,395	464,115	218,720

- 6.5 While the overall floorspace enabled is likely to increase (+21,155 sqm.), all this growth has been in residential floor area (+90,900 sqm.) which does not directly support employment. The total additional employment floorspace has decreased (-69,745 sqm.).

Monetised benefits

- 6.6 Table 2 overleaf shows how the change in development floorspace has impacted the monetised benefits associated with the revised programme.

Table 2: Key economic impacts

	Outline business case	Revised assessment
Investment and construction		
Private sector investment	£228.0m	£164.2m
Gross construction jobs (PYE)	1,810	1,280
Net construction jobs (PYE)	1,585	1,120
NPV construction GVA (GCR)	£90.5m	£71.3m
Operational employment		
Gross jobs	7,025	5,235
Net jobs (GCR)	3,955	3,200
NPV operational GVA (GCR)	£1.38bn	£1.30bn

Note: all impacts net of counterfactual

- 6.7 Despite the overall increase in floorspace, private sector investment is now forecast lower due to lower build costs associated with residential development.²
- 6.8 The reduction in private sector investment (-£63.8 million) is anticipated to support fewer gross construction jobs (-530) than forecast in the OBC. These temporary jobs are anticipated to generate £88.7 million GVA, discounted to 2021 (-£19.2 million). This change in GVA is not proportionate to the change in jobs due to changes in the price base and the new 2021 base year.
- 6.9 Due to the reduction in employment floorspace, the revised assessment predicts fewer net additional jobs attributable to the programme (-755 jobs). Despite this, the revised assessment forecasts similar levels of discounted GVA over the appraisal period (-£85.3 million). As with construction GVA, this is due to changes in the price base and the new 2021 base year.

Wider benefits

- 6.10 The removal of the eight sub-projects is likely to impact the wider externalities which were not monetised in the outline business case. These primarily relate to enhanced connectivity across and between areas. As noted in Paragraph 2.2 the Council is seeking to deliver these benefits through alternative funding streams.

Value for Money

- 6.11 The Glasgow City Deal Assurance Framework requires project business cases to demonstrate Value for Money across two key metrics:
- **Public sector BCR:** the net present value (NPV) of net economic benefits divided by the total public sector costs.
 - **Public and private sector BCR:** the NPV of net economic benefits divided by the total public and private sector costs.
- 6.12 Table 3 overleaf presents the BCRs in the original OBC and those calculated as part of this revised impact assessment.

² All build costs sourced from RICS Build Cost Information Services.

APPENDIX 2 Information Note

Table 3: Revised Value for Money assessment

	Outline business case	Revised assessment
Net present value benefits		
Temporary construction jobs (GVA)	£90.5m	£71.3m
Permanent operational jobs (GVA)	£1,383.7m	£1,298.4m
Total (GVA)	£1,474.2m	£1,369.7m
Present value costs		
Public sector costs	£95.2m	£106.8m
Private sector investment	£429.4m	£405.0m
Total costs	£524.6m	£511.8m
Value for Money		
Public sector BCR	15.5	12.8
Public and private sector BCR	2.8	2.7

- 6.13 The present value benefits associated with the project are reduced from £1.47 billion to £1.37 billion (-£104.5 million). The proportionate fall in present value GVA benefits is smaller than the overall reduction in jobs supported – this is due to changes in the price base and the new 2021 base year.
- 6.14 While the overall programme budget has not changed, present value costs have increased from £95.2 million to £106.8 million (+£11.6 million). This is due to discounting alone. A change in the base year to 2021 and the frontloading of expenditure to cover the costs of the Govan-Partick Bridge has increased the present value of these costs.
- 6.15 Private sector investment has decreased slightly to £405.0 million (-£24.4 million). This decrease on the denominator partially offsets the reduction in GVA benefits. Accordingly, the public and private sector BCR has fallen just one point from 2.8 to 2.7. This still represents very high Value for Money.

Information Note

Annex 1 Modelling parameters

Employment and GVA assumptions

Sector	Employment Density	Productivity	Turnover to support one worker
Office	12 sqm. / job	£33,420	£56,052
Construction	n/a	£74,125	£249,335
Warehouse & Distribution	85 sqm. / job	£60,892	£120,247
Retail	20 sqm. / job	£27,376	£103,354
Leisure	200 sqm. / job	£32,486	£54,828
Food and Drink	20 sqm. / job	£26,564	£41,886
Hotel	115 sqm. / job	£15,091	£27,484
Education	29 sqm. / job	£11,380	£22,359

Additionality assumptions

Sector	Glasgow			Glasgow City Region			Scotland		
	Leakage	Displacement	Multiplier	Leakage	Displacement	Multiplier	Leakage	Displacement	Multiplier
Office	30%	25%	1.28	20%	45%	1.47	5%	65%	1.58
Construction	25%	15%	1.41	20%	35%	1.69	10%	50%	1.86
Residential	0%	0%	1.00	0%	0%	1.00	0%	0%	1.00
Warehouse & Distribution	30%	25%	1.35	20%	45%	1.59	5%	65%	1.73
Retail	10%	70%	1.14	5%	80%	1.23	0%	90%	1.29
Leisure	15%	60%	1.22	10%	70%	1.37	0%	80%	1.46
Food and Drink	10%	60%	1.09	5%	70%	1.16	0%	80%	1.20
Hotel	10%	33%							