



Convergence Programme for Cornwall and the Isles of Scilly 2007 - 2013

Priority 2 Employment Space - Strategic Investment Framework

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1 Introduction

This Strategic Investment Framework (SIF) is designed to guide the use of European Convergence Programme resources allocated to the provision of appropriate accommodation (or employment space) for enterprises investing and re-investing in Cornwall and the Isles of Scilly. It has been prepared following extensive consultation with private and public sector partners.

The aim of the Convergence Programme for Cornwall and the Isles of Scilly 2007-13 is to establish the momentum for transforming the economy to a high value added one, where knowledge, environment and quality of life underpin sustainable economic growth. Five priorities have been developed in order to deliver this aim:

- Priority Axis 1: Innovation, Research and Development
- Priority Axis 2: Enterprise and Investment
- Priority Axis 3: Transformational infrastructure
- Priority Axis 4: Unlocking the Economic Potential of Place
- Priority Axis 5: Technical Assistance

This SIF refers, in particular, to the delivery of employment space through Priority Axis 2.

Within Priority Axis 2, the supported activities include the delivery of business infrastructure for a modern economy in order to enhance business productivity. The Operational Programme states that:

Business infrastructure for a modern economy – in areas of market failure, ensuring appropriate accommodation is available for enterprises investing and reinvesting in Cornwall and the isles of Scilly. The emphasis is likely to be on office-based accommodation targeted at knowledge-based business.

The provision of suitable employment space can play a key role in raising business productivity and achieving sustainable economic growth. It can enable indigenous businesses to compete effectively and expand, attract inward investors and encourage entrepreneurs to set-up and grow their businesses. Furthermore, the creation of employment space can help to diversify and strengthen the economic base by facilitating the growth of key sectors and also help to address issues such as sustainability.

As well as Priority Axis 2, the provision of employment space and other related infrastructure is also promoted under each of the other Priority Axis, as follows:

- (i) Innovation, Research and Development (Priority Axis 1) – the provision of a network of innovation centres and specialist research centres, with incubation facilities;
- (ii) Transformational Infrastructure (Priority Axis 3) – the potential activities to be supported include: Newquay Cornwall Airport, Digital Infrastructure and Knowledge Infrastructure. Each of these is strongly related to the provision of employment space;
- (iii) Unlocking the Economic Potential of Place (Priority Axis 4) – detailed SIFs containing specific employment space and other projects are being finalised for each of the Priority Axis 4 place-based regeneration areas – Bodmin; Camborne Pool Redruth; Falmouth/Penryn; Newquay/St Columb; Penzance/Isles of Scilly; and St Austell and the Clay Country.



This SIF sets out the criteria against which proposed employment space projects that are seeking Convergence Programme funding from any of the Priority Axis will be assessed. It is a strategic document that details the principles of how resources should be used. It does not identify individual projects or programmes. However, in parallel a separate, indicative Employment Space Programme has been also developed as a tool to help manage delivery.

The SIF continues in five sections, as follows:

- Section 2 – presents a review of the current policy, economic and market context;
- Section 3 – sets out the SIF approach, detailing amongst other things the criteria that will be used to assess projects and the types of intervention that will be supported;
- Section 4 – identifies the strategic focus of the programme for employment space;
- Section 5 – discusses governance and delivery arrangements; and
- Section 6 – sets out details of the monitoring and evaluation requirements.



2 Context

2.1 Introduction

The SIF has been formulated so that it will contribute to delivering policy objectives and reflects changing economic and market circumstances. This Section briefly reviews the policy, socio-economic and market context for the SIF.

2.2 Policy

The **Lisbon Strategy**, launched in 2004, has the aim of making Europe the world's most dynamic competitive knowledge-based economy, with sustainable economic growth driving increased employment and greater social cohesion. The Strategy, through the Convergence Programme, promotes investment in research and technology development (RTD), innovation and entrepreneurial activity. The **Gothenburg Agenda** adds an environmental dimension to the Lisbon Strategy and sets out a commitment to combat climate change, promote sustainable transport and manage natural resources more responsibly. Equality of opportunity was enshrined through the **Treaty of Amsterdam** (1997), which addresses obstacles to labour participation.

At a national level, **Public Service Agreement (PSA) 1**¹ sets out targets to achieve an increase in the rate of productivity growth, improving economic competitiveness and narrowing the gap at a national level with industrial competitors. Further to this, **PSA 6**² sets a target to build an enterprise society in which small firms are able to achieve their potential through increasing entrepreneurial activity, improved productivity, and higher levels of enterprise in disadvantaged communities.

National planning policy relating to sustainable economic development, as set out in the consultation paper for **Planning Policy Statement 4**³, seeks to raise productivity; maximise job opportunities; improve the performance of the regions; deliver sustainable development; and build prosperous communities. National policy advocates a positive approach to planning, with key objectives including:

- identifying a good range of sites for economic development;
- a supply of land and buildings that is responsive to changing needs and demands;
- high quality development;
- avoiding or mitigating against adverse impacts; and
- shaping travel demand.

Key priorities are recognising the needs of business, ensuring the efficient and effective use of land, and securing a high quality and sustainable environment.

The **Sustainable Communities Plan**⁴, as part of the programme of action to raise the quality of communities in England, promotes a strategic approach to skills, transport, planning and infrastructure to increase employment.

¹ HM Treasury (2007) Comprehensive Spending Review

² Ibid.

³ Communities and Local Government (CLG, 2007)

⁴ The then Office of the Deputy Prime Minister (ODPM, 2003)



The **Regional Economic Strategy**⁵ (2006–2015) provides a shared vision for the development of the economy of the region, such that the “*South West will have an economy where the aspirations and skills of our people combine with the quality of our physical environment to provide a high quality of life and sustainable prosperity for everyone*”. Priority actions under three strategic objectives are set out to achieve this vision. The SIF approach supports actions set out under objectives for successful and competitive business, strong and inclusive communities and an effective and confident region.

The draft **Regional Spatial Strategy**⁶ (2006-2026) presents a framework for the spatial development of the region, setting out aims to enhance economic prosperity and the quality of employment opportunity and address deprivation and disadvantage. The Strategy emphasises the stimulation of the economy within Cornwall, with a focus on accelerated growth in established towns through increased provision of land for economic development.

Cornwall's **Sustainable Community Strategy** has a vision of Cornwall “*as a special place of harmony and beauty: a prosperous, happy place that values its communities, environment and economy equally and enables one and all to achieve the highest possible quality of life.*” The SIF is consistent with a number of aims of the Strategy, including:

- § awareness of the impact of actions on the land and working to conserve and manage the environment;
- § designing, planning and building with respect for the planet; and
- § ensuring that everyone has a home and places to do business.

The **Local Area Agreement** (LAA) for Cornwall focuses on key strategic priorities, including economy and enterprise, and provides a forum for innovation by enabling the private, public and third sectors to pool experience, knowledge and skills. One of the target outcomes is the facilitation of an appropriate supply of employment space. The objectives of this LAA outcome include to:

- Coordinate and support the development of appropriate employment space in Cornwall over the next 2 years;
- Extend working in partnership to facilitate the development of employment space;
- Reduce the risk of barriers/delays to the development of employment space;
- Improve sustainability and design; and
- § Enable the necessary foundations to be put in place for the whole of the Employment Space Strategic Assessment, which will cover the period up to 2017.

The **Economic Development Strategy**⁷ (2007) for Cornwall, *Strategy and Action – Achieving Prosperity in Cornwall and the Isles of Scilly*, sets out a vision “*To achieve sustainable prosperity with opportunity for all in Cornwall and the Isles of Scilly*”. This vision is underpinned by four guiding principles:

- to establish Cornwall as a knowledge economy and society;
- to ensure environmental sustainability;

⁵ South West Regional Development Agency

⁶ South West Regional Assembly

⁷ Cornwall and Isles of Scilly Economic Forum (May 2007)



- to remove economic and social disadvantage; and
- to establish Cornwall as a place for wealth-creators and entrepreneurs and to improve economic value across all sectors.

The SIF approach is consistent with the priorities set out within the Strategy to improve competitiveness, including, in particular, the provision of well-designed employment space to create a business friendly environment.

The **Cornwall and the Isles of Scilly Employment Space Strategic Assessment (ESSA) 2007 - 2017** recommends an approach based on an aspirational growth scenario to promote convergence and deliver a higher value economy. It identifies the provision of suitable employment space as key to realising economic development goals, with the provision of high quality, sustainable accommodation focused around existing towns and key strategic assets, as well as in rural areas where it is appropriate in terms of its scale, character and location.

At sub-regional level, the key planning guidance is provided in the **Cornwall Structure Plan**⁸ (2004). This sets out a vision of:

"Cornwall as a special place with a strong and sustainable community - its distinctive physical and cultural qualities protected and enhanced, recognised in the United Kingdom and Europe and providing the basis for a sustainable quality of life and environment for its people, reflected in a County:

- § *with an ecologically sound, aesthetically pleasing and pollution free environment;*
- § *where individual communities are able to feel safe, flourish, retain their distinctiveness and contribute to the way of life of their people;*
- § *where all sectors of the population are suitably housed;*
- § *with a strong and sustainable economy, able to employ all residents seeking jobs, in fulfilling work, based on development which does not compromise its natural strengths and resources;*
- § *with a commitment to promote health, tackle preventable disease and provide high quality support and care to those in need;*
- § *where all the population has access to a wide range of services and community facilities, including the best in education and training, and can share in the attractions and qualities of the County;*
- § *where access is provided for people and goods by an appropriate, effective, and more energy efficient and environmentally friendly transport system."*

Other relevant policies include the **Rural Development Programme for England (RDPE)** and the **Market and Coastal Towns Initiative (MCTI)**. The RDPE sets out a strategy to promote the development of rural areas, with £55 million reserved for Cornwall. Investment will be targeted towards a number of areas including business support, skills development, supply chain initiatives and adding value. The MCTI is a community-led regeneration initiative, enabling the active and meaningful involvement of the community in the planning and strategic development of MCTI designated towns.

The knowledge economy - a number of initiatives in Cornwall are looking to enhance the area's knowledge economy. For example, Combined Universities in Cornwall (CUC) provides a number of services. In addition, the South West of England Regional Development Agency (SWRDA) has established an Incubation and Science Park

⁸ Cornwall County Council



Strategy, which aims to encourage the creation and growth of new businesses by providing workspace and by providing other support through the Business Incubation South West Network. The SIF has the potential to support such initiatives through the provision of sites and premises for knowledge-based businesses.

2.3 Economic

Cornwall has experienced relatively strong economic performance over recent years, with, for example, significant growth in the number of businesses and earnings. Despite this, GVA per head across Cornwall is the lowest of any NUTS3 region in the UK and significant deprivation remains. Furthermore, the economic context and future economic prospects for the area must be considered in light of the global economic slowdown and the anticipated recession in the UK. Forecasts vary regarding the extent and expected duration of the recession. However, there are likely to be significant adverse impacts on Cornwall and the Isles of Scilly in terms of the level of aggregate demand, migration and inward investment.

Gross Value Added (GVA) - Total GVA for Cornwall and the Isles of Scilly in 2005 was £6 billion, an increase of 85% compared to the 1995 figure (source: ONS). However, GVA per head remained the lowest NUTS3 region in the UK at 63.2% of the national average. GVA per head was £11,510, compared to £18,205 in the UK. GVA per worker (productivity) figures were also lower than the national average which reflects, in part, the structure of the economy and, in part, lower productivity. Penwith, Kerrier, North Cornwall, Caradon and Restormel districts have amongst the poorest productivity levels in the country (Source: ONS NUTS3 GVA). Productivity is also influenced by 'equity rich' migrants who may not have to work to capacity.

Businesses - The number of VAT registered businesses in Cornwall and the Isles of Scilly in 2006 was 19,835, an increase of 400 on the previous year, and 1,790 more than in 1999. Some 84.5% of all businesses have 10 or fewer employees. Both business registration and self employment rates are high (Source: BERR – VAT registrations/deregistrations by industry).

Earnings - In 2007, the median weekly earnings for all workers in Cornwall was £384.00. This is significantly lower than the regional median of £433.40 and the UK median of £459.00. However, over the period 2002 to 2007 median earnings in Cornwall and the Isles of Scilly increased by 23.3%, exceeding increases at the regional (18.1%) and national (16.9%) level over the same period. Whilst earnings for residents of Cornwall and the Isles of Scilly are low, there is a significant level of variation across the area, with median weekly earnings of £411.40 in North Cornwall compared to just £350.60 in Penwith (Source: ONS annual survey of hours and earnings).

Employment - The wholesale and retail sector is the most significant sector, accounting for 18.8% of employment. Other important sectors are health and social work (15.3% of employment) and hotels and restaurants (12.2%). The proportion of employment in each of these sectors exceeds regional and national averages. A high proportion of employment is on a part-time basis. 40% of employment in Cornwall is part time, compared with 35.4% across the South West, and 31.1% across Great Britain. Employment in the Knowledge Based Economy (KBE) is still relatively weak, despite strong growth in recent years, with a low proportion of employment in financial and business services (11.7%) relative to regional (18.2%) and national (21.2%) employment levels (Source: Annual Business Inquiry workforce analysis).

Travel-to-work and accessibility - There are strong commuter flows between the Travel-to-Work areas (TTWAs) / towns. Lack of transport is identified as a barrier to



getting a job by two out of five jobseekers. The distance and reliability of journeys inhibits productivity, competitiveness and accessibility to markets.

Unemployment and worklessness - The unemployment rate in Cornwall and the Isles of Scilly, as measured by the claimant count, stood at 1.4% in June 2008, in line with the regional average of 1.3%, and lower than the national average of 2.2%. Over 10 years the number of people registered unemployed has declined by 61%, exceeding the rate of decline for the South West as a whole (48.6%) (Source: ONS claimant count). The economic activity rate across Cornwall and the Isles of Scilly, at 78.3% in 2007, is marginally below the regional average of 81.5% and the Great Britain average of 78.6%. Worklessness is an issue for the area (Source: ONS annual population survey). The main reason for economic inactivity amongst those that would like to work was long-term sickness.

Qualifications and skills - Overall educational standards in Cornwall and the Isles of Scilly have been improving rapidly, with 27.3% of the working age population having achieved NVQ Level 4 by 2003 (Source: ONS annual population survey). However, there is evidence (see SMSR (2005), Current and Future Skills Survey) that the skills available in the workforce are not keeping pace with employers' needs. Skills gaps are seen as one of the major barriers to business growth. A Cornwall Pure Business Survey indicates that businesses are 'importing' skilled/qualified people.

Deprivation - There are significant levels of deprivation within parts of Cornwall. At a local authority district level, Penwith is ranked 36th worst out of 354 in England, based on the rank of average scores from the Indices of Multiple Deprivation (2007). Kerrier is ranked 86th, Restormel 89rd, North Cornwall 96th, Carrick 120th, Caradon 156th and the Isles of Scilly 149th.

Specific areas of deprivation, based on the 20% most deprived Super Output Areas, are located in: Penzance, St Ives, Hayle, other parts of the North Coast of Penwith, Camborne, Pool, Redruth, Treverbyn, Newquay, Bodmin, Bude, Penryn, Truro and Liskeard.

Population - The population of Cornwall and the Isles of Scilly is increasing and stood at 526,400 in 2006, up from 426,400 in 1981. This represents growth of 23.5% over 25 years, exceeding the regional and national rate (16.9% and 7.4% respectively) (Source: ONS annual population survey). The population is forecast to continue growing by some 24.1% over the period 2006 to 2026. Much of this population growth is associated with immigration, due to quality of life issues (Source: ONS sub-national population forecasts).

2.4 Market

A review of the property market was undertaken in early 2007 as part of the Cornwall and Isles of Scilly ESSA 2007-2017 and this highlighted the following:

- A shortage of serviced development sites for immediate development in well located situations has limited the amount of speculative and bespoke development in recent years.
- There is strong evidence for unsatisfied demand for good quality, small, flexible workspace of around 185 sq.m. (2,000 sq.ft.) or less, which may be suitable for either office or light industrial uses.
- A high proportion of enquiries are for modern freehold premises and there is clear evidence of a faster take-up rate of accommodation where developers have been able to dispose of properties on a freehold as well as leasehold basis.



- For larger developments, access to the A30 is a primary consideration due to the accessibility this provides both across Cornwall and the Isles of Scilly and to the motorway network.
- In some locations, a shortage of existing modern premises has resulted in a limited take-up of employment properties and latent demand only becomes apparent when a new supply of speculative modern accommodation is brought to the market.
- Much of the existing property stock within Cornwall and the Isles of Scilly was developed in the 1960s and 1970s by Local Authorities and public agencies such as English Estates. Much of this accommodation is now becoming extremely dated and coming towards the end of its economic life. Amongst other factors, the absence of suitable modern premises, means that many companies remain located in premises that are not suitable to their businesses.
- The Cornwall Pure Business inward investment programme has, over the last two years, engendered interest amongst would-be investors affecting, in particular, demand for high quality office accommodation. Interest may increase further when CPR Regeneration (an urban regeneration company) launches its promotional campaign.

Since April 2007, there has been a change in the national economic climate which has had a significant impact upon the commercial and industrial property market in Cornwall and the Isles of Scilly. Changes in the market between Spring 2007 and Summer 2008 are summarised as follows:

- (i) The reduced availability of finance and higher costs of borrowing, where finance is available, has resulted in a significant reduction in demand for freehold properties by both companies as owner occupiers and property investors. Demand from investors seeking to acquire vacant freehold property with a view to future lettings to create property investment (often for pension related purposes) has largely disappeared.

The investment market in particular was important in sustaining speculative developments; with investors frequently paying values in excess of those supportable by owner occupiers.

Companies previously seeking freehold property for owner occupation have often sought properties on a leasehold basis, frequently on the basis of short leases with an option to acquire the freehold in the future at a fixed price when finance may be more readily available.

- (ii) The removal of empty property rates relief has increased the costs associated with the holding of vacant properties and development risk associated with new developments. This is a particular concern in relation to office properties with a shorter exempt period (3 months as opposed to 6 months) and higher rateable values representing a high level of development risk.
- (iii) There has been an adjustment in investment yields for property investments on a national basis and this has particularly affected more tertiary markets, such as Cornwall, where there is perceived lower levels of underlying demand than in larger markets with a more significant occupier base.



Investment yields have typically adjusted from Spring 2007 to Summer 2008 as follows:

	<u>Spring 2007</u>	<u>Summer 2008</u>
Prime Office Investment Yield	6.5%	7.5-7.75%
Prime Industrial Investment Yield	7%	7.5-8%

As previously noted, there is evidence that demand from companies acquiring properties as investments has largely disappeared and that tenants in the market are seeking more flexibility of terms - such as shorter leases or options to purchase - which impact upon investment yields for speculative industrial and office development projects.

(iv) There continues to be demand for modern premises and there is generally considered to be a shortage of good quality properties and therefore there has been continuing demand for sites when these become available:

- *Carn Brea Business Park, Pool* – Midas Commercial Developments Limited has sold/leased all of the units on this scheme of 13 speculative industrial units;
- *Falmouth Business Park, Falmouth* – Priority Sites Limited has 5 out of 10 office units either sold or “under offer” for a speculative office development, which completed in October 2008;
- *Cannis House, St. Austell* – Office building of 950 sq.m. net internal where good levels of demand were received from potential tenants in the whole buildings and on a floor by floor basis; and
- *Unit 1, St. Columb Major Business Park, St. Columb Major* – Comprising former Border Books premises totalling over 10,000 sq.m. where it is understood that proposals have been received from two separate occupiers for the building on the basis of an assignment of an existing 10 year lease. St. Austell Brewery has now taken occupation of the property.

Discussions with agents and developers have indicated that there are still good levels of demand for modern industrial properties – particularly 500 sq.m. and smaller throughout the area. There is also evidence of demand for good quality offices within some town centres, although there are also higher vacancy rates of second hand properties in some locations.

(v) Whereas there is evidence of continuing demand for older properties through continuing enquiry levels, there has been a slowing of take-up rates with a lack of competition for properties when they do become available. In a market where values are perceived to be declining then many businesses are seeking to delay commitment in the expectation of achieving better terms in the future.

Discussions with agents indicate that rental values remain static at the current time and that there is no evidence of any changes at the current time.

(vi) Discussions with developers have indicated that there is continuing demand for serviced sites for employment uses and that despite the general market slow down, there have been increases in values for good quality sites. Whilst there is very limited activity, asking land values are now in excess of



£250,000 per hectare across the area for remediated and serviced development sites.

- (vii) There is very limited new speculative development currently ongoing to enhance the existing supply of employment sites particularly now that the Priority Sites Limited development of 10 office units at Falmouth Business Park is now complete. Whilst other projects are being worked up, there are very few others which are proposed to commence in the near future and therefore there will be a reduction in the supply of new properties until a further stream of new developments can be brought forward to the market.
- (viii) There is limited demand from developers for projects within Cornwall due to the relatively small market and the physical remoteness of the area. Recent developments have been undertaken by Priority Sites Limited, Midas Commercial Developments Limited and Rowe Property Holdings, with various smaller companies undertaking workshop projects (such as Beaver Developments Limited). One of the larger development companies, which has previously undertaken projects within Cornwall, Rok Developments, have now decided to sell all of their land and property assets within Cornwall and the Isles of Scilly and concentrate their activities within other parts of the Country. However, it is understood that there has recently been some new developer interest due, in part, to the Convergence Programme.
- (ix) Whilst there has been some evidence of reductions in construction costs for projects in other parts of the country, there is little evidence of this within Cornwall and the Isles of Scilly with the increases in material costs offsetting reductions in other areas such as developer margins. Discussions with developers and quantity surveyors indicate that increases in development costs are likely over the next 1-3 years.
- (x) Based upon the above changes in the property market, there has been a general reduction in development viability with the decline of interest in freehold properties and changes in property yields resulting in an overall reduction in project returns. Based upon the above and assuming static development costs, it is anticipated that intervention rates to support project viability will need to increase. Based upon a typical appraisal within Cornwall and the Isles of Scilly (outside Truro), it is estimated that typical project intervention rates will have increased as follows;

	<u>Spring 2007</u>	<u>Summer 2008</u>
Prime Office	28%	30%
Prime Industrial	24%	30%

Many potential commercial development projects will have a gap funding requirement in excess of 30% in the current market, which represents the maximum intervention level for non-Small and Medium sized Enterprise (SME) companies. In these circumstances consideration will need to be given to other methods to support delivery - including the use of alternative funding alongside gap funding, such as, Land Remediation scheme, direct delivery by the public sector or various forms of joint venture between the public and private sectors.



It should be noted that the above appraisals do not take account of additional costs associated with achieving high levels of sustainability, which are likely to increase intervention levels where the costs of development are not fully reflected in increases in project values.

It is understood that there are a number of requirements in the market for the provision of bespoke premises. There may be potential to package these together so as to increase investment leverage and reduce risk for development partners.

The market for employment space in Cornwall and the Isles of Scilly also features a significant demand for live-work accommodation. Within Cornwall and the Isles of Scilly, self-employment and therefore by implication home-based working are more prevalent than in the region and the country as a whole (14% of economically active people are self employed in the county compared to a regional average of 11% and a Great Britain average of 9%).

In order to support the growth of live-work businesses, it may be appropriate to invest in hubs for this type of business. These offer meeting space and shared facilities for small businesses.



3 SIF Approach

3.1 Introduction

This Section sets out the principles that underpin the SIF. It also identifies eligible and ineligible activities and costs and discusses match funding and cross cutting themes. The criteria that are to be used in appraising employment space projects and the spatial distribution of resources are also detailed.

3.2 Total floorspace target

The target for new or up-graded floorspace set out in the Operational Programme for Priority Axis 2 is 93,000 sq m. However, in order to achieve this target it will be necessary to ensure that the programme of projects is large enough to allow for slippage due to planning and other issues.

3.3 Principles

Employment space projects that are funded through the Convergence Programme should be:

- (i) aspirational developments with appropriately high environmental and design standards; and
- (ii) focused, in particular, on knowledge-based⁹ and/or high value added¹⁰ uses. The Operational Programme notes that the emphasis is likely to be on office-based accommodation. However, industrial projects with an ability to accommodate a high office content and with high environmental and design standards will also be considered. Warehousing and distribution are ineligible. This approach supports sustainable development and space flexibility.

Employment space resources will be used to fund projects that:

- § develop employment space which contributes to fulfilling the ambitions of Cornwall and the Isles of Scilly as a knowledge-based and high value added economy;
- § facilitate the delivery of market ready employment sites and premises, which meet sectoral and geographical requirements and the needs of businesses and inward investors;
- § bring forward sites and premises in locations that are consistent with market demand and spatial priorities;
- § ensure that employment space is flexible enough to meet the changing needs of businesses;
- § realise the employment space opportunities created by existing and new infrastructure, in particular, transport, and Information and Communication Technology (ICT) and other assets;
- § promote high levels of sustainability and design quality and environmental

⁹ "Those industries which are relatively intensive in their inputs of technology and human capital" (OECD, 1999).

¹⁰ Activities with a relatively high Gross Value Added (GVA) per employee or that have high total factor productivity.



- excellence, including on site renewable energy;
- § meet high equality and diversity standards; and
- § deliver the infrastructure needs and requirements to support quality and attractive business space.

There will be a focus on bespoke development, as well as speculative projects. Projects where the end-user is identified will be particularly encouraged, since the nature of the initial activities that will take place in the employment space is known and therefore compliance with the Lisbon Agenda can be assessed.

3.4 Eligible activities and costs

The following activities will be eligible for funding support:

- Ø Delivery of sites and premises: including
 - o site acquisition
 - o clearance and treatment of derelict/neglected land¹¹
 - o site remediation
 - o site servicing/infrastructure
 - o provision and improvement of premises
 - o landscaping
 - o public realm (including gateway feature)
 - o site specific marketing
 - o professional fees
- Ø Renewable energy in support of sites and premises: including energy generation and energy conservation measures
- Ø Alternative transport in support of sites and premises: including measures to promote sustainable transport plans

In order to ensure that the overall target is met, it will be necessary to ensure that provision is made for early feasibility and project development work at each site, such as due diligence studies to confirm that projects are deliverable.

Projects must comply with the core eligibility criteria, including in relation to eligible costs, those set out in EC Regulations¹². In relation to employment space projects this includes, for example, the general requirement that land acquisition costs are less than 10% of total eligible project costs. In addition, certain development costs – such as interest and contingencies – are ineligible for funding.

3.5 Match funding

ERDF will only meet a proportion of eligible project costs; the remainder has to be found from other public, private, or voluntary sector resources. Maximum grant rates will apply

¹¹ Defined as land which is capable of some beneficial use but which is at present perceived as uncared for, untidy or in a condition detrimental to the environment.

¹² Council Regulation number:1083/2006 (ERDF)



to different categories of project expenditure and size of the applicant. For private sector schemes, ERDF will meet the investment gap, up to certain limits.

ERDF support will be calculated as a percentage of total eligible project expenditure, subject to ensuring that it provides the minimum rate necessary to make sure that a project is carried out.

The commissioned partner for the project is responsible for identifying and ensuring that sufficient matched funding is in place before ERDF funding can be approved.

3.6 Cross-cutting themes

The Operational Programme identifies two cross cutting themes – the environment and equality and diversity.

The environmental objectives of the Convergence Programme are to:

(i) Increase

- the sustainable use of our natural resources, including land, water and the management of waste;
- the sustainable use of energy, including both energy conservation and the use of renewable energy;
- the business opportunities for increase demands for environmental technologies, goods and services; and
- the awareness of businesses of the value of the environment and its role in the economic development.

(ii) Conserve, enhance and interpret

- the value of natural and historic environments.

(iii) Use

- the Programme and its projects as examples of the successful integration of economic and environmental goals, including the identification of good practice.

The creation of new and refurbishment of existing buildings to provide employment space has environmental impacts – both during construction and in their on-going use.

The equality and diversity objectives of the Operational Programme are as follows:

- To increase the take-up of quality training and employment in under-represented groups;
- To increase the number of people in under-represented groups accessing training and employment in higher skilled occupations and sectors where they are currently under-represented;
- To ensure that new facilities and developments take account of access needs which may restrict use by key groups;
- To ensure that business support is inclusive and responsive to the needs of all communities and under-represented groups;
- To increase the participation of people in under-represented groups in the management and implementation structures of the Programme. It is important that partnerships, selection panels and other administrative groups are



representative at all levels and positive steps are taken to gain the active involvement of under-represented groups; and

- To increase the number of people of under-represented groups owning their own business.

Employment space must therefore be accessible to under-represented groups, both in terms of physical access to the building and location.

3.7 Appraisal criteria

All employment space projects will be subject to the following nine appraisal criteria:

(i) Knowledge economy

Projects must provide evidence of how they will support the development of the Knowledge Economy (Lisbon Agenda). Overall, 87% of Priority 2 Convergence Programme expenditure must be spent on Lisbon Agenda compliant activities. This criterion will be applied as follows:

- (i) Bespoke projects - the nature of the proposed end user and activities to be accommodated will be assessed; and
- (ii) Speculative projects – the assessment will be based upon the nature of the proposed accommodation. It is, as noted in the Operational Programme, expected that the majority of projects will be office-based. Warehousing and distribution are ineligible. However, in the case of industrial projects, those with the ability to accommodate a high office content and with high sustainability and design standards may be considered.

(ii) Need for public support

The assessment of the need for public funding will involve three separate components, as follows:

- (i) fit with public policy;
- (ii) tackling market failures; and
- (iii) the requirement for public sector funding – that without public sector support the project would not go ahead; in other words, the additionality of the funding.

The latter will be based on an assessment of the minimum gap funding required to ensure that the project proceeds with the appropriate design and sustainability standards. All projects will be appraised on this basis. As part of this element of the appraisal the intervention rate will be assessed and tested to ensure that they are within the appropriate maximum available rates.

(iii) Current and future viability

Evidence will be required that there is a reasonable expectation that demand for the employment floorspace will be forthcoming and that the project would be viable/sustainable with appropriate public sector support both now and in the future.

(iv) Deliverability

The appraisal will need to consider evidence that the project is deliverable within the stated timescale. This will include, amongst other things, an assessment of the ownership, planning status of the project and status of the developer (for example, through a financial vetting procedure).



In relation to planning status, consideration will need to be given to issues such as policy, deliverability, monitoring requirements and public transport access.

(v) Environmental sustainability

Each project should, other than in exceptional circumstances, achieve a BREEAM 2008 certification standard of excellent or higher. However, in more rural locations, projects will be considered as long as they seek to achieve the Excellent rating on all measures except for public transport. In appraising projects other issues, such as the following, will also need to be considered: what are the whole life costs of the project? Has the project been designed so that, as far as possible, it is 'future proof', resilient and adaptable?

(vi) Equality and diversity

A Design and Access Statement, which is required for planning applications, should be submitted for each project. This will set out how the development has been designed to ensure that it is accessible and can be used by all relevant groups regardless of disability, ethnicity, gender or social group.

(vii) ICT

The ICT connectivity and 'future proofing' of each project will also be assessed. Projects must be highly connected and, as far as possible, future proofed – for example, in terms of the next generation of broadband (fibre optic connections to premises).

(viii) Design excellence

Projects should have been referred to the South West Design Review Panel (SWDRP) at an early stage of design development to seek guidance on the type of design review required, if necessary, to ensure design quality. A project may then be referred for review by SWDRP to the south west regional service to the Commission for Architecture and the Built Environment (CABE) or to the One Cornwall Design Panel. Projects should be of high quality design.

(ix) Value for money

Value for money (VFM) is determined by the relationship between the costs (the resources used up) and benefits (including, in particular, the outputs, outcomes and impacts it is anticipated to achieve) of a project. For a project to offer VFM the benefits must exceed the costs.

In appraising VFM, the additional costs and benefits of the project compared with doing nothing or with doing the minimum need to be assessed. Consequently, it is essential to take account of the issue of additionality – which will include consideration of who benefits, what effects a project might have on other businesses or developments and what would happen anyway. A proposal that generates outcomes and impacts that would have happened anyway, or which just displaces other outcomes and impacts, is unlikely to be VFM. (Further details on how to assess the additionality of a project are included at Appendix A).

There are two main approaches to assessing VFM:

- (i) *Cost benefit analysis (CBA)* – this method involves quantifying in money terms as many of the costs and benefits of a project as possible, including items for which the market does not provide a satisfactory measure of value (such as social and environmental costs). The costs and benefits are then compared to determine whether benefits exceed costs and the project is VFM; and
- (ii) *3Es analysis* – this technique focuses on the public sector funding and involves an assessment of the:



- ratio of costs to inputs/physical outputs (referred to as economy) – in other words is the required specification being delivered at an appropriate price. This will often be in the form of a cost appraisal and might include ratios, such as, cost per ha of land remediated and cost per sq m of floorspace;
- ratio of public sector costs to outcomes and outputs, results and impacts (efficiency, or sometimes referred to as cost effectiveness). The following cost effectiveness ratios will be used – cost per gross job (created and safeguarded); cost per gross increase in GVA (created and safeguarded); cost per net additional employment (created and safeguarded); and cost per net additional increase in GVA (created and safeguarded).
- delivery of objectives or key outcomes – the extent to which the project will achieve the desired objectives (effectiveness).

In interpreting the results of a 3Es analysis of alternative options, initial consideration should be given to assessing economy. Where a project offers poor economy it should be redesigned or reviewed to reduce the cost of inputs to a reasonable level. Once this is done, the principal focus is on effectiveness and efficiency.

Both of these approaches aim to do the same thing – to enable decision takers to make good investment decisions about the use of public money. However, for many projects there are likely to be costs and benefits that are difficult and costly to value in money terms. Consequently, the majority of projects will be assessed using the 3Es analysis.

3.8 Spatial distribution

Overall, the spatial distribution of employment space accommodation supported through the Convergence Programme should broadly reflect that forecast in the Cornwall and Isles of Scilly ESSA 2007-2017.

Table 3.1 sets out the projected demand under the aspirational scenario in each of the three One Cornwall service areas. **However**, it is also important that flexibility is maintained, so that resource allocation can respond to changing circumstances and emerging opportunities.

Table 3.1: ESSA Projected employment space demand (2007 – 2016) – aspirational scenario		
Area	Sq m	%
East service area (North Cornwall and Carradon)	58,672	24
Central service area (Carrick and Restormel)	102,371	42
West service area (Kerrier and Penwith)	83,158	34
Total	244,201	100

The spatial focus for employment space will be as follows:



(i) Priority 4 place-based regeneration areas

These will be key locations for employment space. Proposed projects have been identified in the place-based SIFs. For example, the Camborne Pool Redruth (CPR) Regeneration SIF has now been endorsed, with an indicative ERDF allocation.

(ii) Other towns and rural areas

Priority 2 resources will also be used to invest in towns and rural areas outside of Priority 4 areas. Again a number of project proposals have already been brought forward, including some identified through the MCTI.

The provision of employment space in rural areas can help to reduce the need to travel, make rural communities more viable and strengthen the local rural economy. A particular emphasis will be on the restructuring of the rural economy. Employment space development in rural areas will need to be appropriate in terms of its scale, character and location.

(iii) Strategic assets

The ESSA (2007) also identified a number of strategic assets that could provide a focal point or stimulus to additional economic development and growth and have the potential to make an impact on a wider Cornwall and the Isles of Scilly scale. Investment should be considered to ensure that the growth potential offered by these assets is realised. The strategic assets identified included:

- Gateways and infrastructure:
 - ✓ Newquay Cornwall Airport – development proposals will need to be subject to sequential testing
 - ✓ Ports and harbours
- Physical programmes and projects
 - ✓ growth assets – such as the Wave Hub
- Knowledge and intellectual property - Combined Universities in Cornwall.

The innovation centres are expected to be a focal point or stimulus to economic growth. The provision of grow-on space and other related (for example, supply chain) employment space may well be important if these benefits are to be fully realised.

Many of these strategic assets are being targeted for support through other Priority Axis. It is essential that the employment space funded through Priority Axis 2 complements and augments the accommodation that is delivered through the other Priority Axis.



4 Programme

4.1 Introduction

This Section sets out 'high level' details of the employment space programme that will be funded using Convergence Programme resources. It does not present details of individual projects. The overall framework for action is described and the approach to intervention, in particular, in the short term is detailed.

4.2 A framework for action

The ESSA (2007) identified that the property market in Cornwall and the Isles of Scilly does not work efficiently because of a number of market failures. It highlighted that these give rise to a number of supply, demand and development issues. These have been updated and extended and the actions needed for employment space to help to transform the Cornwall and the Isles of Scilly economy identified (see Table 4.1).

Table 4.1: Key issues and proposed actions to address them	
Issues	Actions
Supply issues	
Shortage of quality floorspace	Facilitate the provision of floorspace of the right type, location and tenure – in particular, smaller units (<500 sq m)
Shortage in supply of available employment land. Much of the allocated land is constrained by poor site conditions, access problems, viability, sustainability and potential value for money	Select, prioritise and facilitate the development of key sites
Poor quality of some of the existing built stock and estates	Facilitate the enhancement and, where appropriate, redevelopment of existing buildings and estates
Limited delivery of floorspace outside of the main towns	Where appropriate, space (including live/work) should be made available within smaller towns/villages to meet local need
Little incubation and quality grow-on space is available	Facilitate the provision of incubation and good quality grow-on space
Changes in working practices (in particular, home-working and flexible working) will in the future affect demand for premises	Promote live/work and other flexible space
A significant number of redundant agricultural buildings in Cornwall and the Isles of Scilly	Re-use of redundant agricultural buildings can help to diversify the rural economy. If the jobs are accessible (in terms of skills as well as physical access) to local people, it can help to reduce the need to travel. This will require links with the European Social Fund, Learning and Skills Council and Cornwall Pure Business to ensure that training is provided to local people in rural areas. However, refurbishing such buildings can involve high costs and therefore potentially significant public sector investment
Demand issues	
Continued restructuring within the economy. Additional demand for offices and warehouses is anticipated, but demand for factory floorspace is expected to be more limited.	Ensure that new space is flexible and that, in particular, it is able to accommodate office uses
Significant demand from existing businesses to move to modern accommodation is expected (replacement demand). This bespoke demand can also involve an expansion of space.	Facilitate the re-use or redevelopment of older, outmoded accommodation that becomes vacant
High levels of sustainability will require significant public sector support	Ensure that the location of new development is sustainable and develop a specific support package to increase the environmental sustainability of new and existing space
There has been historic demand for freehold premises, but few properties available. This is not evident in the current market – but should be provided for in the future	Facilitate the provision of freehold, as well as leasehold space
Quality of the environment and presence of similar businesses or sectors can help in attracting inward investors	Ensure high quality of design and environment, and facilitate schemes that support clusters/networks
Strategic assets (such as Newquay Cornwall Airport) and growth assets can be the catalysts for high value added growth	Ensure that the specific sites and premises requirements are met in order to realise the growth potential
Some growth sectors have specific space requirements	Facilitate the provision of space that meets specific sectoral requirements and resultant need for flexibility.



Quality of transport infrastructure and congestion on the network will affect demand	Support the development of infrastructure through both public and private funding. Locate development so that sustainability is maximised (with other development and community infrastructure)
Market intelligence/knowledge	Ensure research is commissioned as appropriate and that a standard Cornwall and the Isles of Scilly-wide approach to regular business surveys is implemented with specific consideration given to floorspace issues.
Development issues	
High development costs, because of poor site conditions and limited construction industry capacity	Support to address abnormal site costs and to increase the capacity of the construction industry. Construction phase best practice will include incentive-led action for skills and learning within the construction industry
CPO's impact on timeframes and delivery. Often intensive use of public sector resources	Early identification of appropriate projects. Making sure that resources are available.
Intervention rates may be inadequate to deliver projects with the appropriate standards in the current market and, in particular, for non-SME's	Investigate alternative funding, such as land remediation. Consider alternative interventions to gap funding, where intervention rates inhibit the development of appropriate schemes.
Unknown site conditions	Ensure that adequate provision is made for early site investigations with partners as appropriate
Developer demand for serviced sites	Identification and prioritisation of key sites and a programme of intervention to service and bring these forward on a phased basis
Generally limited private sector development activity	Facilitate greater development activity and promote the interest of developers not currently active in Cornwall
Existing values do not generally meet costs, resulting in a viability gap. However, values have increased significantly over the last three years, which has reduced the financial deficit on schemes	Ensure that interventions are designed to increase market confidence and further increase values
Concerns that the planning process cannot react quickly enough and that delays have occurred due to interventions by the Highways Agency and Environment Agency	Establish constructive dialogue and understanding between planning authorities and businesses and private sector developers to ensure that Cornwall and the Isles of Scilly maintains a business friendly approach. Investment will be made in planning capacity and in advice for developers and business to improve speed and understanding

Source: Based upon the Cornwall and Isles of Scilly Employment Space Strategic Assessment (2007)

4.3 Approach to intervention

In order to deliver the maximum benefits, the Convergence Programme funding will be used alongside other public and private resources to deliver an Employment Space Programme for Cornwall and the Isles of Scilly.

In order to maximise the leverage of private resources a range of public powers and resources will be used, to:

- (i) Secure development
 - Direct development – Whilst the priority should be given to maximising private sector investment where possible, in certain circumstances it may be necessary for the public sector to intervene to undertake direct development. This may include site assembly, remediation and servicing together with an initial speculative phase of development where it may be necessary for the public sector to demonstrate levels of demand and reduce risk to the private sector in undertaking subsequent phases.
 - Gap funding / tendering – Gap funding would be provided to private sector to deliver projects meeting the objectives of the programme, subject to the normal appraisal criteria. Gap funding would maximise private sector investment into projects and ensure that any developer has the necessary capabilities to deliver



the scheme and that the project meets development criteria in relation to sustainability and design as identified above. Publicly owned land may be tendered to seek private sector investors to develop it with the minimum amount of funding necessary to deliver an agreed scheme.

- Packaging of development /remediation – The public sector may seek to appoint a developer for a range of development projects within an area or use to create a quantity of development that maximises value for money in relation to public sector investment and/or attracts private sector developers who may otherwise not be interested due to the relatively small scale of development.
 - Joint venture – Joint venture may be considered as an alternative to gap funding such that the public sector may receive a long term return in respect of investment within any project. Joint ventures are often appropriate in relation to the investment of publicly owned land in to schemes or alternatively where public sector investment is required to front load investment necessary for the delivery of a project.
 - Public sector assets/asset backed vehicle – These vehicles are utilised where the public sector are prepared to use their land holdings to maximise private sector leverage within any project and the assets may be utilised to secure borrowing to assist with the delivery of any project. The returns to the public sector are usually secured in the longer-term upon an equity share basis, dependent upon the overall financial outcomes of any project.
 - Infrastructure development incorporating developer contributions – To meet the costs of infrastructure provision to sites which normally meet the funding shortfall following payments by developers through mechanisms which may include Community Infrastructure Levy (CIL – if approved as part of the proposed Planning Act) or Section 106 payments secured under any planning consent granted.
- (ii) Promote and market
- To seek to attract more private sector investment to the County through a range of media which may include advertising to wider markets as well as the promotion of development opportunities to investors not currently represented within the County.
- (iii) Matched funding
- cross-subsidisation within a mixed-use development / consent (including live work);
 - planning gain (S106/CIL);
 - prudential borrowing;
 - voluntary and community sector
- (iv) Assemble land
- strategic acquisition / Compulsory Purchase Orders (CPOs)

Given current market and economic conditions early and pro-active action is required by the public sector if the Programme is to meet its targets. Consequently, the following early actions are proposed:

- Identification of projects which are capable of early delivery and the prioritisation of these to secure investment and the delivery of outputs within the early years of



the programme. This may involve engaging with relevant landowners and developers on a proactive basis to identify and deal with any barriers to early delivery. Early investment in feasibility work will be required.

- The identification of a programme of potential development opportunities throughout the period of the programme and of the necessary measures to support the delivery of these. This will include consideration of the most appropriate form of intervention, which may include land assembly by the public sector, site servicing, direct development, gap funding and/or joint ventures to deliver the objectives of the programme.
- To work with agents and developers in the identification of development opportunities that may contribute to the objectives of the Convergence Programme and an appropriate form of delivery for the identified projects.
- Marketing to existing companies, potential investors and developers to promote the opportunities available for support.
- Explore the potential to re-use underused or redundant assets, including those in the agricultural sector. Some of these will be public sector owned and may result from the creation of One Cornwall. However, the potential to make better use of, for example, community facilities and private sector accommodation should also be considered.
- Creation and fitting out of hubs to facilitate and add value to those working from home. More generally, the provision of support towards live work schemes where appropriate.



5 Governance and Delivery

5.1 Introduction

This Section discusses the governance and delivery arrangements for employment space in Cornwall and the Isles of Scilly and, in particular, that supported through Priority 2 of the Convergence Programme.

5.2 Governance

It is proposed that the Sites and Premises Sub-Group of the Cornwall and the Isles of Scilly Economic Forum oversee the delivery of the Employment Space Programme. Close co-ordination should be maintained with the Priority 4 Steering Groups/Boards and with the Rural Cornwall and the Isles of Scilly Partnership.

There will be an annual review of progress and a short report prepared to highlight performance and identify any key issues and changes that need to be made to the programme.

5.3 Delivery

In terms of Priority 2 supported employment space it is envisaged that initially this will be managed within SWRDA. However, a 'Priority 2 SIF Team' may subsequently be created within the proposed Cornwall Development Company.

It is anticipated that the following skills will be needed to deliver the Priority 2 programme:

- o Property / surveying – to consider a wide range of issues which would include advice on demand and values as well as potential outcomes of any potential investment.
- o Sustainability / design – to provide advice to developers and designers regarding the sustainability and design requirements for each project where convergence funding is sought.
- o Planning (Major planning team) – to ensure there is an appropriate planning framework for the delivery of projects in accordance with the timescales of the Convergence Programme. The team would work with applicants and developers to identify planning constraints and appropriate solutions to assist project delivery. This team would be brought in as and when required.
- o Finance / funding – to consider the funding of development proposals including the preparation of development cashflows for prospective projects.
- o Project management – to manage any direct delivery projects and manage consultants including quantity surveyors, consultant engineers, planners, masterplanners and marketing agents.
- o Cost Consultants – to prepare budgets and appraise applications put forward by developers for the delivery of projects. This will also consider issues of the most appropriate method of procurement to secure best value.
- o Liaison / partnership working - to ensure that appropriate partnership arrangements are put in place and regular partner discussions are facilitated.

Clear and positive working relationships will need to be established with the delivery teams for the other Priority Axis and, in particular, Priority 4.



There remain concerns that the planning process cannot react quickly enough to reduce risks and uncertainty, and delays have occurred due to the intervention of the Highways Agency and Environment Agency on key projects. SWRDA, Cornwall Council and Cornwall Development Company will need to work with the Economic Forum and other partners to address these issues.



6 Monitoring and evaluation

Establishing an appropriate framework for the ongoing and ex-post monitoring and evaluation of the SIF will be essential in order to ensure that it remains relevant, achieves its objectives and offers good value for money. Accordingly, an approach composed of two elements is proposed:

- § a bottom-up or micro approach based upon the assessment of individual projects. This will involve tracking the performance of each project and assessing its outputs and results; and
- § a top-down or macro approach based upon the use of primary and secondary source data. A key focus should be on the changes in intervention rates. However, more generally a system should be established to monitor, across Cornwall and the Isles of Scilly, amongst other things, vacant premises, vacancy rates, employment land take-up and planning permissions. In addition, key economic and social variables should also be monitored, such as employment, GVA and unemployment. It is also recommended that performance is compared with the South West and England average.

It is proposed that progress is monitored annually and that the Programme is evaluated as part of the Mid-Term Evaluation.

The aims of the monitoring and evaluation programme are to provide evidence on the extent and the ways in which the recommended approach is working and generate constructive and practical advice on how to improve its design and delivery.



*Convergence Programme for Cornwall and
the Isles of Scilly 2007 - 2013
Priority 2 Employment Space - Strategic
Investment Framework
November 2008*

Appendix A Additionality



Assessing additional costs and benefits

Additional costs

Additional costs are the difference between total project costs and any costs incurred under the do nothing or do minimum option. For example, if a restoration project costs £5 million, but costs of £1 million would need to be incurred anyway in essential repairs, then the additional cost of the project would be £4 million.

Additional benefits

In order to assess the additional benefits (or additionality) of a project it is necessary to make the following adjustments to gross benefits:

Deduct

- ✓ leakage – the proportion of outputs and outcomes that benefit those outside of the project's target area or group. An example is jobs being taken up by those living outside of the target area;

Deduct

- ✓ displacement – the proportion of outputs and outcomes accounted for by reduced outputs and outcomes elsewhere in the target area or group. For example, a supported business taking market share from other local businesses producing the same goods or services.

Deduct

- ✓ substitution – this effect arises where an organisation or business replaces one activity for a similar one within the target area or group to take advantage of public assistance. For example, an employer replacing unsubsidised workers with subsidised workers.

Add

- ✓ economic multiplier effects – further economic activity (jobs, expenditure or income) associated with additional local income that is spent locally and additional local supplier purchases.

Deduct

- ✓ deadweight – an estimate of the additional outputs and outcomes that would be produced in the absence of the project (the reference case or do nothing/do minimum option).