

# Economic Case: High Speed Rail to Hastings and Bexhill

Summary Report

October 2015

East Sussex County Council, Hastings Borough Council and Rother District Council





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# 1 Introduction and context

## 1.1 Summary findings

Delivering High Speed Rail to Bexhill, Hastings and Rye will:

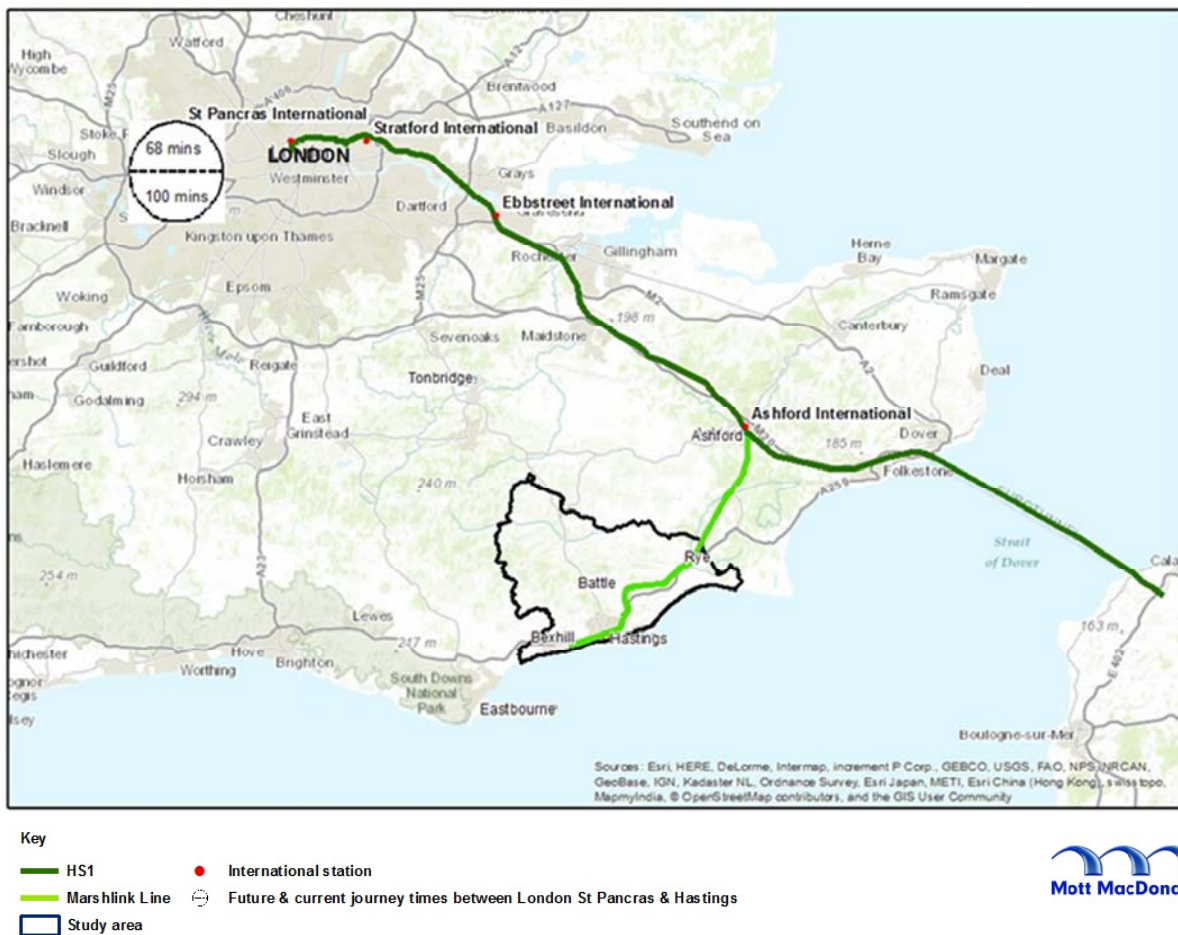
- Increase connectivity into the heart of London with reduced journey times of 68 minutes from Hastings and 78 minutes from Bexhill.
- Increase business investment and growth in Bexhill and Hastings with the improved image and perception of the area as a business location.
- Increase the attractiveness of Rother and Hastings as a place to work and live.
- 'Supercharge' the local economy, building upon existing regeneration successes.
- Over 200 jobs created in the local visitor economy worth up to £7.6m per year to Rother and Hastings;
- Bring £19 million of benefit and 425 jobs in regeneration and economic benefits by 2028;
- Bring £354 million of benefit to the local area by 2044; and
- Contribute £123.7m to the national economy.



## 1.2 Introduction and context

Mott MacDonald was appointed in October 2014 to develop the strategic economic case for extending the high speed rail Javelin services from London St Pancras to Hastings and Bexhill, which will provide a significant reduction in journey times thereby enhancing connectivity with London. The service would be a direct link with no changing at Ashford International and take the London St. Pancras-Hastings and Bexhill journey time down to 68 minutes and 78 minutes (from 91 minutes and 101 minutes currently). The study area covers the local authorities of Rother and Hastings which have a collective population of 181,900, representing 34% of the total population of East Sussex. Regeneration has already begun in the area across several projects with over £200m of public sector money already invested in Hastings and Bexhill. Poor road and rail links means that the area has been isolated from commercial opportunities and the markets of Greater London

Figure 1.1: Strategic transport network with high speed rail services



Source: Mott MacDonald

GLA economics found that in 2011, almost 800,000 people commuted into London for work, this is equivalent to 16% of jobs in the capital and was an increase of around 100,000 over the last decade or so<sup>1</sup>. This shows an increase in the market for commuting to London and allowing areas with close strategic proximity to London to benefit from their ability to cater for this. The East Sussex area has fallen behind others in the region over the last two decades in terms of connectivity as it has failed to compete with the

<sup>1</sup> London Labour Market Projections, GLA Economics, April 2013

High Speed 1 (HS1) rail link in Kent that has had a significant impact on commuting and business links between Kent and Greater London. This Summary Report is produced alongside the main report for the study.

### **1.3 Economic Context**

#### **1.3.1 Population**

The population of the study area has grown strongly over the last decade due to high levels of inward migration of retired persons (especially in Rother) and economically inactive persons (especially in Hastings). In Rother the working age population (16-64) and younger age cohorts (0-24) are comparatively very small with implications for the current and future size of the workforce. In Rother, 30% of the population is over the age of 65 compared to 17.4% nationally. According to Office for National Statistics (ONS) data for 2013, both Hastings and Rother had populations of approximately 91,000 people with an annual growth rate of 0.5% and 0.4% respectively. The ONS predicts that between 2012 and 2031 the working age populations of Hastings and Rother will decline by 6.3% and 7.7% respectively.

#### **1.3.2 Employment**

The total level of employment in Hastings and Rother is 29,900 and 24,900 respectively and collectively the two districts account for 32.7% of total county employment. Employment growth over the boom years (2000-08) was below the national average in both districts but virtually stagnant in Hastings, reflecting the significant structural issues within the economy. Employment across all areas declined following the onset of the recession in 2008 whilst recovery has been more impressive in the study area, particularly Hastings, with employment growing ahead of the South East Local Enterprise Partnership (SE LEP) area. Unemployment is, however high (4.5% compared to 3.2% nationally) in Hastings with a high proportion of the workforce having no qualifications. Rother has very low levels of unemployment, approximately half of the level of Hastings.

The economy of the study area is dominated by the public sector which accounts for 2 in every 5 jobs in Hastings. The tourism industry is still a significant employer whilst the area is significantly underrepresented in private sector services that are dominant in London and the South East and are set to drive national economic growth. Significant diversification towards higher value activities is required to support economic growth which is being addressed by initiatives to improve the commercial property market offer and attract inward investment. Economic participation is very low in the study area. In Rother's case this is due to the high level of retired persons whilst in Hastings this is rooted in high levels of social exclusion in the labour market. Unemployment is very high in Hastings with a high proportion of the workforce having no qualifications. The Hastings and Rother Employment Land Review (2011) predicts that there will be 2,838 fewer workers in Hastings in 2028 compared to 2008 and 5,496 fewer in Rother in the same period<sup>2</sup>.

#### **1.3.3 Wages and economic productivity**

The wages, both resident and workplace, of the study area are noticeably lower than the comparator areas, which reflects the current structure of the economy towards lower value activities such as the public sector. It is noticeable that resident wages in Rother are much higher than workplace wages reflecting that many residents commute out of the district for higher paid work. The local authorities in the study area are seeking to address this in a range of ways such as by providing a commercial property market to attract

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<sup>2</sup> Hastings Borough Council & Rother District Council "Hastings and Rother Employment Land Review and Update" 2011

firms to set up within the study area to lower out-commuting and providing more family housing to attract a younger workforce.

Table 1.1: Wages - gross full-time median weekly wage, £, 2013

|             | Resident wages | Workplace wages |
|-------------|----------------|-----------------|
| Hastings    | £413           | £412            |
| Rother      | £454           | £366            |
| East Sussex | £479           | £440            |
| SE LEP      | £525           | £475            |
| UK          | £518           | £518            |

Source: Annual Survey of Hours and Earnings, ONS

Given these wage differentials, East Sussex (and therefore the study area) does have a weak economy relative to the South East as a whole with economic productivity (Gross Value Added (GVA) per worker) being approximately £46,800, compared to £53,600 in the South East as a whole<sup>3</sup>. This stems from the structural weaknesses within the economy and that currently there is less employment in those sectors driving UK economic growth such as professional services.

### 1.3.4 Visitor economy

Employment data from BRES shows that the sector accounted for 11.2% (3,400 persons) and 14.4% (3,600 persons) of total employees in Hastings and Rother respectively in 2013.

The visitor economy is very important to the study area which offers a rich and developing cultural offer. There are 9.7m visitors per annum (911,000 overnight visitors) bringing tourism expenditure of £422.5m into the local economy. The tourism and cultural industry directly supports around 7,000 employee jobs but taking account of indirect and induced multiplier impacts the total jobs supported is closer to 11,700 in the study area (over 21% of total jobs).

## 1.4 Consultation findings

This study included telephone consultations with a range of stakeholders regarding the potential economic benefits high speed rail services to Hastings and Bexhill could bring. During November and December 2014, 22 telephone interviews were completed and six email responses received. In addition, eight businesses provided responses via the Hastings Chamber of Commerce, which have also been incorporated into this summary. All findings were presented anonymously.

The consultations produced a range of observations with several key issues being subject to consensus among respondents, among these are:

- Existing road and rail connections viewed as inadequate for a modern functioning economy and effectively cut the area off from the wider economies of the South East and London. This is both in terms of the poor speed and reliability of transport services.
- There is an established low-wage, low-skilled economy with deep rooted structural problems that need to be addressed through comprehensive economic regeneration policies.
- Addressing poor connectivity alone will not fix this problem.

<sup>3</sup> Using Headline GVA by NUTS 3 areas and total employee data, both for 2012.

- Among the issues that need to be addressed are: skills shortages, lack of innovation and business support, poor image and public perception of the area and an inadequate supply of modern business premises.

Many respondents were optimistic that this scheme would provide economic stimulus through:

- Potentially super charging the entire business investment proposition of the area, given the regeneration undertaken to date in providing a commercial productivity offer, this incorporates increased connectivity to regional and national transport networks and improved links to designated growth areas.
- Enhancing the indigenous business base of the study area by increasing access to a wider pool of labour and skills which can increase recruitment and retention and support local small businesses and start-ups.
- Potential inward migration of high value commuters attracted by the strengths of the area as a place to live. Over time this will help address the long term labour market issues by creating more indigenous demand and diversifying the housing market.
- This will help the retention of skills and slow the outward migration of talent.
- The tourist offer of the study area can be improved by opening up new markets and penetrating the short break and weekend market from London and further afield.
- Helping develop the commercial property market by enhancing the attractiveness and viability of existing developments, in addition the housing market can benefit from the increased demand from when commuting to London from the area becomes an option.

## 2 Economic and regeneration benefits

It is often difficult to accurately quantify the economic and regeneration benefits directly attributable to a policy intervention due to the potential for extraneous variables and other policies that have an impact on these indicators. In order to mitigate against this, the study applied three potential scenarios, with 2%, 5% and 10% of the total B-use jobs growth assumed to be attributable to the scheme. This was based on evaluations of the economic context, qualitative findings from the consultations, literature review findings and a review of the core spatial strategy targets.

The 10% scenario may be optimistic and is higher than the level of growth that has been attributable to rail services elsewhere but appears a reasonable estimate given the evidence gathered in relation to the existing momentum behind regeneration successes and ongoing policy to date, which is clearly working to help transform the offer of the study area to businesses, residents and visitors; and that the scheme will clearly improve economic performance via the three key routes identified throughout the study as:

- **Business investment and growth:** the service will impact on the investment proposition of the area and promote indigenous business growth through improved connectivity and access to key markets.
- **Provision of new commuting opportunities:** The service will provide a viable commuting opportunity between the study area and London. The journey time savings places Hastings and Bexhill at the brink of what is considered a sensible commute (68 minutes to Hastings and 78 minutes to Bexhill). This can lead to inward migration of people who work in London but wish to benefit from the high quality of life and low house prices in the study area; this will in turn raise average incomes in the study area.
- **Visitor economy and growth:** The service presents an opportunity to enhance and build on the strengths of the existing visitor economy via promoting links to new markets in London. The study area also stands to become increasingly attractive for weekend and short breaks with the high speed rail link from London.

The estimated attributable economic benefits in each scenario are shown in Table 2.1.

Table 2.1: Growth attribution scenarios, benefits per annum

|   | Growth attributable - 2% | Growth attributable - 5% | Growth attributable - 10%    |
|---|--------------------------|--------------------------|------------------------------|
| Employment floorspace target                            | 170,000 m <sup>2</sup>   | 170,000 m <sup>2</sup>   | <b>170,000 m<sup>2</sup></b> |
| Gross jobs supported                                    | 4,250                    | 4,250                    | <b>4,250</b>                 |
| Gross GVA, £m   | £198.8                   | £198.8                   | <b>£198.8</b>                |
| Growth attributable to the rail scheme – number of jobs | 85                       | 213                      | <b>425</b>                   |
| Growth attribution to the rail scheme – GVA, £m pa      | £4.0                     | £9.9                     | <b>£19.9</b>                 |

Source: Mott MacDonald, Gross GVA based on assuming average GVA per employee of £46,800 based on the East Sussex 2013 total using ONS workplace GVA data coupled with BRES employee data.

### 2.1 Housing

The evidence gathered has also supported the view that housing demand and therefore housing development in the study area would be stimulated from increased commuting on the back of the rail scheme. Using the same framework as above the analysis below provides an indication of the likely level of construction jobs associated with housing development if 2%, 5% or 10% was assumed attributable to the rail scheme. The impact of housing development would be more than just these construction jobs as highlighted in the context review and qualitative research since it could also provide a stimulus for

addressing long term issues and imbalances with the housing stock, especially within Hastings, given the large proportion of houses in multiple occupation. Given the evidence outlined above it has been assumed that 10% of the housing development can be attributed to the scheme which would result in an average of 667 extra construction workers during the construction period (approximately equivalent to 67 temporary construction jobs where a job lasts for ten years).

Table 2.2: Housing development and benefit linked to rail scheme under three growth scenarios

|  | 2%    | 5%    | 10%          |
|--|-------|-------|--------------|
| Housing target [5,700 Rother + 3,400 Hastings]             | 9,100 | 9,100 | <b>9,100</b> |
| Housing attributable                                       | 182   | 455   | <b>910</b>   |
| Average construction cost (£100,000 per dwelling), £m      | £18.2 | £45.5 | <b>£91.0</b> |
| Person years of employment (using Job: Capex (1:£136,300)) | 133.5 | 333.7 | <b>667.5</b> |
| Full time equivalent (FTEs) jobs (person years / 10)       | 13    | 33    | <b>67</b>    |

Source: Mott MacDonald. Job: capex ratio for construction based on the South East average using Annual Business Survey data and average construction wages from Annual Survey of Hours & Earnings (ASHE), 2012.

## 2.2 Visitor economy

The analysis on the impacts for the visitor economy suggest that attributing 10% of the projected future uplift in tourist visits is a reasonable assertion and using this figure, the study found an overall impact of **76 jobs and £2.8m of GVA per annum by 2028** from short and weekend stays in the study area. Day visits on the other hand, also using the 10% of overall uplift attributed to the scheme results in **£4.7m of GVA and 128 jobs per annum by 2028**. This is based on the impact of increased accessibility and people becoming aware of the study area as a potential short break location, especially from London.

## 2.3 Agglomeration benefits and labour supply impacts

The study used the Department for Transport's Wider Impacts in Transport Assessments (WITA) software to quantify the impacts of agglomeration (the concentration of economic activity over an area) and labour supply impacts such as a reduction in the cost of commuting to work. This found that the **overall benefits of agglomeration benefits, at a UK level, will be £118.9m** and **labour supply impacts £4.9m** (2010 prices discounted to 2010 using a 60 year appraisal period).

## 2.4 Key results

The impacts have been modelled by assessing the benefits that could emerge from land utilisation impacts through increased business investment (inward and indigenous) and increasing the volume and profile of visitors to the study area and the WITA analysis of agglomeration and supply-side effects. Overall the proposed scheme could make a significant contribution to the Hastings and Rother economies through the following identified benefits:

- Regeneration and economic benefits** through directly supporting the land utilisation planned for in the core strategies. The provision of high speed rail services provides an opportunity to support and facilitate the study area's core strategy targets within the existing spatial planning framework. Overall the following benefits attributable to the rail service could occur for the study area:

- 425 jobs and £19.9m of GVA per annum by 2023, equivalent to £269.3m of GVA over a 30 year time horizon<sup>4</sup> (2015-2044).
  - 910 dwellings over the planning period with an associated capital expenditure of £91.0m, creating 67 temporary construction jobs.
- **Visitor economy benefits** from stimulating overnight trips and increasing the tourism spend of tourism day trips, equivalent to 204 jobs and £7.6m of GVA pa by 2028.
  - **Agglomeration and labour supply benefits** amounting to £123.7m of GDP over a 60-year appraisal period (at a UK level). These benefits related to agglomeration benefits of £118.9m which values the extent to which the rail service improves the accessibility of an area to a greater number of firms and workers and labour productivity benefits of £4.9m relating to the benefit the rail service has on labour supply through reducing the cost of travelling and therefore increasing the number of people will to work at a given wage rate.
  - Other **qualitative benefits** relating to dramatically improving the image and perception of Hastings and Bexhill as a business location and supporting the education sector through enhanced accessibility for students and staff.

Table 2.3: Summary of key findings

| Area of impact   | Impacts                           |
|--|-----------------------------------|
| <b>Study area:</b>   |                                   |
| Regeneration benefits – per annum (realised fully by 2028)                                   | 425 jobs and £19.9m GVA           |
| Visitor economy benefits – per annum (realised fully by 2028)                                | 204 jobs and £7.6m GVA            |
| <b>Total regeneration and economic benefits – per annum (realised fully by 2028)</b>         | <b>629 jobs and £27.4m of GVA</b> |
| <i>Present value, assuming a 30 year time horizon (2015-2044) and a 3.5% discount factor</i> | <i>£354.3m of GVA</i>             |
| <b>UK level:</b>   |                                   |
| Agglomeration (2010 prices discounted to 2010 using a 60 year appraisal period)              | £118.9m of GDP                    |
| Labour supply impact (2010 prices discounted to 2010 using a 60 year appraisal period)       | £4.9m of GDP                      |
| <b>Total GDP contribution</b>  | <b>£123.7m of GDP</b>             |

Source: Mott MacDonald, excludes temporary construction jobs.

<sup>4</sup> A 30 year time horizon has been used with an average duration of GVA benefits of 13 years. Although commercial buildings may last longer than 30 years the new businesses locating within them (on the back of the rail scheme) are likely to move on sooner than this and therefore this time horizon is a reasonable assumption. The average persistence of GVA benefits in general is perceived as 10-15 years (for references refer to Impact of RDA Spending, Department for Business Enterprise & Regulatory Reform, March 2009). An average discount rate of 3.5% has been used in line with HM Treasury guidelines