

**Pion
Economics**

Casino Advisory Panel Note

**Pion Economic Impact Model For
Blackpool Regional Casino Proposal**

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1 Overview

This note has been prepared for submission to the Casino Advisory Panel in response to a series of technical issues and considerations that emerged during the Blackpool EIP event on 8th September 2006. A number of areas are covered by the note:

- provision of further detail on the Blackpool economic impact study requested by the Panel during the course of the event;
- matters raised by the NERA report presented only at the start of the afternoon session during which impact effects were to be discussed and, which thereby, allowed for no competent assessment of the assertions or methodology therein¹.

The note shows that the NERA analysis is fundamentally flawed in a number of crucial areas, in particular:

- the use of data from a previous Pion study based on an entirely free market environment and 4 to 5 unregulated, very large facilities in Blackpool, is simply not applicable to current circumstances, completely undermining the basis of much of the analysis in the report;
- application of the NERA (2005) Wembley study methodology matches the Pion (direct) base numbers to within a figure of 25 jobs;
- the Pion approach takes substantial effort not to underplay the issue of displacement with an estimate of displacement three times higher than that produced by NERA; and
- NERA comparison of job numbers is misleading and misrepresents the comparative process. On a like for like basis, the Pion numbers are well within the range of the NERA scenarios.

Pion Economics impact models are substantially different from many other impact structures in that they are driven by detailed modelling of expenditure flows and are fully integrated so that GVA and employment impacts are consistent with expenditure patterns – they are determined within the model rather than defined by ratios ‘parachuted in’ from other studies. Employment based approaches (such as that used by NERA and others) reduce analysis to a very small number of steps - Table B.2 in Appendix B of the NERA (2006) Blackpool study shows that just 4 steps are required from start to finish.

The Pion base (direct) job numbers are based on evidence from international gaming jurisdictions and the overall Pion approach, in an earlier guise, has also been subject to a process of peer review. Professor Leighton Vaughan Williams, Head of Economics and Director of the Betting Research Unit at Nottingham Trent University, critiqued the Pion model as part of a submission to the 2004 Joint Committee on the Draft Gambling Bill².

Professor Williams, while pointing that impact outcomes always depend on assumptions made, comments that ‘The Pion report presents a well-constructed economic impact study, albeit subject to the standard weaknesses and strengths of the methodology used.’³

¹ The Case for Locating a Regional Casino in Blackpool: A Critique (September 2006)

² The Consequences of Gambling Deregulation in the UK: A Critical Review of Some Theory and Evidence, Volume III, EV739-EV743.

³ The Consequences of Gambling Deregulation in the UK: A Critical Review of Some Theory and Evidence, Volume III, EV740

The Blackpool Economic Impact Study

The Blackpool model is as one would expect – a range of drivers are tracked through related expenditure flows to produce a series of outcomes. In the Blackpool study the driving assumptions are as follows⁴:

Outline of Impact Assumptions		
Driver/Item	Value	Source/Rationale
Casino Floorspace	12,550m ²	Re-Blackpool
Hotel Floorspace	22,050m ²	Re-Blackpool
Other Floorspace	16,290m ²	Re-Blackpool
Total Floorspace	50,050m ²	Re-Blackpool
Hotel Rooms	324	Re-Blackpool
Jobs in Regional Casino Facility	1,500	Pion Economics
Gambling visitors to casino	2.4m/3.5m	Re-Blackpool
Non-gambling visitors	20% of Gambling Base	Re-Blackpool
Jobs in conference centre	38	Right Solutions Study
New visitors attracted to resort	1m	Re-Blackpool/IPSOS

Outcomes of the model reflect a small number of other key assumptions as outlined in the impact report, namely:

- regional/non-regional gambling visitors spend as much outside the casino as they do in it (though displacement defined at 50% for the former and 25% for the latter);
- new tourist visitors also spend the same outside the casino in Blackpool as they do in it;
- while casino visitor levels are enhanced by 20%, these are assumed to consist of minimum spend (£15) non-gambling visitors;
- new visitors attracted to the resort are also assumed to be minimum spend (£15) visitors.

To facilitate understanding, we have separated out impacts in the report. This shows that:

- the basic impact of the regional casino is defined as 1,680 jobs;
- addition of the conference centre (adjusted for existing business levels) raises this to 1,890 jobs;
- displacement, equivalent to 347 jobs, lowers this to 1,543;
- allowance for resort spend by gambling and tourist visitors is significant and raises the jobs total to 2,665;
- addition of minimum spend (£15) non-gambling visitors to the casino raises the total to 2,727;
- addition of minimum spend (£15) new visitors to Blackpool raises the total to 2,994 - the figure reported in the impact assessment for the 2.4m base.

⁴ The floorspace figures in the table are those employed within the Pion Study. Total envisaged development includes a conference centre, an additional hotel and associated mixed-use units that take overall floorspace to 116,000 m².

The following table provides a convenient summary.

Breakdown of Pion Job Impact Estimates (2.5m Visitor Base)	
Job Profile	Total
Base Casino Job Impact	1680
Plus Conference Centre	1890
Plus Displacement	1543
Plus Resort Spend (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2665
Plus 20% Circulation (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2727
Plus 1m Visitors (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2994
Differential Job Impact	
Base Casino Job Impacts	1680
Conference Centre	+210
Displacement	-347
Resort Spend	+1122
20% Circulation	+62
1m Visitors	+267
Total	=2994

NERA (2006) claim that it is this last factor that is responsible for the large additional increment contained in the report but this is completely wrong and betrays a substantial misunderstanding of the model structure.

It is worth noting in passing, that additional work by the study team in its August 2006 supplementary report suggests that were the regional casino development to encourage increased private sector investment, every 10% rise in investment would add some 240 jobs to the total.

NERA (2006) Commentary

The NERA (2006) commentary on the Pion Blackpool Impact assessment is severely flawed:

- all of the analysis undertaken in connection with the direct impact of the Blackpool regional casino is fundamentally defective:
 - the size of the gaming area assumed is substantially lower than that planned – the actual proposal is some 60% higher than the largest NERA working assumption - resulting in substantial underestimation of direct numbers and departing completely from the methodology used by NERA in assessing impact of the Wembley (Brent) proposal in 2005;
 - even allowing for the above, the assumptions employed to generate direct job numbers are based on a previous Pion Economics study that was completed in the context of a free market approach to casino development with 4 to 5 very large facilities assumed to be operating in Blackpool. The assumptions used at that point in time are simply not applicable to current circumstances, undermining the basis of the analysis⁵;
 - applying the NERA (2005) Wembley methodology to the Blackpool floorspace produces a direct base that is within 25 jobs of the Pion assumption;
- the NERA comparison of job numbers is misleading and misrepresents the comparative process. NERA job numbers are adjusted for leakage – assumptions

⁵ This also applies to comments made by European Economics at the Manchester EIP.

about the proportion of jobs likely to be taken-up by non-residents. The Pion Economics figures refer to jobs created in Blackpool and are not adjusted for leakage:

- bringing the NERA figures to the same base as Pion increases all NERA figures by 89% so that the minimum scenario total rises from 750 to 1419 while the maximum scenario rises from 950 to 1797. These contrast with Pion figures of 1,543 for basic casino and conference centre operation, including allowance for displacement, but removing all assumptions about additional resort or new visitor spend.

2 Pion Economics

The role and background of Pion Economics in the arena of gambling related studies was brought to the fore during commentary at the EIP session and it may be helpful to the Panel to briefly set out this experience.

2.1 Pion Economics – General Impact Assessment Projects

Pion Economics is a consultancy that previously operated within the umbrella of Salford University Business Services and is still based in Salford University buildings. Staffed by ex-academics, Pion has a wide and varied experience of undertaking economic impact studies independently and in conjunction with other partners. Higher-level studies undertaken include:

- assessing the impact of a major oil plant closure for BP(UK) in conjunction with the University of Swansea;
- assessing the impact of the Greater Manchester Universities for the Greater Manchester Universities in conjunction with the University of Manchester;
- assessing the impact of Foot and Mouth Disease in the North West for the North West Development Agency;
- assessing the impact of Vauxhall's Luton Plant Closure for Vauxhall(UK) in conjunction with Amion Consulting; and
- assessing the impact of BAe investment in the US/UK Joint Strike Fighter (JSF) Programme in conjunction with Amion Consulting;

2.2 Pion Economics – Gambling/Casino Impact Assessment Projects

2.2.1 *Private Sector Resort Casino Impact Study (2000)*

Pion's experience in the arena of gambling studies goes back to 2000 when it was commissioned by a private sector gaming interest to undertake a confidential impact assessment of a resort casino within the UK – the first of its kind in the country.

2.2.2 *Lancashire West Blackpool Masterplan Impact Study (2003)*

In 2003, Pion was commissioned by the Lancashire West Partnership (eight local authorities now subsumed within the Lancashire Economic Partnership) to undertake a study to examine the potential economic impact of Blackpool Masterplan proposals for 4 to 5 resort casinos on the surrounding local economy labour markets as well as prepare an Action Plan for engaging local business and residents in the development.

2.2.3 *Cross Industry group UK Gambling Deregulation Impact Study (2003)*

Towards the end of 2003, Pion was commissioned by the Cross Industry group (CIG - a body of some 30 to 40 gambling and gaming organisations) to undertake a UK wide assessment of gambling deregulation. The exercise reviewed impact on the complete gambling industry in the UK – casinos, machines, bingo, on and off-course horse and dog racing, on-course totes, football pools, the national lottery, other lotteries, premium bonds – reflecting the wide ranging composition of the CIG⁶.

HM Treasury and HMCRE participated in early round-table discussions to flesh out feasibility of some study aspects and the report was submitted, for consideration, to the draft Scrutiny Committee. Pion Economics provided oral evidence to the Committee in 2004 and provided an additional memorandum following Committee questioning. Both submissions are available in appendices to the Committee report.

2.2.4 *NWDA Casino Market Demand Study (2004)*

Later in 2004, Pion was commissioned by the NWDA to undertake a casino market demand study for the North West. This exercise was designed to examine 1) market capacity in the North West 2) potential variation in impacts for a 'standard' development at different locations in the North West and 3) assessment of difference casino configuration 'scenarios'.

At the time of study, the 8-8-8 configuration was the applicable modus operandi and there was no instruction for the study team to outline a view for any preferred location. Towards the end of the exercise, the configuration altered to 1-8-8 and the team were asked to express an opinion between the two highest ranked areas of potential benefit (Manchester and Blackpool). Section 6.4.5 of the report outlines the basis of the opinion offered and is reproduced below for clarity.

Pion 2004 NWDA Study Commentary – Section 6.4.5

At the end of the day, Manchester and Blackpool are two broad locations within which a casino might be located. Each can provide a rationale for development on regeneration grounds – Manchester with regard to its high levels of deprivation and Blackpool in terms of potential economic/tourism gains.

The two are somewhat different, however, in the position from which they seek to move forward with development:

- Manchester:
 - has had a visible resurgence in fortunes and has become a major service centre within the UK. The levels of deprivation evident indicate that there remain issues with regard to matching opportunities and need on a local basis, but opportunities are in evidence;
 - has a well defined and diversified local economy of which leisure/tourism is an important but not dominant component;
- Blackpool:
 - is continuing to struggle against entrenched decline typical of many traditional resort areas in the UK. Levels of deprivation are lower than those in Manchester but opportunities are also less extensive;

⁶ One organisation – BACTA – withdrew from the exercise citing concerns about the evaluation of displacement effects and separately commissioned the Henley Centre to provide an assessment more closely informed by BACTA member interests.

- has a local economy that is heavily dependent on tourism.

Thus it seems that the options here pit the opportunity for localised regeneration in the context of a more diversified, buoyant economy against an opportunity to restructure the fulcrum of a less diversified economy in trend decline. In these terms it is difficult not to assign a higher priority to Blackpool.

2.2.5 *Lancashire West Regional Casino Skills Action Plan Study (2005)*

After completion of the NWDA study, Pion was again commissioned by the Lancashire West Partnership to review the local labour market of the eight areas covered by the Partnership and to prepare an Action Plan for public sector partners to prepare local residents for any opportunities that might arise from regional casino development.

2.2.6 *Blackpool Regional Casino Impact Study (2006)*

Our most recent commission is the Blackpool Regional Casino Impact study completed in March 2006, which is subject to the scrutiny of the Casino Advisory Panel and is discussed further below. In undertaking this commission, Pion Economics withdrew from tender processes with Brent, Glasgow and Greenwich.

3 Blackpool Regional Casino Impacts

The Pion impact model – as employed in the 2006 Blackpool Impact Assessment – has been developed over a number of years and provides a basic template that is adjusted to reflect the circumstances of differing study scenarios as required. This is an important feature as the approach has been scrutinised in several different sets of circumstances including negotiations between the NWDA and HM Treasury in the wake of Foot and Mouth Disease and by the Scrutiny Committee assessing UK gambling legislation.

Pion Economics impact models are substantially different from many other impact structures in that they are driven by detailed modelling of expenditure flows. In other words, they attempt to reflect decisions about expenditure made by the groups of individuals connected to the study scenario rather than take convenient short-cuts to produce quick outcomes. This imposes significant modelling burdens but the attention to detail enables a much richer set of scenarios to be considered. The model is also fully integrated in that GVA and employment impacts are consistent with expenditure patterns and are determined endogenously – they are determined within the model rather than being parachuted in from other studies.

In the case of the Blackpool model we deal with over 20 different direct staff groups, 21 different casino client groups and consider supply chains/multipliers across 123 industry sectors. This allows us to look in great detail at a variety of issues but it also places substantial demands on information and results in a comprehensive model structure.

The NERA (2006) report indicates that NERA encountered some difficulty in attempting to track through the detail of the model – not surprising given the time invested – and have thus assessed it as ‘opaque’. Our view is that the model is actually quite simple in structure if one has the capacity to focus on the key assumptions rather than drown in the detail of the mechanics.

The starting point for the model exercise is the evaluation of base level jobs in the casino facility. During the course of the EIP, the Panel indicated a desire to have more detailed information on the nature and scale of the Blackpool regional casino development. In this section we report on the proposed structure of the facility as supplied to us by Re-Blackpool. We also take the opportunity to outline the basis of the direct jobs calculation that appears to have substantially exercised the NERA (2006) study team.

The Blackpool regional casino facility is envisaged to entail a total floorspace development of some 50,050m² structured as follows⁷:

- Casino 12,550m²;
- Hotel 22,050m²;
- Wintergarden Promenade 12,550m²;
- Mixed Use Units 3,740m²;
- Total 50,050m².

Within the context of the casino, it is anticipated that 7,178m² will be allocated to gaming – an area larger than some competing venues - and that the associated hotel will contain 324 rooms.

3.1 Blackpool Direct Job Calculations

One of the distinguishing features of the Blackpool proposal is the absence of an identified operator. As such, the Pion impact study has never had access to a ‘appointed’ view of direct job numbers and it has been necessary to employ secondary source information.

In circumstances whereby a relatively standard development is being considered, we would normally turn to using employment density type information such as that supplied by ARUP Consulting to English Partnerships (2001). However, we have some methodological concerns about this approach:

- firstly, the densities are entirely ‘UK contextual’ and do not relate to regional/resort casino type facilities;
- secondly, such an approach treats parcels of land within the defined site as independent and does not accord with the resort casino perspective of integrated and complementary activities.

We have therefore looked to other jurisdictions with a long history of regional casino development and operation, and which have substantial information sources available – primarily the USA.

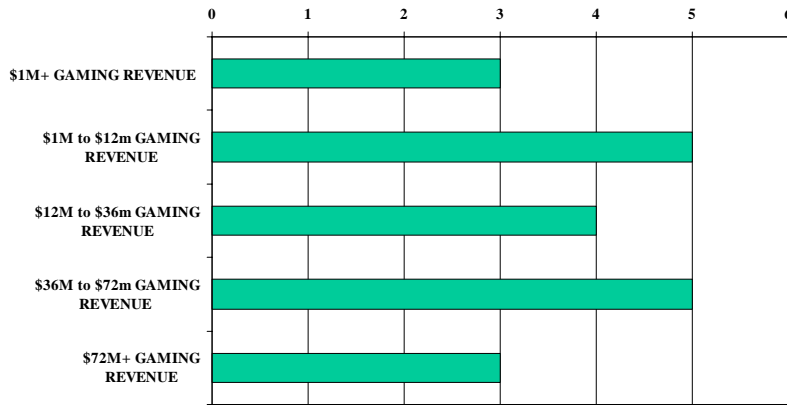
Any cursory perusal of these types of facilities in the US shows very great variation in scale, size and configuration. To bring some coherence to the debate, we reviewed the total number of jobs in such facilities relative to the scale of core activity – gaming - a process that reduces variation between facilities substantially:

- the Nevada Gaming Commission publishes an annual report – the Nevada Gaming Abstract. Focussing on Resort Casinos (ie Casinos with hotel accommodation), it is possible to examine total job numbers relative to gaming areas in 152 facilities defined across a variety of different gaming revenue bands. Summary of the analysis, overleaf, shows that despite the significant variation in facilities, resort casinos in Nevada tend to operate with one job for every 3m² to 5m² of gaming area;
- a separate analysis of individual resort casinos taken from the New Jersey Gaming Commission – also supplied overleaf – shows that resort casinos in this jurisdiction tend to operate with one job for every 2m² to 4m² of gaming area.

Adopting the most conservative ratio (5m²) and applying to the Blackpool gaming area (7,178m²) profiles a facility with some 1,440 jobs. This broadly accords with the 1,500 base figure employed by Pion and is consistent with soft intelligence about potential operating size provided by operators.

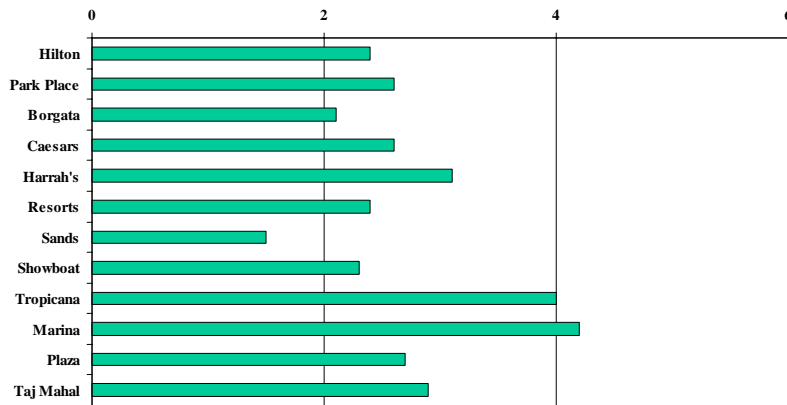
⁷ The floorspace figures in the table are those employed within the Pion Study. Total envisaged development includes a conference centre, an additional hotel and associated mixed-use units which take overall floorspace to 116,000 m²

Nevada Resort Casino Employment Densities (Gaming Area m² per facility job –2005)



Nevada Gaming Commission

New Jersey Resort Casino Employment Densities (Gaming Area m² per facility job –2005)



New Jersey Gaming Commission

3.2 Blackpool Indirect and Induced Job Calculations

Definition of indirect and induced impacts directly reflects a number of operating assumptions about the facility. The driving assumptions are as follows:

- gambling visitors to casino: 2.4m (floor)/3.5 (ceiling)
- non-gambling visitors: 20% of gambling base
- jobs in conference centre 38
- new visitors to resort: 1m

Key additional assumptions are that:

- regional/non-regional gambling visitors spend as much outside the casino as they do in it (with displacement is defined at 50% for the former and 25% for the latter);
- new tourist visitors also spend the same outside the casino in Blackpool as they do in it;
- casino visitor levels are enhanced by 20% through minimum spend (£15) non-gambling visitors;
- regeneration encourages 1m additional, minimum spend (£15) visitors to the resort.

To facilitate understanding, we have separated out the key drivers in the report This shows that:

- the basic gross impact of the regional casino is defined as 1,680 jobs;
- addition of the conference centre (adjusted for existing business levels) raises this to 1,890 jobs;
- displacement equivalent to 347 jobs lowers this to 1,543;
- allowance of resort spend by gambling and tourist visitors is significant and raises the jobs total to 2,665;
- addition of minimum spend (£15) non-gambling visitors to the casino raises the total to 2,727;
- addition of minimum spend (£15) new visitors to Blackpool raises the total to 2,994 - the figure reported in the impact assessment for the 2.4m base.

Breakdown of Pion Job Impact Estimates (2.5m Visitor Base)	
Job Profile	Total
Base Casino Job Impact	1680
Plus Conference Centre	1890
Plus Displacement	1543
Plus Resort Spend (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2665
Plus 20% Circulation (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2727
Plus 1m Visitors (<i>Section 3.4.5 of report – Visitor Resort Spend</i>)	2994
Differential Job Impact	
Base Casino Job Impacts	1680
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NERA (2006) claim that it is this last factor that is responsible for large additional increment contained in the report but this is completely wrong and betrays a substantial misunderstanding of the model structure.

It is worth noting in passing, that additional work by the study team in its August 2006 supplementary report suggests that were the regional casino development to encourage increased private sector investment, every 10% rise in investment would add some 240 jobs to the total.

4 NERA Commentary: Response from Pion

Blackpool Borough Council were supplied with a copy of the NERA report at beginning of the afternoon EIP session during which economic impact was to be discussed. With no opportunity for the study team to examine content prior to reference within the session and despite our understanding that CAP protocols may make this submission inadmissible, we welcome this opportunity to provide our response to comments made within the report.

Prior to addressing specific points, however, there are a small number of important methodological matters that, we submit, require earlier attention. Such matters are dealt with briefly in this section.

4.1 Impact Drivers: Expenditure or Employment

As noted above, Pion Economics impact models are substantially different from many other impact structures in that they are driven by expenditure flows. We contend that this is a more appropriate basis of analysis for the very simple reason that a given sum of expenditure (or the sum retained in an economy) and the pattern of that spend can support very different configurations of jobs and hence job numbers. Very simply, a volume of expenditure that is directed primarily at 'lower cost' employees may well sustain larger numbers of jobs than if directed at 'higher cost' employees and vice-versa.

Tracking expenditure flows from the outset, and through the variety of supply chains that underpin local economies, provides a profile of spend across a large range of supply sectors, the approach provides a fully integrated structure with all multipliers determined endogenously within the model rather than being 'parachuted in' from other sources.

In contrast, many other approaches (including NERA) do not address this issue at all. They start with a base employment figure and simply adjust up or down depending on the issue at hand. There is no link to expenditure and all jobs are effectively treated as having the same 'unit cost' – a somewhat inappropriate way of dealing with the labour market.

This 'back of the envelope' impact analysis has done little to further the reputation of ex-ante impact studies but the real benefit for proponents of this approach is that analysis can be reduced to a very small number of steps. It is convenient to refer to the NERA study for demonstration of this point, though the same applies elsewhere.

Table B.2 in Appendix B of the NERA Blackpool study outlines the impact basis of the NERA approach. This shows four categories of staff each of which is dealt with in the same manner as follows:

- take the direct employment figure;
- apply a leakage factor;
- apply a displacement factor, and
- apply a multiplier

In other words, impact is addressed in just four steps with the leakage, displacement and multiplier values ‘parachuted in’ from other sources, with no allowance made for the characteristics of the local economy at hand, no evaluation of supply chain structures and with all jobs valued at the same unit costs.

The expenditure approach is significantly more complex and time consuming and we would contend that it presents a more appropriate basis for analysis.

4.2 ‘Apples and Pears’

Pion impact studies operate – as in the construction of GVA statistics by ONS – in terms of jobs created in the ‘host’ local economy. Unless there are reasons to consider more than one scenario, we do not address the issue of leakage as this varies considerably across sectors and type of economy and, in many circumstances, can reflect agreements between employers and agencies with regard to ‘targeting’ take-up from the local area. Hence Pion Economics estimates of jobs numbers in Blackpool are non-leakage adjusted.

NERA adopts the opposite protocol, adjusting for leakage and we have therefore taken the liberty of adjusting the figures in their tables B2 to B4 to ensure that appropriate comparison is being made with Pion Economics figures. This adjustment raises each of the NERA total impact figures by 89% points so that the minimum scenario total rises from 750 to 1419 while the maximum scenario rises from 950 to 1797.

The leakage adjustment made by NERA is based on figures from English Partnership studies and averages out at close to 50%. In practice, the same figures are employed as in the NERA 2005 Wembley study despite the obvious variation between Brent and Blackpool and the fact that the same study reports ‘US literature suggests that.....in most relatively urban areas there is usually enough variety in the workforce to ensure that the required labour is available.’⁸

NERA Employment Impact Estimates – Leakage Adjusted & Non Adjusted		
	Leakage Adjusted	Non-Leakage Adjusted
	Minimum Scenario	Minimum Scenario
Gaming	490	980
Hotel	100	201
Services	117	167
Security/Operation	42	71
Total	750	1419
	Average Scenario	Average Scenario
Gaming	538	1076
Hotel	110	221
Services	128	184
Security/Operation	46	77
Total	823	1557
	Maximum Scenario	Maximum Scenario
Gaming	620	1241
Hotel	128	255
Services	148	212
Security/Operation	54	89
Total	950	1797

⁸ NERA (2005) Page 19.

4.3 NERA Commentary

4.3.1 *Background*

NERA draw extensively on work previously undertaken by Pion Economics, recognising the experience and track record of the Pion team. Much of the material comes from the 2003 LWP impact study that focuses on a scenario of 4 to 5 very large regional casino structures. Many aspects of the report and analysis therein are thereby ‘tied to this frame of reference and are not applicable’ to the current single regional casino context.

NERA have also been responsible for undertaking the economic impact assessment of regional casino proposals in Wembley (Brent). While this study references some aspects of earlier Pion Economics work in its bibliography, analysis is completely independent of any such reference.

The Wembley study contains some overlap in terms of approach with the NERA Blackpool study, and some issues of general methodology where we have differing views, but it also contains a substantially more complex treatment of important issues such as visitor numbers that are absent from the Blackpool study. We are somewhat mystified as to the reasons why aspects of the NERA Blackpool study fail to replicate a methodology reported in December 2005.

4.3.2 *NERA Commentary: Pion’s 2006 Methodology (4.3)*

Setting aside the range of subjective comments that accompany the analysis, this section provides a summary of the Pion (2006) impact assessment for Blackpool Borough Council.

4.3.2.1 *Direct Impacts*

This summary raises some issues about the origin of the scale of direct impacts and assumptions about local take-up of jobs. The former issue has been addressed by earlier analysis but we have a number of observations to make including the fact that

- application of the NERA Wembley methodology provides an initial base figure that is in line with the Pion baseline – (see below);
- application of the NERA Blackpool methodology to actual – rather than the inaccurately assumed NERA floorspace - also provides an initial baseline figure that is in line with the Pion baseline – (see below).

4.3.2.2 *Indirect Impacts*

Origins and Nature of Supply Chains

- we are happy to confirm to the Panel that there is an in-depth discussion of these issues in a separate report prepared for Blackpool Borough Council and delivered in August 2006. The report references Form 10K submissions to the US Securities and Exchange Commission (SEC) by a number of US gambling concerns detailing indirect spend patterns and outlines the origins and profile of indirect spend;
- while NERA express concern that there is ‘inadequate information in relation to a “crucial” element of the impact assessment’ we note that it is so crucial as to merit no further reference in their analysis until the application of a multiplier in the third of the four steps employed in calculating impact at which point it is mixed with induced effects. We leave the Panel to reflect on which party addresses the issue to their satisfaction.

Visitor Patterns

- NERA make reference to the visitor baselines employed (2.5m/3.5m) within the analysis. These parameters were provided to us by Re-Blackpool and our understanding is that a separate note outlining their origins is to be provided to the Panel;
- the Panel may also wish to note that the NERA 2005 Wembley study undertakes a very detailed statistical study of potential visitor numbers in the context of a casino gaming base that is marginally smaller (6,968m² compared to 7,178m²) and suggests that anything between 3.4m and 6.2m visitors are feasible. While it is clearly inappropriate to directly contrast the two areas, the Blackpool profile lies well within the NERA spectrum in the context of the very high population density of the North West of England and the numbers visiting Blackpool annually;
- NERA undertake no analysis of any nature on visitor numbers in their assessment – we do not know the nature and scale of visitor activity. This strikes us as a somewhat untenable position given that visitor profiles are the primary driving force behind the envisaged operation. The Pion model operates with independent assessments of 21 different client groups, recognising the importance of visitors, and our analysis of displacement effects are based on this level of detail;
- NERA make reference to evidence of their client (Leaguenotion) that widening the market for a product may tend to lower rather than increase average spend. This is perfectly feasible but not inevitable – it depends of the nature of and scale of the client base attracted;

Additional Non-Gambling Visitors

- NERA note the assumption that up to 1m visitors might be attracted to the resort in the event of development. It is relatively commonplace to allow for the fact that a major development may induce a range of additional activities that supplement initial impacts⁹. Increase in confidence may, for example, encourage higher investment – an issue not considered in the original impact assessment but addressed in the August 2006 report;
- the introduction of an additional tourist inflow following development is primarily based on evidence from the IPSOS/MORI survey indicating that significant millions of visitors might be attracted to/back to Blackpool were a regional casino to be developed. In practice, we assume that the spend of such visitors is relatively small - £15 per visitor.

4.3.3 *Induced Impacts*

- this very short commentary takes exception to the fact that we express methodological concerns about ‘parachuting’ in parameters from other studies when an expenditure-based approach avoids the need for this. Since NERA do not adopt an expenditure flow model and do use parameters from other studies, our comments are naturally inconvenient;
- ultimately this is a philosophical debate that the Panel may wish to consider but it is worth noting that HM Treasury EGRUP guidance on the evaluation of regional and urban impact assessments suggest that multiplier values for smaller areas should be expected to lie below 1.2. NERA multipliers are reported at 1.38, double the Pion figure of 1.18.

⁹ In practice, and completely contrary to the understanding of NERA, this has relatively minor impact of the job figures.

4.3.4 *NERA Commentary: Selecting An Appropriate Comparator (4.4)*

- text indicates concern about the fact that no counterfactual analysis is included and that impacts might be overestimated but Appendix B of the NERA report (Page 83) admits that 'We have not included a comparator as it is unclear what could be developed in the absence of a casino'. The inconsistency is such that no further comment is required.

4.3.5 *NERA Commentary: Timing of the Casino (4.5)*

- text indicates concern that the Pion study does not consider 'timing' or discounting of costs/benefits though it is admitted that 'Few studies explicitly account for the timing of costs and benefits in considering the economic impact of a casino'¹⁰ and more pertinently in Appendix B of the NERA report (Page 83) that 'nor have we considered the time period for when these jobs would occur'. Again, the inconsistency is such that no further comment is required.

4.3.6 *NERA Commentary: NERA Estimates of Employment Impacts (4.6)*

- this section provides the NERA estimates of employment for their client – relying not on the methodology employed by NERA in their December 2005 Wembley study but on data from the 2003 Pion study which references the ambition of 4 to 5 very large regional casinos in Blackpool, not one.

4.3.6.1 *Direct Employment*

- NERA operates three scenarios (minimum, average and maximum) with assumed gaming areas of 3,433m², 3,801m² and 4,388m² respectively along with an assumed total public floorspace of between 5,000 m² and 5,500 m²;
- the rationale for these figures is not only unclear – especially so since the December 2005 NERA Wembley study evidence contains a gaming area of 6,968 m², some 60% greater than the largest NERA Blackpool figure – but they are fundamentally wayward of actual proposals for Blackpool to have a gaming area of 7,178m² (total floorspace of 12,556m²);
- it is relatively straightforward to take the NERA (2006) methodology as outlined in Table 4.1 on page 30 and apply it to the envisaged Blackpool floorspace figures. This produces a direct employment figure of 2,147 jobs - substantially in excess of the Pion base of 1,500;

¹⁰ NERA (2006) Page 28.

Reworking of NERA (2006) Direct Employment Estimates for Blackpool Floorspace				
	NERA Min	NERA Average	NERA Max	NERA/Blackpool
Gaming M ²	3433	3801	4388	7178
Non Gambling M ²	1567	1629	1880	5378
Total	5000	5430	6268	12556
Rooms	424	470	542	324
Gaming Jobs	572	633	731	1196
NG Jobs	174	181	209	598
Hotel Jobs	462	512	591	353
Total	1208	1326	1531	2147

- it is also instructive to make use of the NERA (2005) Wembley report methodology in the context of Blackpool floorspace profile. Applying the NERA employment densities therein for gaming and non-gaming floorspace, allied to the 324 hotel rooms proposed by Blackpool, produces a total of 1,524 jobs - more or less the figure employed in the Pion analysis.

4.3.6.2 *Indirect Employment*

- indirect employment is assessed using ‘parachuted’ multipliers – an approach that can be avoided if a proper expenditure flow model is constructed. The approach uses multipliers, none of which relate to a regional casino type development and NERA ‘apply our judgement of the indicative scale of employment sector multipliers’¹¹. It is our contention that important impact assessments can and should be treated more seriously than in this back-of-the-envelope manner;
- another interesting aspect to the NERA approach is that the application of parachuted displacement multipliers indicates a displacement effect equivalent to 111 jobs in the average scenario¹². This is a third of the size of the Pion estimate of some 350 jobs. We would suggest that this variation reflects the application of generalised ‘external’ multipliers that bear no relation to the situation at hand. The Pion expenditure-based model assesses displacement across 21 different client groups and defines potential displacement according to the origin, visitor type and gambling type of client;
- NERA make reference to ‘local knowledge’ (Leagunotion) estimates of displacement based on a Leagunotion ‘view’ of the businesses likely to be lost and affected by regional casino development. This view appears to be supposition but it is interesting to investigate the claims which are given additional airing in section 4.7:
 - o even if the view of Leagunotion in Table 4.3 is sustained, 275 jobs are definitely ‘lost’ compared to the Pion figure of 350;
 - o the detailed information supplied to us by Re-Blackpool suggests that a number of the businesses defined as ‘lost’ will actually be retained; and
 - o of the businesses affected but not closed, another 360 jobs are viewed as being at risk. We have no way of assessing this claim but we note that much

¹¹ NERA (2006) Page 30.

¹² These multipliers are, incidentally, the same as those employed in the NERA 2005 Wembley study implying that displacement profiles in Blackpool and Brent are the same. We have some severe doubts about this implication.

of the loss is indicated to be linked to Leisure Parcs operations, a body represented at the EIP and indicating support for the development proposals.

- it is instructive to note that NERA studiously avoid including the Leaguenotion displacement figures in their analysis and make only separate reference to them.
- we would contend that the NERA analysis of displacement in this section is muddled – Pion is being attacked for having a displacement effect that is three times the size of that defined by NERA analysis but which is lower than a subjectively determined figure, based on no formal analysis, and which is carefully set aside by NERA.

4.3.6.3 Induced Employment

- NERA includes no formal discussion of indirect job numbers other than in appendices. The reason for this is simple – there is no analysis. All multipliers are parachuted in from elsewhere. ODPM Guidance from 2004 – Assessing the Impacts of Spatial Interventions, Regeneration, Renewal and Renewal – comments that ‘multipliers should not be applied mechanistically without any consideration of the affected markets’¹³.

4.3.7 Overall Results

- this section presents the range of NERA (2006) employment estimates – from 750 to 950 jobs – and compares this number with Pion estimates of 2,500 to 3,400 jobs. As outlined earlier in this report – extreme care must be taken to ensure that such comparisons are made on a bona-fide basis;
- NERA compare and contrast figures constructed on different bases. The Pion figures report estimated total jobs created in Blackpool by the regeneration project. NERA reports an estimate of jobs taken by Blackpool residents after an adjustment through parachute multipliers. These are fundamentally different positions and an adjustment must be made.
- adjusting the NERA total impact figures to allow comparison on the same basis as Pion increases NERA employment estimates by 89% points so that the minimum scenario total rises from 750 to 1419 while the maximum scenario rises from 950 to 1797.
- since the maximum position is that closest to the PION direct jobs (1,500), the difference between the two sets of figures for the 2.5m Pion visitor base is some 700 not the 1,550 implied.
- this difference is due to the fact that the NERA (2006) analysis makes no allowances for the fact that visitors to the casino/conference centre may spend some resource elsewhere in the local area and that development may encourage additional visitors to the resort. Adjusting the Pion model to exclude any such additionality means that the Pion numbers for the 2.5m base fall to 1,543, well within the NERA (2006) non-leakage adjusted profile.

¹³ Page 35.

References

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