

**Pion
Economics**

Casino Advisory Panel Note (2)

**Cambridge Policy Consultants
Review of Evidence for A Blackpool
Regional Casino**

Pion Economics Response

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Note (2)**

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1 Overview

This second note has been prepared for submission to the Casino Advisory Panel in response to the recent circulation of a Cambridge Policy Consultants (CPC) report entitled “The Economic Impact of a Regional Casino in Blackpool: a Review of the Evidence Base”. The CPC report focuses on two previous sets of analyses by Pion Economics:

- NWDA Casino Market Demand Study (2005); and
- Blackpool Regional Casino Impact Study (2006).

Elements of these studies are reviewed both separately and in combination and a number of comments are made in both contexts. This note addresses the set of such comments and provides responses. To assist the Panel, the points are addressed in the order raised by CPC, though the pattern of issues jumps between the reference documents at various points.

Prior to dealing with the individual matters raised, we should state that the commentary on our previous work contains a large number of errors of interpretation that are compounded in many instances by incorrect analyses. We are also faced with a series of comments that refer to variants of ‘underestimation’ and ‘overestimation’ without provision of any competing analysis to define or validate such claims.

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

- CPC adopt a policy of cross-referencing elements of the 2006 Impact study against the 2005 Market Demand study. The difficulty is that many aspects of the latter are interpreted incorrectly – they are factually wrong - with the result that a large number of the points being made are invalid and constructed on an erroneous basis. Virtually all analyses of visitor numbers, patterns and related issues are subject to this deficiency with the findings of section 2 of the CPC report (visitor numbers) particularly compromised;
- CPC make several assertions that are factually inaccurate. These include:
 - figures for average local casino spend used to cross reference against household spend data from other sources (and despite the fact that the Glasgow CPC study uses the same overall average as Pion);
 - claims of inconsistency between the 2006 Impact study and Blackpool’s response to questions posed by the CAP (different models are involved);
 - claims on displacement (inaccurate & based on a misreading of the Pion study);
 - the comparison of multipliers misleadingly compares the Pion expenditure multiplier with the CPC employment multiplier (the two are constructed on different bases and are not directly comparable);
 - commentary on the economic benefits section of the 2005 Market Demand study is inaccurate in its entirety (based on incorrect interpretation and inappropriate use of source data);

These and other deficiencies featured in the CPC commentary, in our view, renders the bulk of the conclusions contained in the document flawed, without merit and lacking in foundation. For convenience of the Panel, we present the conclusions of the CPC report along with a summary of our responses in the table overleaf. More significant detail on each point is contained in the body of the report.

CPC Challenge	Pion Response
<p>Demand from visitors/ tourists is significantly overestimated in the 2006 Report.</p> <p>1) Based on Pion’s visitor assumptions local Blackpool residents would need to visit the casino 16 times a year under the high demand scenario and 11 times a year under the low demand scenario.</p> <p>2) The 2006 Pion Report assumes that 65% of total demand for a regional casino in Blackpool consists of demand from new tourists. This is an increase of between 16 and 20 percent on current tourist numbers.</p> <p>3) The 2005 Report assumes that multiple interest gamblers are expected to make 9 visits and multiple interest tourists 27 visits per annum, implying that multiple interest tourists will spend 3.9 weeks a year in the casino.</p>	<p>Incorrect</p> <p>1) The assertion is <u>erroneous</u>, based on a <u>mistaken interpretation</u> of the 2006 report. Even if was correct then in line with <u>CPC Glasgow figure</u> of 11 local visits per annum (no figures presented by CPC to allow Manchester analysis).</p> <p>2) CPC reasoning is correct though the numbers are <u>relatively modest</u> in light of the millions of people that indicate willingness to visit Blackpool in the event of development outlined as referenced in recent research.</p> <p>3) Analysis is <u>wrong</u> - higher rates are only applicable for the <u>length of stay relevant</u> to the visitor group under consideration.</p>
<p>Demand estimates are inconsistent with the 2005 Pion Report.</p> <p>1) The 2005 report generates a total demand figure of 0.6 million visitors for a regional casino in Blackpool consisting of 0.31 million tourists and 0.284 million residents. In the 2006 report total demand is increased to 2.5 million under the low scenario and 3.5 million under the high scenario.</p>	<p>Incorrect.</p> <p>1) This is a <u>fundamental misinterpretation</u> of the 2005 study that renders all of the CPC visitor numbers comparisons between 2005 and 2006 <u>flawed</u></p>
<p>Displacement is hugely underestimated.</p> <p>1) The 2006 Pion Model does not follow Treasury Green Book rules in the assessment of displacement;</p> <p>2) The 2006 Pion Model only considers displacement at the local level for a very limited number of visitors.</p> <p>3) The model does not consider displacement from any existing visitors or residents who shift spending from other casinos in the local area. The model does not consider any displacement from existing visitors from the region and outside the region who substitute their spending from other forms of leisure or gambling in Blackpool.</p>	<p>Incorrect</p> <p>1) Report presents only Blackpool area results - model contains regional displacement estimates if required by Panel. Note that original CPC Manchester study contains no displacement allowance of any nature & is even further from Green Book guidelines.</p> <p>2) Model considers full displacement for two of three local groups –inclusion of third makes no material difference as local visitors have very limited share of client base.</p> <p>3) CPC Interpretation is <u>incorrect</u> - though understandable & based on lack of clarity in the Pion report. Such groups are included & the Note contains a breakdown of the original displacement total across the 21 groups analysed. Full compliance with all</p>

CPC Challenge	Pion Response
	of the CPC commentary adds 24 displaced jobs & is not judged as materially significant.
<p>Visitor spend data is inaccurate.</p> <p>1) The 2005 Pion report stated that tourist spend in Blackpool is significantly higher than elsewhere. STEAM data on total revenue combined with Pion’s own data on visitor numbers has shown this to be incorrect with average spend in Manchester at around £58 per visit compared to £51 in Blackpool.</p>	<p>Incorrect & Misleading</p> <p>1) Original Pion figures based on consistent 2003 basis - CPC take revenue figures from <u>2004</u> but employ <u>2003</u> visit figures to produce the profiles they quote. As such, the <u>comparison presented is misleading and unsound.</u></p>
<p>Visitor spend profiles estimates are overestimated.</p> <p>1) In the 2006 model local Blackpool residents who visits the casino are assumed to spend between £550 and £800 per year. Average UK total household spending on recreation and cultural services is around £920 per year. The shift of this spend to casino gambling will result in considerable displacement from other forms of leisure spending.</p> <p>2) Blackpool’s current visitor base is strongly biased to socio-economic groups DE (44%). The 2004/05 Expenditure and Food Survey shows a strong correlation between socio-economic group and expenditure on recreation and culture. It is therefore unlikely that assumed spend of £75 per person for non-regional visitors would be supported.</p>	<p>Incorrect</p> <p>1) Pion uses <u>same</u> (overall) average spend figure as <u>CPC Glasgow study</u> (no figures presented to allow Manchester analysis). CPC assertion of local spend figure is <u>incorrect</u> & relies on use of a <u>misinterpreted</u> prevalence figure in 2006 study. <u>Correct range</u> (even using misinterpreted figure) should be £411 to £598 & relatively minor adjustment in prevalence makes range £261 to £411.</p> <p>2) CPC analysis <u>relies heavily on historic socio-economic classification of visitors to Blackpool</u> - regeneration is intended to develop a different client base profile. An average figure of £75 for a long-distance visit covering gambling, food and drink, other entertainment and possibly a hotel room is, we feel, not excessive.</p>
<p>There are inconsistencies in the job figures between the reports.</p> <p>1) The 2005 Pion Report predicted that a regional casino in Blackpool will generate 2,686 net jobs. This report generated a total demand figure for the casino in Blackpool of 0.6 million visits per annum. The 2006 Pion Report predicts that a regional casino in Blackpool under the low demand scenario of 2.5 million visits will generate 2,515 net jobs and under the high demand scenario of 3.5 million visits 2,890 net jobs.</p>	<p>Incorrect</p> <p>1) Analysis & comparison is <u>wrong</u> due to misinterpretation of 2005 Market Demand study.</p>
<p>Job estimates in both Pion reports are hugely overestimated.</p> <p>1) 1,059 jobs are generated from ‘new’ additional visitors. This is a large proportion of total jobs, based on the assumption of the 16% increase in Blackpool tourism as a</p>	<p>Incorrect</p> <p>1) This point is not covered in text of report– as in NERA commentary and as detailed in the previous Panel note – is <u>wrong</u>.</p>

CPC Challenge	Pion Response
<p>result of the casino. Given the issues raised in the above section on displacement the total number of jobs lost to displacement is likely to be a significant underestimate.</p>	
<p>Methodology to compare potential casino locations in the 2005 report is flawed.</p> <p>1) On the basis of economic benefits Blackpool is ranked higher because it is assumed that the net jobs generated will 2,686 in Blackpool and 2,230 in Manchester on the basis of greater visits from outside the region. Pion’s own data contradicts this showing that Manchester is predicted to expect 0.2 million non-regional visits and Blackpool 0.16 million.</p>	<p>Incorrect</p> <p>1) Analysis is <u>wrong and reflects the misinterpretation</u> of the 2005 Market Demand study as per our earlier comments.</p>
<p>The 2005 Pion report ranks Manchester/Blackpool in equal first place as locations for a regional casino on the basis of its methodology.</p> <p>1) The report concludes that the only reason Blackpool should be given priority is because of less extensive opportunities for regeneration. There is a significant spatial problem with this argument. The 2005 Pion Report takes a very broad brush approach to Manchester and does not consider the issues in the context of East Manchester.</p>	<p>Statement of 2005 study contents.</p> <p>1) This point is not covered in text of report - Pion were asked to express an opinion in light of equal ranking & did point to less extensive opportunities in Blackpool. The report is as broad brush for Blackpool as it is for Manchester in operating within the context of administrative boundaries – CPC analysis also operates at this level.</p>
<p>The 2005 Pion Report ranks ‘Manchester and Liverpool as the areas with most potential gain’</p> <p>1) (The report ranks Manchester and Liverpool as the areas with most potential gain) on the basis of need for regeneration and benefits for deprived groups. It then ignores these findings and priorities Blackpool on the basis of its declining tourism industry.</p>	<p>Incorrect</p> <p>1) the terms of reference for the 2005 study required Pion to examine potential benefits of development in terms of three dimensions – economic, tourism and deprivation and not one. CPC comments are based on consideration of one dimension (deprivation) only. The opinion offered with regard to Blackpool & Manchester was based – as noted by CPC above – on relative volume of opportunities.</p>

2 CPC Commentary: Visitor Numbers

2.1 Local Origin Visitors

CPC take information from the Pion 2006 Blackpool Impact Study with regard to visitor origins and compare with the 2001 census base to infer visit rates for local residents, concluding that the latter would have to make (on average) between 11 and 16 visits per annum. Concern is expressed about the extent of this magnitude.

There are a number of observations to be made about this comment:

- the point being made is erroneous. The Pion report distinguishes between visitor origins - local (7%), regional (33%), non-regional (60%) - and casino gambling prevalence (the proportion of visitors that already participate in casino gambling) – local (10%), regional (15%), non-regional (20%)¹. These are the figures referenced in section 2.1 of the CPC report:
 - however, CPC misinterpret the figures employed - they wrongly assume that the 10% prevalence rate used to define existing casino gambling within the ‘subset’ of local regional casino visitors is the ‘general’ casino prevalence rate applicable to the entire local community;
 - the Pion report does not make a specific assertion for the general level of casino prevalence in Blackpool though it is consistent with previous studies in stating that overall (average) prevalence across the country could rise to *at least* 10% from the 3% level defined in the British Gambling Prevalence Survey.
- even if one were to assign a specific ‘total’ casino gambling prevalence rate for Blackpool, and adopt the approach outlined by CPC, the results would not be significantly out of line with existing evidence:
 - taking the 2001 Census population of England and Wales (52m), total visits to casinos for 2000/2001 over the same geography from the Gaming Board for Great Britain (GBGB) 2004/05 report (10.2m), and applying a 3% participation rate as per the British Gambling Prevalence Survey, then the implicit visit rate is some 7 visits per individual (on average) in the context of the highly regulated gaming environment in place at that point in time;
 - the Ipsos/Mori study indicates a Blackpool casino prevalence rate of 12%². Using this instead of the CPC 10% lowers the visit rate range to between 10 and 13 visits per annum;
 - the economic impact study prepared by CPC for the Glasgow submission assumes that some 21% of the visitor base (660,065 of the total 3,209,551) are locally based³. Like Pion, CPC do not provide an overall prevalence figure but adopting their methodology, with a Glasgow population of 629,501 taken from the 2001 Scottish Census, visit rates can vary between:
 - 36 visits per annum if overall prevalence is set at 3%;
 - 21 visits per annum if overall prevalence is set at 5%;

¹ The former is outlined in section 3.3.4 of the report and the latter in section 3.3.6.

² Ipsos/Mori (2006), Blackpool Residents’s Survey, Page 46.

³ This is three times the proportion assumed in Blackpool.

- 11 visits per annum if overall prevalence is set at 10%;
- visit rates are extremely sensitive to prevalence assumptions. Assuming that just 15% of the local population visit the casino – let alone the 20%+ rates seen in other jurisdictions - lowers the visit rates quoted by CPC from 11 and 16 to 7 and 11 respectively;

Overall therefore, and *even allowing for* the mistaken interpretation/application of the Pion data, we would contend that the visit rate patterns implied by CPC are not significantly wayward from existing CPC analysis for Glasgow and are consistent with deregulation of the sector from the visit levels evidenced by GBGB data.

2.2 Inconsistencies with the 2005 Pion Report

CPC compare visitor number profiles in the Pion 2006 report with those in the Pion 2005 Market Demand Study and draw a conclusion of inconsistency – the earlier profiles are reported to be significantly lower than those in the later report.

The CPC analysis is particularly deficient in relation to comparisons drawn between the 2005 and 2006 studies:

- there is a fundamental misinterpretation of the 2005 study that renders all of the CPC comparisons on visitor numbers flawed:
 - in seeking to define potential market demand within the North West, the 2005 study defines ‘resident’ and ‘tourism ‘gambling’ envelopes – potential numbers of resident and tourist visits to casinos;
 - the analysis is completed on an individual local authority basis. Hence the numbers of resident visits defined for Blackpool and quoted by CPC refers to potential casino visits that might be made by Blackpool residents regardless of where a casino might be located in the North West. CPC interpret the figure as the total number of visits likely to be made to a facility in Blackpool. This interpretation is patently incorrect and reflects a misunderstanding of the 2005 study. The important aspect of the analysis is that the regional resident base potential is defined as around 13m visits per annum.
 - exactly the same issue applies to the use of tourism numbers by CPC – the 2005 study figures take the profile of tourism visitors reported (by STEAM) to each local authority and assess the extent to which such visitors might visit a casino – hence the figures for Blackpool indicate the potential visitors to Blackpool that might visit a casino in Blackpool or elsewhere not the total of such visitors to Blackpool.. The analysis suggests an additional 5m potential visits from across the region;
 - overall, the 2005 study suggests a ‘well’ of some 18m potential casino visits within the North West of which the Blackpool 2.5m/3.5m represents a relatively modest proportion;
- CPC assume that the 2005 study provides the basis for the visitor numbers used in the 2006 Blackpool study. This is again incorrect– some of the ‘ratios’ that result from analysis in the 2005 report are employed (as referenced in the Blackpool report) but not the baseline numbers. Our understanding is that the Panel has already received an outline of the baseline numbers employed by Blackpool Borough Council.
- the 2005 study was undertaken in the context of the then applicable 8-8-8 casino configuration. The current 1-8-8 configuration – as far as a regional casino is concerned – completely alters the competitive landscape and we find it hard to

believe that any analyst would envisage the demand profile of a regional casino in Blackpool to be the same in both sets of circumstances.

2.3 Double counting tourist and resident numbers

One of the difficulties in developing the methodology for the 2005 Pion Market Demand study was that comprehensive origin-related tourism data for local areas was somewhat limited, running the risk of some overlap between resident and tourism based estimates of potential demand.

CPC refer to the original Pion commentary about such overlap although judicious editing fails to acknowledge that this is recognised in the 2005 study and omits the additional Pion comments that:

“these considerations suggest that the ...profiles should be viewed as ceiling estimates (ie as upper boundary estimates to allow for double-counting) and that any feasibility assessments should distinguish between residential and wider (residential plus tourism bases in order to determine the importance of tourism to the outcome”⁴.

CPC state that the 2005 analysis – and the risk of double-counting – results in overestimation of potential casino demand in Blackpool. The assertion, for reasons outlined immediately above –the 2006 visit figures for Blackpool are not based on the 2005 study - is ill-founded.

It is also worth noting the inconsistency between this assertion and that in the previous section – on the one hand the Pion figures are defined as being ‘significantly below’ the baseline figures in the Blackpool study while here they are being defined as being a ‘significant overestimation’⁵.

2.4 Newly Generated trips

CPC refer to the Pion statement⁶ that ‘within the context of the model, and depending on assumptions made, new visitors to the resort are estimated to constitute between 55% and 70% of gambling visits.’ Concern is expressed that these numbers imply an additional 1.6 to 2.2m visitors - an increase of between 16% and 20% on tourism numbers.

On this occasion CPC reasoning is correct though the numbers – as pointed out in the Pion response to NERA – are relatively modest in light of the millions of people that indicate willingness to visit Blackpool in the event of development in the IPSOS/Mori report.

2.5 Propensities

CPC express concern about assumed casino propensities of between 10% and 20% for visitors from the available catchment. As previously noted, this observation is incorrect and represents a misreading of the Pion 2006 study. The 10% to 20% figures referred to are figures for existing casino gambling prevalence – as text in section 3.3.6 of the Blackpool impact assessment makes clear:

‘casino gambling prevalence – the proportion of visitors that already participate in casino gambling.’

In other words, the 10% to 20% represent the *proportion* of visitors (local, regional and non-regional) that are assumed to already gamble in a casino environment. They do not represent

⁴ Pion Economics (2005), Section 4.2.

⁵ CPC (2006) Pages 7 & 8.

⁶ Footnote 10 in section 3.4.5.

gambling propensities for the general population. This mistake in interpretation undermines several aspects of the CPC commentary.

2.6 Frequency of visit

This commentary moves CPC back to the issue of visitor rates covered in the first comment dealt with above. They comment that ‘the Pion 2006 report does not mention the frequencies of visits used in the model’

Again, the observation indicates that CPC do not understand the construction of the model as visit frequency is not a building block – the model operates by starting with a baseline visitor level (2.5m/3,5m) and then cascades the visitor profile into 21 visitor groups on the basis of the assumptions explicitly laid out in section 3 of the report. It is possible to define visitor rates but they are an outcome of other assumptions made, not a predetermining factor.

Be that as it may, CPC then imply that the visit rates they assume are employed – but are not – must be based on the analysis in the 2005 Market Demand study and proceed to comment on the latter. Not only is this not the case, but it is also woefully wrong.

The explanation is as follows:

- CPC are correct in reporting that the 2005 Market Demand study employs a set of assumptions to define potential casino visits, and that those for tourists are different from those for residents – on the basis that tourists have greater leisure time availability;
- visitors are thereby given higher weights to allow for higher participation in the manner quoted by CPC on page 9;

However, from this point forward the CPC analysis is simply wrong. The salient point is that the higher visitor rates are, of course, only applicable for the length of stay relevant to whatever visitor group is under consideration.

The CPC comment about 27 visits per annum is meaningless – in terms of the model tourists would have to stay in the resort all year round (not the mere 3.9 weeks implied) to achieve this visit rate and reflects a misunderstanding of the methodology in the 2005 study.

3 CPC Commentary: Displacement

3.1 Dealing With Displacement

CPC make a number of comments regarding displacement and we address these below. This is, however, such an important aspect of impact study evaluations, that we think it appropriate to make a small number of methodological observations.

Panel scrutiny will have demonstrated considerable variety in the assessment and magnitude of displacement across the documentation presented vis-à-vis economic impact. The reason for such variation is clearly related to difficulty in defining appropriate ‘mechanics’ for evaluating scale and scope.

In the light of such difficulties, many commentaries employ ‘generic’ displacement ratios defined in studies such as the English Partnerships Additionality Guide⁷ (used by NERA in their assessment of the 2005 Wembley study⁸) while others adopt a variety of approaches that

⁷ English Partnerships (2004), Additionality Guide – A Standard Approach to Assessing the Impact of Projects.

⁸ This is another form of the ‘back-of-envelope’ approach of which we were critical in our earlier Panel note.

attempt to tailor assessment of displacement to the particular circumstances of the location at hand.

The Pion approach to displacement is unlike most of the comparator studies in that it is primarily expenditure based, is examined individually across 21 client groups and is considered across each of the 123 supply sectors defined in the model structure. This allows consideration of displacement potential at a relatively fine scale but, more importantly, use of an expenditure base allows displacement to be directly linked to changes in 'turnover pattern' within the local economy. This latter point is particularly important as turnover/job ratios can vary significantly within and between employment sectors – a feature that cannot be taken into account in an approach where adjustment is made by ratios.

For example, switching a given volume of spend from sector A to sector B might actually increase overall job totals (ie have negative displacement) if sector B has a lower turnover/job ratio than A. This possibility is automatically excluded from ratio-based models – there is an asymmetric approach to displacement that is unwarranted. In fact, ratio-based models imply that turnover/job ratios are the same across each and every sector – this is precisely the deficiency that we took to task in our previous note.

We have some concerns that ratio-based analyses (in both this and other contexts) may serve to produce displacement estimates that are some distance removed from those that an expenditure-based approach might deliver. A simple example will assist the Panel in this regard – comparing CPC and Pion displacement estimates:

- CPC- Glasgow:
 - with a visit base of 3.2m, an average spend of £50 per visit, displacement defined at 66% and equivalent to 1,698 jobs, one job is displaced for each £62,300 spend reallocated as a result of development;
- CPC- Manchester:
 - analysis of this case is complicated by the fact that no detailed information on displacement is provided;
 - with a visit base of 1.3m, an (assumed as per Glasgow) average spend of £50 per visit and 2,348 jobs displaced - the amount that needs to be reallocated per displaced job varies according to the level of displacement defined:
 - displacement of 40% means one job displaced for each £11,000 spend reallocated;
 - displacement of 50% means one job displaced for each £13,800 spend reallocated;
 - displacement of 60% means one job displaced for each £16,610 spend reallocated;
 - displacement of 70% means one job displaced for each £19,378 spend reallocated;

- Pion – Blackpool:
 - with a visit base of 2.5m, an average spend of £50 per visit, displacement spend defined at 29%⁹ and equivalent to 347 jobs, one job is displaced for each £102,300 spend reallocated as a result of development;

In other words, the Pion model embodies a ‘job displacement threshold’ that is 60% higher than the CPC Glasgow study and significantly higher than that in the CPC Manchester study¹⁰ - it requires a greater volume of spend to move from the local economy to the regional casino in Blackpool per displaced job than elsewhere.

Setting the particulars of the Manchester case aside, some indication of the displacement relativities involved can be gained from matching UK Annual Accounts information with UK employment data:

- accounts for 2004 show UK total domestic product output (at purchaser prices) valued at £2,284.2m. ONS labour market trends for October 2004 give a June 2004 employment base of 26.136m¹¹. – 17.784m full-time and 8.352m part-time. Converting to an FTE base of 21.96m and placing beside the supply value gives an average UK domestic output per employee of £104,012 – that is one FTE job is gained/lost for every £104,012 increase/decrease in sales;
- repeating the analysis specifically for the recreation, cultural and sporting sector - £56.17m and employment base of 741,300 (FTE adjusted to 585,250) - gives a sector average of £95,973.

These figures are relatively close to that from the Pion analysis above. While it is unfortunate that the same sort of analysis cannot be replicated at lower level geographies (lack of data) and it is likely that any such analysis would vary across geography, the profiles outlined tend to corroborate the parameters within the Pion displacement analyses.

3.2 CPC & Displacement

CPC comment that the Pion 2006 study does not take displacement at regional level into account. While the material presented in the report concentrates on Blackpool only, as CPC will be aware – having carefully read the 2005 study which does provide regional level estimates – the model employed contains routines for regional displacement if required by the Panel.

It is also worth noting that this comment is made in the context of the original CPC impact study for Manchester in which there is no allowance for any form of displacement – significantly more removed from the Treasury Green Book than the Pion analysis. Indeed, our understanding is that verbal confirmation of zero anticipated displacement was also made during the EIP event at Manchester. Such a position was simply untenable and additional work has now been presented to the Panel that reverses previous claims and considers displacement considerations for the first time¹².

Prior to dealing with CPC comments directly, however, it is worthwhile taking a moment to draw some important distinctions that are relevant to Panel consideration of the CPC challenge on Pion and our response:

⁹ This allows for the differential unit spend profiles outlined in the 2006 Impact study.

¹⁰ Depending on the displacement value applied to Manchester.

¹¹ Table B14.

¹² CPC (2006) Note on the Methods Used to Calculate the Economic Impact of the Potential Casino in East Manchester, including the displacement effects.

- the concepts of net additionality and displacement are not necessarily the same, and while the recent CPC note refers to displacement in its title, it is net additionality that is presented in the report¹³:
 - this is important as it would be easy to draw the implication from the note that differences between net additional and gross job totals are due to displacement alone but this is not necessarily the case¹⁴.
- it is unclear how the estimates of displacement are constructed – other than that they are taken from the Glasgow study and we are somewhat confused by the CPC statement that
 - *“The calculations follow the same method as we used in deriving estimates for the Glasgow regional casino, however..(they)..are not what we think would happen in Manchester if the assumptions used in Glasgow are applied to the circumstances in Manchester. Therefore it would not be appropriate to compare these estimates directly.”*¹⁵
 - we interpret this as ‘this is what you get if you use the Glasgow method, but we don’t place any confidence in using them for Manchester’
- while there is no detail as to how the displacement estimates are constructed, the inference from above is that ratios have been ‘parachuted-in’ from Glasgow. Indeed, the CPC approach may face a fundamental difficulty in assessing displacement in that – as far as the evidence available to us indicates – minimal consideration of visitor types or origins is made in the case of the Manchester proposal. Hence limited distinction can be made between the proportions of visitors that are additional or non-additional - ultimately, therefore, no detailed analysis of displacement may be feasible other than by the ‘parachute’ method;
- the CPC methodology is in the nature of that which we critiqued in our previous note to the Panel¹⁶. None of the analysis appears to be based on consideration of expenditure flows and hence is subject to all of the deficiencies outlined in that note;
- on a related but slightly broader point, the general CPC approach to modelling the Manchester impact is minimalist:
 - there is little to no discussion of technical considerations or assumptions made – though few are needed if, as in the initial report, only gross effects are being considered;
 - more importantly, there is no explanation of how the adjustment from gross to net impacts is derived in the secondary note;
 - the Blackpool impact study, in contrast, outlines every assumption made and the basis of all adjustments. This provides an easy target for challenge – as experience is showing – but provides the Panel with a detailed profile of the methodology employed from the outset.

In fact, we are somewhat concerned about the extent of implied displacement in the Manchester analysis. The recent CPC note to the Panel – corrected for the sum error and

¹³ Paragraphs 7 and 8 in the CPC note present net additional figures for two geographies but are incorrectly summed’

¹⁴ Some analysts (such as NERA) define net additionality to allow for leakage as well as displacement - the precise definition applied by CPC is not clear.

¹⁵ CPC (2006) Notes on Methods.....” Page 3.

¹⁶ Pion Economics (2006) Casino Advisory Panel Note.

excluding construction – shows an adjustment from 2969 gross jobs to 620 net jobs¹⁷. This represents an implied displacement of 79% - high in comparative terms and which may well be explained by an assumption of a very localised client base but it sits uneasily with the claims of zero displacement at the EIP event.

Moreover, the revised note includes a substantial unexplained revision to the estimate of gross jobs from that presented in the initial CPC impact study. The original impact study includes low/high figures for off-site expenditure by visitors of 379 jobs and 535 jobs respectively. In the recent note, these are revised to 1030 and 1589 respectively – an unexplained increase of 272% and 297%.

3.3 CPC Challenge

In terms of the specific CPC challenge to the Pion analysis of displacement, a number of assertions are made and are reinforced by presentation of a Pion table amended by CPC to include a column labelled ‘Local Displacement Treasury Green Book’. The (slightly misleading) implication is that the Green Book provides direct guidance of the way in which to treat the displacement categories for the gambling visitor profile used by Pion but, of course, it doesn’t. The contents represent the views of CPC.

Within the context of the table, CPC express concern in three areas:

- *CPC Concern:* there is no displacement allowance for ‘existing casino’ visitors – gambling visitors or existing tourists and regardless of origin;
 - Pion Response:
 - CPC assume that when we define a proportion of visitors as existing casino gamblers we mean ‘existing casino gamblers in Blackpool’ whereas we simply mean generic ‘casino gamblers in general’;
 - as specified, the 2006 Impact study assumes that the majority of such individuals do not already visit Blackpool to casino gamble. This strikes us as a reasonable working assumption as far as non-tourist visitors are concerned since the bulk of such gamblers are likely to find casino venues nearer to their place of residence;
 - one can debate whether we underplay the potential for existing tourists who are already casino gamblers to currently gamble in Blackpool as well as allowing for the switching of existing local casino spend into the regional casino, but the process can be expedited by re-running the underlying model, allowing full displacement across each of these elements – even though CPC argue for only partial displacement for existing non-local casino gamblers – and assessing materiality:
 - the overall impact of this (full) adjustment is to increase displaced jobs for the 2.4m base from 347 to 371, an additional 24;
 - the primary reason for the limited scale of effect is that the numbers of visits assigned to existing casino gamblers is relatively small – the three elements under discussion account for just 3% of the casino visitor base – as befits the restrictions in place prior to deregulation;

¹⁷ Incorrectly stated as 654 in the Note.

			(£)	Displacement	Displacement
Gambling visitor	Local	Existing casino	50		7
Gambling visitor	Local	New (Subst)	40	29	29
Gambling visitor	Local	New (New)	30	15	15
Gambling visitor	Regional	Existing casino	50		3
Gambling visitor	Regional	New (Subst)	40	44	44
Gambling visitor	Regional	New (New)	30	22	22
Gambling visitor	Non-regional	Existing casino	75		12
Gambling visitor	Non-regional	New (Subst)	75	71	71
Gambling visitor	Non-regional	New (New)	75	47	47
Existing Tourists	Regional	Existing casino	30		1
Existing Tourists	Regional	New (Subst)	20	16	16
Existing Tourists	Regional	New (New)	25	8	8
Existing Tourists	Non-regional	Existing casino	30		1
Existing Tourists	Non-regional	New (Subst)	20	31	31
Existing Tourists	Non-regional	New (New)	25	15	15
New Tourists	Regional	Existing casino	50		
New Tourists	Regional	New (Subst)	50		
New Tourists	Regional	New (New)	50		
New Tourists	Non-regional	Existing casino	50		
New Tourists	Non-regional	New (Subst)	50		
New Tourists	Non-regional	New (New)	50		
Hotel & Circulation Displacement				50	50
Total				347	371

- *CPC Concern:* “there is no allowance made for the fact that the large number of local residents who are expected to play in the casino will switch expenditure from their household expenditures unless they dip into savings. That is, the majority of their expenditure in the casino will be displacing economic activity in the local area.”
 - Pion Response:
 - as noted by CPC earlier in their commentary, local residents are anticipated to constitute 7% of total visitors . We have not made any assumptions about general casino gambling prevalence but, even using the CPC assumption (incorrectly attributed to Pion) of 10%, it is difficult to construe this as ‘large’;
 - we also struggle to understand the point being made. As indicated in the table provided by CPC itself, two of the three local origin visitor groups are fully allowed for in modelling. Adjusting for the third category is referenced immediately above but makes little material difference;

4 CPC Commentary: Visitor Profiles & Spend

This section commences with reference to the use of visit rates as discussed in the first section of the CPC report. It then proceeds to:

- convert spend into an annual equivalent of some £550 to £800 per capita for local residents and compare this average with Expenditure and Food Survey (EFS) records for average spend on recreation and culture, commenting on implied shifts between leisure spending categories;
- query the assumed spend attributed to visitors from outside the local area.

It would of course be helpful if one were able to contrast the spend assumptions implied in the Pion work against figures for Manchester as the same broad geography would ease comparisons, but the CPC Manchester study contains no information of any nature on spend profiles. The CPC study of Glasgow does however contain an average spend figure of £50 per visit – exactly the same as the overall average in the Blackpool impact study. Presumably, the concerns of CPC expressed in the report for Manchester are also applicable to its own study of Glasgow?

Putting this inconsistency to one side, the CPC calculations are incorrect:

- CPC apply an average spend per local resident visit of £50. This is inaccurate, the Blackpool impact study assumes £50 per visit for existing casino gamblers, £40 per visit for gamblers substituting to casino gambling from other forms of gambling and £30 per visit for local residents newly attracted to gambling;
 - constructing an average that reflects the different volumes of visitor types produces an average spend of £37 per visit;
 - as noted on several previous occasions, the Blackpool study makes no inference about prevalence rates but using the CPC assumption of 10% and thereby 11 to 16 visits per person, the spend range quoted by CPC should be between £411 and £598 not £550 and £800;
 - a prevalence rate of just 15% would imply a range of between £261 and £411 – some distance from the figures originally claimed by CPC;

A related point is that the proportion of household and leisure spend allocated to recreation and leisure has been growing quite strongly over recent years. As such, the proportion of spend relative to casino gambling is likely to be less significant over time than is implied by CPC.

That said, the CPC argument is also incomplete. The facilities on offer will attract people to substitute for spend in areas such as eating and retail usually made elsewhere, hence comparison with the recreation and leisure spending in the EFS is artificially low and possibly misleading¹⁸.

Finally, we believe the concern about spend profiles of visitors is misplaced. The CPC analysis relies heavily on a historic socio-economic classification of visitors to Blackpool whereas we understand that one of the intentions of the regeneration project is to develop a client base that moves away from traditional visitor profiles. In addition, it strikes us that an average figure of £75 for a visit that will cover gambling, food and drink, other entertainment and possibly a hotel room is not excessive.

5 CPC Commentary: Total Jobs Generated

This section includes a number of statements about job numbers.

- “there is inconsistency between the job figure in the Pion (2006) report and Blackpool’s response to questions posed by the CAP”
 - Pion Response:
 - simply incorrect – the Pion 2006 report figure quoted includes (as indicated in the final table) both regional casino and conference centre impacts whereas the Blackpool response refers to the regional

¹⁸ CPC defines the recreation and leisure sector within the EFS in footnote 5 on page 12. A figure – the only one included in the listing – of £3.80 on gambling is provided. Lest the Panel assume otherwise, this is a weekly figure that equates to £198 annually and represents 21% of average recreation and leisure spend.

casino without the conference centre and its attendant indirect and induced impacts;

- “the assessment uses a multiplier of 1.18 for each of the expenditure streams. This is nearly twice as high as the multiplier... used for the Economic Impact Assessment for a Regional Casino in Manchester of 1.1. HM Treasury indicate that a multiplier of 1.3 is appropriate for national (UK) impact assessments. The multiplier should reflect the size of the local economy and the mix of economic activity which exists in the local area both of which would generate a lower multiplier for Blackpool than for Manchester.

- Pion Response:

- simply incorrect and the comment betrays the ‘back-of-envelope’ approach that we took to task in our earlier note to the Panel;
- the Blackpool impact study does not ‘use’ a multiplier.
 - the latter is an outcome from the range of assumptions employed to populate the model;
 - CPC ‘parachute in’ a multiplier to the Manchester study from a completely separate ‘Commonwealth Games Study’. There is no evidentiary connection between the multiplier used by CPC and the Manchester regional casino development;
 - again we invoke ODPM Guidance for consideration of regeneration (2004) that ‘multipliers should not be applied mechanistically without any consideration of the affected markets’¹⁹.
- the CPC analysis is disingenuous in that it compares an ‘employment’ multiplier from CPC with an ‘expenditure’ multiplier from Pion:
 - this is a misleading comparison as the two are constructed on different bases;
 - for the purposes of clarity we include a simple table which provides a like-for-like comparison of the employment multiplier calculation referred to by CPC in its recent note to the Panel and comparative Pion figures for the single regional casino model defined in the Blackpool impact study:
 - the analysis shows that the Blackpool employment multiplier is 1.06 – less than the Manchester value as CPC argue should be the case²⁰.

	CPC Manchester	Pion Blackpool
CPC Category	Gross FTE	Gross FTE
Operations	1475	1500
Local Purchases	182	125
Off-Site expenditures by visitors	1030	1326

¹⁹ ODPM (2004) – Assessing the Impacts of Spatial Interventions, Regeneration, Renewal and Renewal Page 35.

²⁰ The Pion 3,131 is constructed to match the CPC Manchester ‘zero displacement’ scenario – it takes the Pion 2,994 total, adds back displacement (347) but subtracts conference activity (210).

Multipliers	270	180
Total	2968	3131
Multiplier Value	1.10	1.06

- “The total number of direct jobs generated by the casino is considered to be 1,500 under both the low demand and high demand scenarios. The Pion Report (2006) states that ‘under this study, we have been guided by the views of operators who suggest that a high spec regional casino can be expected to generate somewhere in the region of 1,500 jobs.’ (page 7). This figure is a top end estimate under both scenarios”
 - Pion Response:
 - we are not sure as to the point of this comment:
 - if the intention is to draw attention to the fact that the same base number is employed even in the circumstance of a high demand scenario then it serves to highlight our conservative approach;
 - if the intention is to draw attention to the fact that the Blackpool base number is only 25 more than the Manchester base, even though visitor numbers are significantly higher then it again serves to highlight our conservative approach;
- “Jobs from new additional visitors: This is likely to be an overestimate (see section 1)”
 - Pion Response:
 - the incorrect nature of the section 1 analysis in the CPC report has been addressed earlier;
- “Displaced jobs: This is likely to be an underestimate (see section 4)”
 - Pion Response:
 - the points raised in the CPC section 4 commentary have been addressed earlier;

6 CPC Commentary: Direct Locational Comparisons

This final section focuses in its entirety on the Pion 2005 Market Demand study. Although the comments are not directed at the Blackpool Impact study, we respond for the sake of completeness in critiquing the CPC Panel submission.

6.1 Economic Benefits

The first point raised by CPC is the absence of information on how estimates of job numbers are created. We would beg to differ – section 5 of the report details precisely how the impact model is populated – repeated and updated in the 2006 study - and as the text in section 6.4.2 points out in regard to the option being discussed by CPC “the analysis positions exactly the same (regional casino) operation in different areas with only the different location characteristics acting to determining differing outcomes.”

The second point raised by CPC is a claim of inconsistency:

“Blackpool is ranked highest primarily due to anticipated higher visitor numbers from outside the region”

“This contradicts the information provided in Section 4.....which disaggregated the type of casino visits for potential casino locations as illustrated”

This analysis is simply wrong and reflects the misinterpretation of the 2005 Market Demand study as per our comments in earlier sections. As such the comparison made by CPC is invalid and meaningless.

The third point raised references comments made about the origins of regional/non-regional tourist clients whereby we assume “in the absence of any formal data it is assumed that these clients are split 50/50 between regional and non-regional origins.” CPC then apply the 50/50 split to the figures they present in a table to imply a contradiction to the statement.

Unfortunately, this analysis is again fundamentally flawed. CPC apply the 50/50 ratio to the figures in table 2 making the same mistake as previously – these figures do not represent the quantum of casino visits made in the areas in question. The analysis is invalid.

The final comment under this heading relates to comparisons of visitor spend. The comment implies the Pion findings reported – that spend per visit is higher in Blackpool than Manchester – is incorrect²¹. The assertion is made using a combination of some of the data used by Pion along with other data sourced by CPC. This analysis is inaccurate and methodologically unsound:

- the original Pion approach uses consistent STEAM data for 2003 and is reproduced below showing that spend per visit is indeed higher in Blackpool than Manchester

	Blackpool	Manchester
Total Revenue (£m) (STEAM 2003)	777	844.5
Total Visits (m) (STEAM 2003)	14.9	20.2
Spend per Visit	52.1	41.8

- CPC take revenue figures from 2004 (not the original figures for 2003) but still employ the 2003 visit figures above to produce the figures they quote. As such, the comparison presented is misleading and unsound.

On the basis of the above responses, the CPC conclusion that Blackpool cannot possibly have a greater economic impact than Manchester is – on the basis of the evidence presented - without merit or validity and is based on incorrect interpretation and inappropriate use of source data.

6.2 Tourism Benefits

CPC outline the basis on which tourism benefits are assessed in the 2005 study ie:

- absolute visitor numbers;
- the tourist share of total estimated casino visits; and
- the proportion of the employment base supported by tourism in each area;

It is stated that “Blackpool is ranked first, due to the low level of demand from the local catchment area rather than because of the high number of visitors from elsewhere.”

²¹ Represented in the table on page 37 of the 2005 Market Demand Study.

This comment is confused. A “low level of demand from the local catchment area” equates to a higher level of demand from visitors - precisely what the index is seeking capture – which is also the same as “high numbers of visitors from elsewhere”.

6.3 Benefits for deprived groups

Commentary here reports the basis of the Pion 2005 analysis for deprived groups but makes no observation in this regard. Instead it moves to the issue of the overall ranking of Blackpool and Manchester.

Noting that the Pion 2005 study ranks Manchester and Blackpool at roughly the same position, the CPC commentary refers to the opinion – requested by the project steering group in the circumstances outlined in our previous note the Panel - as to the assessment of priority, stating that

“This would effectively mean supporting Blackpool’s tourism industry at the expense of providing more jobs in the region in an area where they will provide the most benefits for deprived groups”²².

adding:

“On the basis of all these criteria the optimum location for the North West would be Manchester. Ranking Blackpool in first position is an illogical and unfounded conclusion”²³.

There is little that we can now add to the debate in relation to this point, as our involvement stretches no further than the opinion stated, though some observations may be helpful to the Panel:

- the terms of reference for the 2005 study required us to examine potential benefits of development in terms of three dimensions – economic, tourism and deprivation and not one;
- CPC comments are based on consideration of one dimension – deprivation – only;
- the ranking of Blackpool is rationalised in the 2005 report²⁴ and has a logic – though naturally not one that suits the ambitions of competing areas;
- the opinion offered by CPC that the ranking opinion of Pion is ‘illogical and unfounded’ is, of course, for the Panel and others (as appropriate) to consider though we would point out that:
 - all of the comments made by CPC with regard to the logic or foundation of the varying indices in the 2005 study have proved to be incorrect, inaccurate or methodologically unsound; and
 - the criticism of ranking Blackpool ahead of Manchester is essentially reduced to the subjective merits of focussing on one dimension rather than the three employed.

²² CPC (2006) “Notes on Method.....” Page 17

²³ CPC (2006) “Notes on Method.....” Page 17

²⁴ As represented in the text contained in our previous note to the Panel.

References

Cambridge Policy Consultants (2005), Economic Impact of the Proposed Casino Development in East Manchester;

Cambridge Policy Consultants (2006), Notes on the Methods Used to Calculate the Economic Impact of the Potential Casino in East Manchester, including the displacement effects;

Cambridge Policy Consultants (2006), The Economic Impact of a Regional Casino in Blackpool: A Review of the Evidence Base;

Gaming Board for Great Britain, (2005) Annual Report;

Ipsos/Mori (2006), Blackpool Residents's Survey;

NERA (2005), Economic Impact of a Casino in the Wembley Development Area;

NERA (2006), The Case for Locating a Regional Casino in Blackpool: A Critique

ODPM (2004), Assessing the Impacts of Spatial Interventions, Regeneration, Renewal and Renewal;

Pion Economics (2005), NWDA Casino Market Demand Study;

Pion Economics (2006), Blackpool Regional Casino Impact Study;