



Gordon Rushton FCIT MCIM gave an address at the recent FEDECRAIL conference in Budapest on the subject of Economic Impact Studies, their relevance and how to make them. There were questions afterwards and debate among the delegates that made it clear that the importance of this activity is recognised and that most of us have been involved in considering the economic impact of our activities in one way or another. FEDECRAIL President David Morgan requested that notes be prepared following the address to allow all to consider and reflect how better to conduct such studies and to encourage interested parties to approach those within FEDECRAIL who can offer assistance and advice.

Economic Impact Study

All heritage railways and museums are looking for funds and all want to develop and grow. Money is hard to find, and the lack of capital for development can stifle or even prevent progress. It is often difficult to persuade the local community to support railway and tramway heritage, yet the activity has a favourable effect on the local and regional economy that few realise. It is not only external lack of understanding of the economic potential that cause people to underestimate the performance of a heritage railway or museum, the people involved with the activity consistently underestimate their worth. As a result, there are frequent cases of lack of support for a heritage railway business with far-reaching potential, and instead, something with less promise enjoys favour, only because it is better known and has a higher profile. It was pointed out in Budapest that recent funding applications to a well known source have been approved with a bias towards the 'arts', rather than to 'industrial heritage', when the latter is more likely to offer a better return on the funds granted. Indeed support for 'tourism' within the EU is now to receive a higher profile, in recognition of the economic potential it offers. In North Wales, the traditional industries like agriculture have been favoured over tourism in the past. Yet a well run and soundly based heritage railway can contribute a better economic performance to the region than even light industry - and this is well beyond any offer that agriculture can make! More sensible economic comparisons are now in favour - and this change seems to be general across the EU. However, you must be ready to fight for recognition by understanding, enumerating the advantages of your businesses, and broadcasting your findings widely. Remember though to make sure that your staff, volunteers and supporters understand these vital messages first. There are many organisations whose members are unaware of the potential of what they do, preferring instead to be inward looking, and even sometimes reclusive. In the same way as those who run outward looking railways and museums actively market and sell their wares, so too must the regional and local economic benefits be made public, and broadcast on a wide scale.

There are a number of examples in recent years where the value of heritage rail activities to the local community have been seen clearly:

1. When heavy rain in the Severn Valley incapacitated the Severn Valley Railway by washing out large sections of track, the railway was faced with massive bills that it would take many years to repay. It looked like the money to get the all of railway back in action in the short term would not be found. However, there was a clamour from within the local communities of Bridgnorth and Bewdley. The sudden loss of railway visitors and all the business from the railway itself and the staff was immediately felt, causing hardship. A Government agency offered the necessary grant to restore the line rapidly to service and the visitors rapidly returned.
2. The Welsh Assembly Government offered generous grants to the Ffestiniog and Welsh Highland Railways for them to complete the restoration of the 600mm gauge, 40km line between Caernarfon and Porthmadog. It was a shrewd move, as an economic impact study of the new railway indicated that when it is complete, the £10m grant invested will generate a yearly income of £10m to the region from the railway. This sum includes the spending contribution of the staff and volunteers, the effect of the indirect employment generated by the railway's suppliers and the effect of the visitor spend, direct to the railway and indirectly to the local area.

In the both examples chance played the major part. In the first the sudden absence of economic activity made itself felt with such force that 'something had to be done' - and it was. In the second the presence of a helpful academic institution offered the chance to enumerate collective, unsubstantiated forecasts made over the years.

Community Relations - why they must be good

Any business in the heritage sector is likely to have a high dependency on the community. Visitors will be drawn from this area. The business may need planning permission, or need to negotiate freedoms within listed building status. A railway will be dependent on acquiring specialist, statutory powers that confer powers of compulsory purchase. Thus proving benefit to the community from your activities is of prime importance. The local community needs to know that what you propose is for the public good. They must have confidence that you have thought through the proposal, that it makes economic sense and that you have a suitable, responsible organisation. Examples are not hard to find of suspicion generated from the activities of the rail heritage sector, those locally who suspect asset stripping or have vested interest that they feel will be thwarted or just resistance to change.

In a recent case in Britain, a group of *NIMBYS* (not in my back yard) objected strongly to a rail restoration scheme, claiming that the values of their properties would be adversely affected. Their activity was in danger of blocking the scheme, until a local newspaper in a nearby town was found, with an estate agent's advertisement, selling at a 10% premium, houses 'right next to the steam railway'. This shows the value of local knowledge.

To gain local acceptance it is wise to assemble the facts from an Economic Impact Study (EIS) in support.

Are you 'in the public domain'?

Local authorities across Europe publish area plans. To make any major development in UK, being a part of the Local Development Framework is vital. Local authorities must comply with European legislation (Directive 2001/42/EC). This is all public, and you will find helpful staff within your local authority across EU, willing to assist you to make your contribution to the plan. Being accepted into this plan is also the gateway to the European Regional Development Fund (ERDF) process. Assuming your area is able to accept these funds, you will need the help of the local authority to gain access. Direct application is very complex, the member state and local authorities wrap up the ERDF funds into a series of specific programmes that, if you qualify, they will deal with the complications - this is good. The area of Eurofunding is vital to your interest as so many of us have benefitted. The funding structure is being amended but the following seven Objectives were defined long ago:

- **Objective 1:** Promoting the development and structural adjustment of regions whose development is lagging behind (ERDF, ESF, EAGGF-Guidance, FIFG);
- **Objective 2:** Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline (ERDF, ESF);
- **Objective 3:** Combating long-term unemployment and facilitating the integration of young people, and persons vulnerable to exclusion from the labour market, into working life (ESF);
- **Objective 4:** Facilitating the adaptation of workers of either sex to industrial changes, including changes in production systems (ESF);
- **Objective 5a:** Promoting rural development by speeding up the adjustment of agricultural structures in the framework of the reform of the Common Agricultural Policy (EAGGF-Guidance, FIFG);
- **Objective 5b:** Promoting rural development by facilitating the development and structural adjustment of rural areas (ERDF, ESF, EAGGF-Guidance);
- **Objective 6:** Promoting the development and structural adjustment of regions with an extremely low population density (ERDF, ESF, EAGGF-Guidance, FIFG).

ERDF -European regional Development Fund : ESF - European Social Fund :EAGGF - European Agricultural Guidance and Guarantee Fund : FIFG -Financial Instrument for Fisheries Guidance

It is worth knowing what Objective applies in your area, as those 'in the know' often use jargon to shut out aspiring applicants such as ourselves. If you wish to pursue the current changes further then follow at : http://aei.pitt.edu/841/01/scop99_1_1.pdf

This paper concerns EIS so EU funding is left at this point, except to say that if you wish to qualify for EU funding in any quantity, you had better have an excellent quality EIS to back up your proposals. There is much competition for funding.

The Activity we are in

There are those who believe that heritage rail is a branch of the transport business. And in certain circumstances we do deliver leisure transport. Some, usually much to their annoyance, can be classified as a seaside ride, or a seaside attraction. However the name that now commands respect and attention is tourism. Our activity sits neatly as a part of tourism. Claiming the mantle of tourism places your activity inside a 'great' like: healthcare, banking, building and so forth. Tourism has a high profile. In UK it earns directly £52m (3.7% of GDP) and directly provides 1.36m jobs. If the effect on the supply chain is added to these figures the effect is £115bn (8.2% of GDP) each year.

Our activities are often situated in the more remote areas, areas that qualify for Objectives 2, 5b and 6 funding. We offer skilled jobs and attract visitors that are a valuable source of income to the area. We offer an attraction to people of all ages and operate extended seasons, with 'all weather' attractions outside the normal tourist limits.

Understanding the contribution we make

The question of importance is understanding the mechanism of how these visitors manage to make such an economic impact on an area, and then of calculating its effect in your area. The objective is to build up a clear and factual analysis of the contribution of your business to the area - and the results can be surprising. For example, consider if 50 people per day visit and travel on a railway for 100 days in the year, that's 5000 in total.

1. 50 fares at	€10	5. Hotel	€60
2. 50 lunches at	€6	6. Evening meal	€15
3. Shop	€4	7. Snacks	€5
4. Fuel	€50	8. Total (per)	€150

This computes to €750,000 per year to the area, just from the visitors alone. To be added are the effects of hotel, meals, shop, fuel - both direct (the people who provide them) and indirect (the people who supply the ingredients to make them). There is a third tier hiding in the background that is seldom given consideration, and that is the effect of economic activity on telecoms, water, electricity, building (construction and maintenance), roads etc. And so the list goes on. These extra items, all relevant as your visitors' contributions, are known as the multiplier - and the value of the figure is obscure to most. The conclusion is that even a modest visitor number can make a significant economic contribution to an area. The question now to be answered is how do we measure this authoritatively?

What the EIS should prove

You may want your EIS to support an application for funding, or to support a planning application, or a railway order. This may determine what you say about the 'competition'. However the key figure outcome of the document ought to be something like this, quoted in the context of Ffestiniog/Welsh Highland:

'The 60 people employed by the Ffestiniog Railway equates to ten average-sized businesses in Porthmadog. The financial contribution of FR/WHR supports around 350 full-time local jobs, and the enterprise is returning between 80% and 90% of the value of the recent £10m public funding that it was awarded to extend the Welsh Highland Railway. This amount will rise after opening to a return of 100% into the local economy each year.'

Measuring the Contribution we make - an Economic Impact Study (EIS)

The multiplier

Whenever major public works are carried out there will always be an EIS in justification. It is necessary to calculate the economic effect of a road scheme, hospital, housing estate, new bridge and so on. So people have gone before in calculating these effects, and 'multipliers' will likely have been calculated. Here's an example of what the multiplier means in general, adapted from the web:

Consider a €300 million increase in business investment. This will set off a chain reaction of increases in expenditures. Those who produce the capital goods that are ultimately purchased will experience an increase in their incomes. If they in turn, collectively spend about 3/5 of that additional income, then €180m will be added to the incomes of others.

At this point, total income has grown by ($€300m + (0.6 \times €300m = €480m)$). The sum will continue to increase as the producers of the additional goods and services realize an increase in their incomes, of which they in turn spend 60% on even more goods and services. The increase in total income will then be ($€300m + (0.6 \times €300m) + (0.6 \times €180m)$). For a given activity this additional income can be agreed as an integer by which the visitor numbers can be multiplied to give the spend. Apply the example figures $€750k = €1580$, multiplier is 2.12.

What we are looking for is the number to multiply our figures by, to produce the extra income figure from our visitors. This is the indirect effects of our visitors' direct spending that we cannot measure, as we don't have the resources for an exhaustive investigation of the effect on shopkeepers' suppliers of our visitor spends, etc. down the supply chain. Most local authorities will have a figure of this kind, applied to specific circumstances. You need to root this out and use it. As an 'official' figure, it gives substance and status when combined with your own simple data.

A note of caution that some of this process is complex. So if you have the services of a volunteer statistician you will likely be at an advantage. It is unwise to enter this arena without specialist advice, or you could look silly and be discredited - by say using inappropriate multipliers. However, if your own data-set is impressive, then it is likely that someone from the local authority will help you, or as is mentioned later, you will recruit the help of an interested academic institution.

Your own data

Start off simple. There are lots and lots of data you already have that just needs collecting together. Here are some examples, all of which have supply chain implications:

- | | |
|-----------------------------|---------------------------------------------|
| 1. Visitor numbers | 10. Buildings maintenance |
| 2. Staff employed | 11. Office supplies |
| 3. Ticket income | 12. Heat, light electricity |
| 4. Shop spend | 13. Telephones and internet |
| 5. Shop supply purchases | 14. Rates, taxes, water |
| 6. Workshop supplies | 15. Track engineering supplies |
| 7. Workshop materials | 16. Civil engineering costs |
| 8. Trains supplies | 17. Signalling installation and maintenance |
| 9. Fuel and lubricating oil | 18. Rolling stock costs |

You should find this information from your accountant, as an extract from the current budget sheet.

Other people's data

There is a lot of information in the public domain, like tourist information statistics, which show what others achieve in visitor numbers and admission/ticket charges. You should be measuring your performance against competitors anyway - but when you want something, as a part of EIS, quoting what the competition is doing can be most helpful - especially if you are better than they are.

The Internet too repays careful study, both to get information and to know what your local authority is going. Under Article 11 of Regulation (EC) No 1049/2001, the European Community institutions are required to make a document register available in electronic form. This is useful for those who wish to drag the websites for useful statistics.

Your own collected data

One objective needed for EIS is to understand the number of local jobs that your activity sustains, as well as those you employ directly. You also wish to highlight the spend that your visitors, volunteers and staff make in the local community.

1. The number of local jobs you sustain is in two parts. You already know how many people you employ directly.
2. The question of how many people are employed indirectly needs the use of the multiplier.
3. Data is needed here from asking visitors and staff how much they spend, and to do that you will need to conduct surveys, and to collect a significant sample.
4. You know how much the business spends in the community directly from your own data.
5. The information collected from the survey and added to (4) will allow you to arrive at a total figure, by the use of an accepted multiplier.

The survey

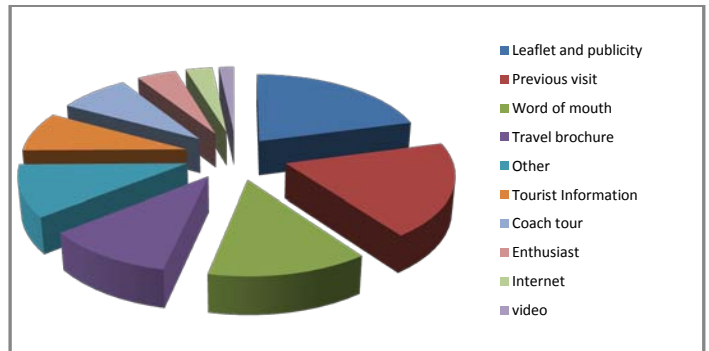
Surveys have a major utility in product development and customer satisfaction and should be conducted annually. Collecting data on spend can be complex - but it shouldn't be, you seek a simple figure. The biased question can have unfortunate results. Example:

- Q. Are you concerned about increased local noise pollution?* Y/N
Q. Do you believe that jet aircraft contribute significantly to global warming? Y/N
Q. Will you support a third runway at Heathrow Airport? Y/N

Probably better then to recruit survey experts from within your membership to help you to collect this data. The EIS part of the survey is looking for a figure for customer spend, but you probably need to ask about this along with other, more general information or risk thought of as being intrusive and therefore encouraging misleading or no answers. A significant sample size in this context is between 500 and 1000.

Survey results like this are interesting in an EIS - they reinforce the credibility of the findings.

Where did you learn about the railway?		%
Leaflet and publicity	160	20.9
Previous visit	146	19.1
Word of mouth	103	13.4
Travel brochure	84	11.0
Other	80	10.4
Tourist Information	62	8.1
Coach tour	61	8.0
Enthusiast	34	4.4
Internet	23	3.0
Video	13	1.7

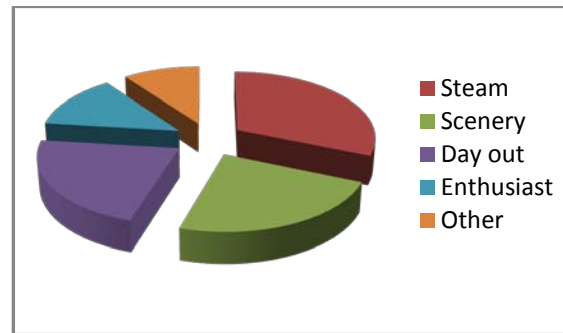


Information like the this is of immense value - look what it says!

Average expenditure per trip, FfR, WHR and WTB results	£
<i>Place of visit</i>	
All trips	£152
Town/city	£155
Seaside	£160
Countryside	£143
Ffestiniog Railway specific visitors	£244
Ffestiniog Railway volunteers	£85
WHR (C) specific visitors	£277

The railway specific visitors way outspend town, seaside and country visitors. We have already made a significant statement on economic impact with this simple summation of the data collected in the survey questionnaires.

What were the main reasons for visiting?		%
Steam	240	31.3
Scenery	179	23.4
Day out	170	22.2
Enthusiast	100	13.1
Other	77	10.1



Add in the 'steam' factor, as measured in this sample and you are in a position to argue strongly for steam!

Making sense of it all

The reality of all this is that an EIS is a complex item and having a faulty one will potentially reduce your credibility. The first point to make however, is that complexity arrives when searching out and applying the multiplier, in order to arrive at the indirect jobs created by and the monetary contribution of your enterprise to the local economy. The conclusion is clear - get help with the complex parts, but conduct surveys and collect and interpret your own data yourself. There are lots of rewards from doing that as the above examples show.

Recruiting the help of an academic institution is not difficult and the rewards are great. Most universities and colleges are looking for live projects - you ought not to have to pay for this! If you haven't a member who has links with an academic institution, then this will be an unusual museum or railway! Make some invitations, invite the Dean of the Business Faculty out for a footplate trip. Go to the local university and talk it through.

The results of academic support are that you may get a study that is innovative and ground-breaking. Plus you will have the support of the institution behind you - and they will brook no dissent from the findings by local officials or civil servants. In addition, it is likely that if the institution likes the experience (and they often do!) you will have contact with bright, young, innovative students that will take you forward.

In order to win support and funding in today's competitive, world you need to know, and to be able to demonstrate the contribution that your business is making to the local economy. Indeed if you are a charity, you will need to do more than that! EIS will help you better to understand your business - even a small one, and it will place you on equal footing with businesses in other sectors, as well as competing better with the wholesale funding for the arts, that, with smoke and mirrors have managed for years to secure funds for an un-measurable return!

If you want or need advice on conducting an EIS please speak or email ajgrushton@aol.com +44 1908 502166 and I will help you to find the best advice possible.

Gordon Rushton
13 May 2010

This paper is the culmination of various threads of interest that have come together within FEDECRAIL over the last two years. It arises from the aim for the bringing together of our collective knowledge to benefit all. In this study the main contributors are:

Dr David Gwyn - University of Bangor (Gwynedd), Dr Megan Williams - the first who made the suggestion of an EIS for her Doctorate, the second who conducted the survey and then made the methodology available to others.

Mark Smith - Chairman, West Somerset Railway, who offered the information and experience of other important heritage railway players who had also conducted EIS.

The FEDECRAIL Team of David Morgan, Peter Ovenstone and John Fuller who promoted this dry subject and encouraged the exchange of information it brings.

Gordon Rushton - who was daft enough to volunteer to try to bring the subject matter to life and to the notice of others.