

Measuring the economic impact of a project or activity

This guide details how you might go about measuring the economic impact of a certain project or initiative, such as an exhibition in a gallery or the run of a play in a theatre. However, a similar economic impact assessment could be carried out on a venue, an organisation, an event or a series of events.

What is economic impact?

People define economic impact in different ways according to the scope and focus of their study. Therefore it is important to define clearly what you mean by economic impact before starting a study. Is it:

- The gross financial contribution made by a project to the economy?
- The amount of spending generated in the economy?
- The total financial and non-financial changes created in the economy?

Why evaluate economic impact?

- To measure financial benefits generated in the economy.
- To demonstrate the importance of funding to existing and prospective stakeholders.
- To compare the relative impact and success of different projects, programmes and events.

What is the focus of the study?

The first stage of an economic impact evaluation is defining the area of study:

- What sector is to be considered – the arts and culture sector, the tourism sector, or the economy as a whole?
- What is the geographical scope – the town's economy, the county, the region, or perhaps the national economy?
- Over what period of time should impact be measured?
- "Additionality" and "leakages" also need to be factored in (see next page).

“Depending on how the area of impact is defined, widely differing results for a particular arts activity can be obtained. It is thus vital to define the study area as accurately and clearly as possible. As would be expected, the larger the area under consideration, the less would be the leakages and thus the greater the multiplier and the reported economic impact.”

Snowball & Antrobus – Valuing the Arts

What needs to be measured?

Most economic impact studies focus on three broad measures: income, direct spending, and visitor indirect spending.

Income

A measurement of income is needed to account for the scale of change from financial inputs to economic outputs. Income may have come from ticket sales, merchandising and catering, public funding, and sponsorship. This information can be obtained quite easily from financial accounts.

Direct spending

A project or activity's direct expenditure will cover all running costs required, including purchases from suppliers, staff wages, rent and overheads, and taxation. Again this information is easily obtained from financial accounts.

Visitor indirect spending

As well as visitors and audiences buying tickets and spending money at the venue or event, they will also generate ancillary spending in the form of transport costs, accommodation, food and drink, and any additional entertainment such as visits to nightclubs. Estimates of average visitor spending can be made after a representative sample have been surveyed.

Additionality and leakages

“In estimating the value of the economic impact, one must adopt the concept of ‘value added’ rather than simply the total expenditure generated by the project. The importance of [this value-added expenditure] is that it will sustain turnover in local industry, and in that way support local jobs and incomes. It is these jobs and incomes that are taken to be the most appropriate measure of economic impact.” Arts Victoria Festivals DIY Kit

Although measures of income and spending are important, they offer little insight into the additional impact created by a project or activity. It can be useful to convert gross impact into account of any leakages from the economy under study.

Each measure requires various adjustments to be made in order to calculate the real economic impact:

- What sponsorship and public funding has come from outside the local economy, ie. what funding can be considered new?
- What goods and services has the project utilised from outside the local economy or region, ie. outside the geographical scope of the study?
- How many visitors have come specifically for the project or activity, and how many would have been in the area and spent money in the local economy regardless?



The extent of additionality and leakage will vary according to the economic level being considered. Leakages from the local economy will be much greater than from the regional or national economy, and the degree of additionality will be greater locally than regionally or nationally.

These adjustments can be difficult to calculate, as it can be difficult to assess what would have happened if an event had not taken place. But there are certain calculations that can be made to give a clearer reflection of net economic impact, such as subtracting the project’s spending outside the region, and subtracting spending by local visitors.

The use of multipliers

Both direct spending and visitor ancillary spending will generate further rounds of spending in the economy in the form of indirect impact and induced impact. Indirect impact refers to the spending of wages by employees on other goods and services throughout the economy. Induced impact refers to the spending of income by companies on goods and services, such as supplies and contracted services.

Researching and calculating this spending would be an almost impossible task; however, multipliers can be used that give a fairly accurate estimate of the size of these impacts.

“The multiplier effect describes how an increase in some economic activity starts a chain reaction that generates more activity than the original increase.”

www.investorglossary.com

A multiplier is a number used to multiply original spending to get an estimate of wider economic impact.

Different multipliers will translate the original spending into additional output (expenditure throughout the economy), additional income (wages, salaries and profits added to the economy), or additional employment (the number of full-time jobs supported by the increase in spending). Multipliers will also differ according to the geographical scope being considered (eg. local, regional, national).

Multipliers specifically tailored to the characteristics of your local economy can be produced. However, it may also be able to use multipliers developed elsewhere for similar studies. Alternatively, your local tourist board or regional development agency may have developed multipliers that will be suitable for your economic impact study.

Additional measures

A measure of the spending generated in the economy gives a sensible, quantifiable assessment of a project or activity's economic impact. However, there are other economic benefits that you may wish to consider in your economic impact evaluation that are not covered by the measure of spending:

Volunteer contribution:

A financial valuation of the work provided by unpaid staff can give a truer reflection of the costs imposed.

Skills generation:

The skills and experience gained by both paid and unpaid staff generate benefits to the economy, although measurement is not straightforward.

Media coverage:

The publicity and promotion provided by media reporting can bring unaccounted economic benefits to both the project or venue being reported on and the town, city or region where it is taking place.

Economic costs:

Not all economic effects will be positive – externalities such as increased traffic, added pressure on public services, and the detriment of other leisure activities may all be considered costs to be included in an economic impact assessment.

Cultural and economic development / regeneration:

There may be medium- to long-term benefits to the town or city in the form of increased capital expenditure and enhanced investability or business image.

Willingness to pay:

An alternative measure to spending is an estimation of the public's valuation of an arts project or programme. This is done by asking people about their willingness to pay, and perhaps gives a better reflection of positive and negative externalities. Very few of these WTP studies have been conducted within the arts sector, as producing a robust and effective methodology can be difficult.

"The most accurate and fulsome measure of the value of a partly public good can be obtained by using a combination of research methods. The economic impact method is best used to measure financial or market benefits, while the WTP method can provide data on the social or non-market externalities."

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All About Audiences can give advice and offer assistance on carrying out an economic impact assessment. Contact **Chris Norwood, Head of Evidence & Engagement** at chris.norwood@allaboutaudiences.com or **0161 234 2960**.