

Draft Advice on Net Economic Benefit and Planning



DRAFT ADVICE ON NET ECONOMIC BENEFIT AND PLANNING

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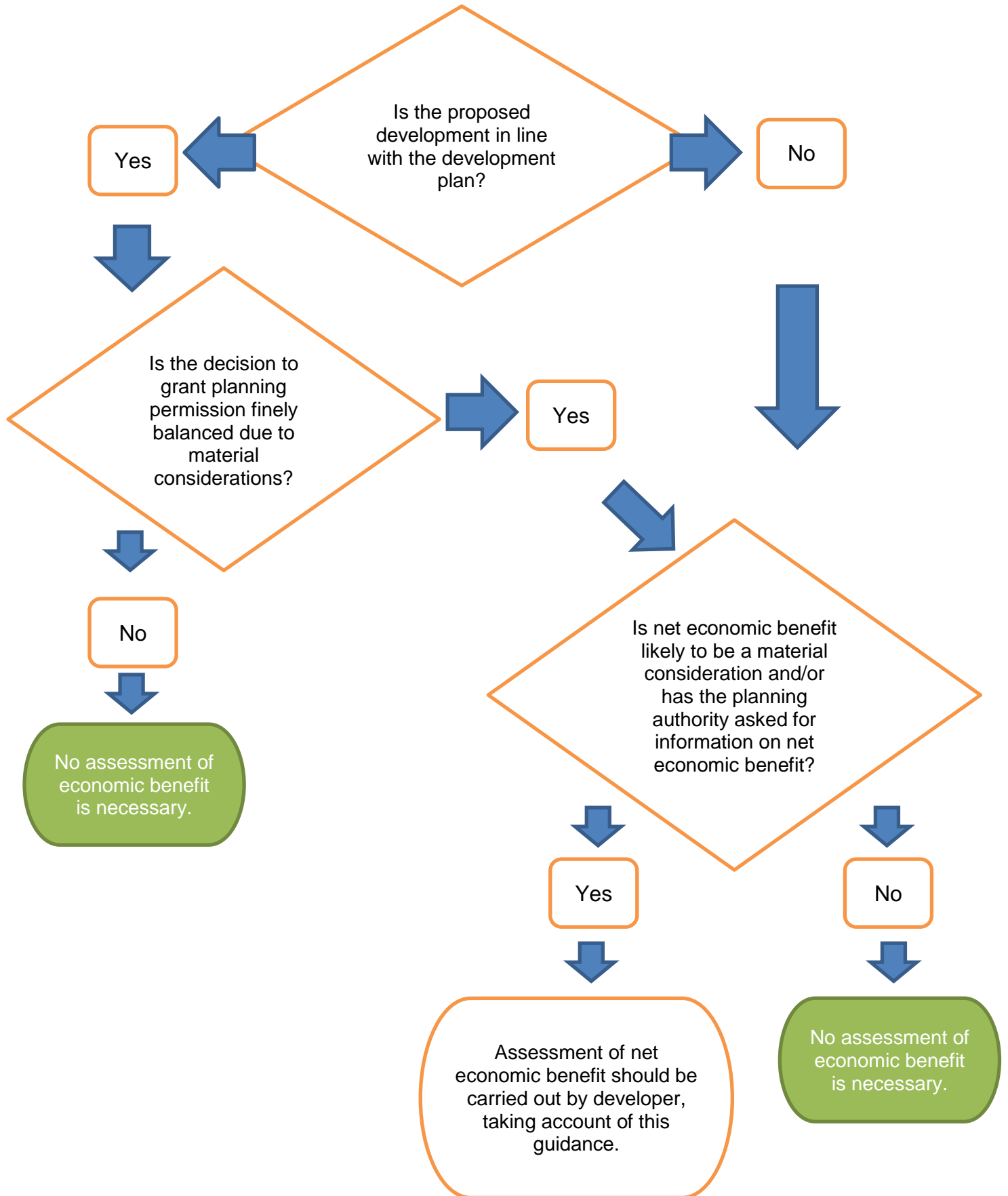
Introduction

1. Following publication of the revised Scottish Planning Policy in 2014, Scottish Ministers committed to developing further advice to assist in assessing and giving due weight to the net economic benefit of proposed development. The aim of this advice is to help developers and planning authorities capture in a meaningful way the contribution of development proposals to the economy, while also recognising the potential impacts, and to take account of this in planning decision making. It also provides a definition and examples to give wider stakeholders a clearer understanding of the relevant issues in assessment of planning applications.
2. Planning applications are determined on their individual merit, in accordance with the development plan and ‘material considerations’¹, which may include the economic benefit of the development. Where economic benefit is relevant to the decision making process, it needs to be set alongside the other guiding principles of sustainability and good placemaking and any other material considerations.
3. Policy does not require that development must always bring with it an economic benefit. Where a proposal complies with the development plan, it should not be necessary for the applicant to demonstrate that the proposal creates net economic benefit.² This advice therefore does not create an expectation that assessment of net economic impact should be carried out in these circumstances. The flow chart at Figure 1 gives an overview of the relatively limited circumstances where an assessment of net economic benefit should be prepared.
4. This advice is likely to be relevant in assessing the impact of applications that are contrary to the development plan or where other material considerations indicate that the decision on whether to grant planning consent is finely balanced. In these cases, the net economic impact of the development, including the number of jobs it is expected to create (particularly when it becomes operational), should be one of the factors taken into account in the planning decision. New residential development helps to meet housing need and contributes towards meeting housing supply targets, however it will not usually be necessary to also make an argument regarding the economic benefit of a proposed housing development.
5. Assessing the additional benefit from a proposal will usually involve making some assumptions, and is therefore not an exact science. It is important that the level of detail of any assessment is kept proportionate to the likely scale of the net economic benefit, and that assumptions made are completely transparent, evidence-based and as accurate as possible. This advice note sets out a number of example scenarios to help illustrate.

¹ A material consideration is a planning issue which is relevant to the application.

² Note that the development plan itself should give due weight to net economic benefit.

Figure 1: Deciding whether an assessment of net economic impact is necessary



Scottish Planning Policy context

6. The Scottish Planning Policy (SPP) sets out that one of the core values of the planning system is to play a role in ‘facilitating sustainable economic growth, particularly the creation of new jobs and the strengthening of economic capacity and resilience within communities’. One of the key drivers for the review of the SPP was to sharpen the focus on sustainable economic growth in the planning process. SPP 2014 reflects this in its overarching policy relating to sustainability, which introduces a presumption in favour of development that contributes to sustainable development, and underlines that:

The planning system should support economically, environmentally and socially sustainable places by enabling development that balances the costs and benefits of a proposal over the longer term. The aim is to achieve the right development in the right place (Paragraph 28)

7. Paragraph 29 of the SPP explains this means that policies and decisions should be guided by a number of principles, including:
- *giving due weight to net economic benefit*
8. The SPP states that the impact of new development on the character and amenity of town centres, local centres and high streets will be a material consideration in decision making. The planning system is expected to apply a town centre first policy, and the SPP underlines that ‘*planning authorities should consider the potential economic impact of development and take into account any possible displacement effect*’.
9. The policy principles concerning business and employment set out in paragraph 93 of the SPP state that the planning system should:
- *promote business and industrial development that increases economic activity while safeguarding and enhancing the natural and built environments as national assets.*
 - *allocate sites that meet the diverse needs of the different sectors and sizes of business which are important to the plan area in a way which is flexible enough to accommodate changing circumstances and allow the realisation of new opportunities; and*
 - *give due weight to net economic benefit of proposed development.*
10. Paragraph 169 of the SPP, within the section on delivering heat and electricity, sets out development management considerations for proposals for energy infrastructure developments including wind energy. It notes that relevant factors will vary relative to the scale of the proposal and area characteristics but are likely to include, among other things: *Net economic impact, including local and community socio-economic benefits such as employment, associated business and supply chain opportunities.*

Meaning of ‘net economic benefit’

11. The key criterion in assessing the economic impact of a proposed development is to estimate the economic position where the development proceeds, and then compare it with the estimated economic position if the proposal does not go ahead. The difference between these two estimates is the **net economic benefit** of the development.³ The principles which underpin the economic assessment of activities from the viewpoint of the

³ It is therefore possible for the net economic impact of a development to be negative (i.e. the development results in a net economic cost rather net economic benefit), if the economic position when the development proceeds is less favourable than the economic position when the development does not go ahead.

public sector are set out in HM Treasury's "The Green Book: appraisal and evaluation in central government", which this advice draws from.⁴

Roles in assessment

12. Where net economic benefit is likely to be a material consideration in the decision, the onus will be on the developer to provide the relevant information in support of the planning application (see Figure 1). The planning authority will evaluate the assessment of net economic benefit provided by the applicant. This advice is intended to assist in defining the scope of assessment, the principles to be considered, and the weight to be attached to the assessment as part of the decision making process. Early engagement between the developer and the planning authority is strongly encouraged, including discussion regarding the scope of the assessment.

Key issues in adjusting from gross to net economic impact

13. The net economic benefit of a proposed development can differ from its **gross impact** (i.e. the impact of the development considered on its own). The terms "deadweight" and "displacement" help illustrate why differences between gross and net economic impact can arise and why only net economic benefit is relevant.:

- Deadweight effects – outcomes which would have occurred without the decision to proceed. This could be because the same or a similar development could have been accommodated on another site in the local authority area which has been identified as suitable for that type of development. The characteristics of different sites are therefore likely to be a key consideration when assessing deadweight. Examples 1 and 3 below help illustrate deadweight effects.
- Displacement effects – these measure the extent to which the benefits of a development are offset because the development also leads to reductions of output or employment elsewhere. This could be because the economic benefit of other developments or existing businesses will be reduced if permission for the development under consideration is granted. Examples 2, 4 and 5 help illustrate assessment of displacement effects.

Defining the area for assessing impact

14. The usual scope for assessing the impact of a development is on all people affected by the development within Scotland. In practice, if the impacts of a development, both positive and negative, are confined to the local authority area, then an assessment at the local authority level will be sufficient. But if the development will have an impact on neighbouring local authorities, or across Scotland, then taking into account the impacts beyond the area of the local authority in question is recommended.

15. However, there can be valid reasons why the planning authority may wish the scope of the assessment to be narrower, either geographically or by types of people affected, or by both. In these cases, the appropriate scope of assessment will depend on what the policy objective is. For example, where the policy objective is not just to promote economic efficiency by maximising net economic impact, but also to achieve specific policy objectives, for example promoting successful town centres, or supporting regeneration in a particular area, then the primary scope of assessment can be narrowed to assess the

⁴ Available at <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>. Chapter 5, "Appraising the options", and the Appendices are the sections which will be of most use.

impacts on the community or area which is the focus of the policy.⁵ Early engagement between developer and planning authority will be important in defining the appropriate area for assessment.

16. In cases where the scope of assessment is narrowed in this way, it is still best practice to be aware of any particularly significant impacts on other communities or areas. This will enable the planning authority to be confident that the benefits of the development for the target community or area are not being achieved by imposing unacceptably high costs elsewhere and also allow any sizeable benefits for other communities to be taken into account. Examples 1 and 2 help illustrate the importance of the geographic level at which the assessment is made.

Calculating the net economic impact

17. The costs and benefits of the proposed development should be valued, and the net benefit calculated. The period over which costs and benefits are assessed should usually cover the lifetime of the development, so that the costs and benefits which are associated with each different phase of the development, including planning and design, construction, operation and, where appropriate, restoration and aftercare, are taken into account. Costs and benefits should normally be valued using market prices.

18. In the case of a proposal to build a new retail centre, the costs would include the costs of construction as well as the ongoing operating costs once the centre opens, and the benefits would comprise the sales revenues generated by shops located in the centre. If there is a policy focus on the amount of employment generated in addition to total net economic impact, it is important to consider the duration of jobs associated with each phase of the development; for example, jobs during the construction phase are likely to be of a shorter duration than jobs during the operating phase.

19. When calculating the net benefit of the retail centre, any displacement should also be taken into account. For example, sales in the new centre may be achieved partly by attracting shoppers away from other centres, so one of the costs of the new centre is the loss of profitability of existing centres.

20. The net benefit of the proposed centre should then be compared to the situation where planning permission is not given, to take into account deadweight effects. In cases where the site is not allocated for development, this may be straightforward (although there may still be some amenity value associated with open space). However, if the site is allocated for a different type of development, there may be greater uncertainty attached to assessing the likely economic value of safeguarding the site for the proposed use, since this will depend on the value and timing of such a project being brought forward

21. In such cases, best use should be made of the available evidence, bearing in mind its limitations. For example, it may be possible to be confident that development in line with the current development plan is likely to have a significantly higher or lower net economic impact than the proposed development, without being able to estimate this precisely. See paragraphs 24 to 25 for further advice on dealing with risks and uncertainty.

⁵ The Green Book refers to economic impacts outside the area of policy consideration as 'leakage', which is defined as 'effects which 'benefit those outside of the spatial area or group which the intervention is intended to benefit' (Para 16, P53).

Other considerations in valuing and taking account of net economic impact

Spatial policy objectives

22. The development plan may contain policies concerning the impact of development on specific communities. One way to reflect this distributional concern is to narrow the scope of the assessment, as set out in paragraph 15. Another way is to give greater weight in the assessment to the net benefits received by targeted communities.⁶ Where socio-economic baseline information suggests that economic benefit is particularly needed in the community/communities affected by a development, the economic impact on them should be given significant weight in the decision making process. Example 6 illustrates how the socio-economic benefit derived from an element of community ownership might be taken into account in the decision making process on a renewable energy project.

Wider social and environmental impacts

23. The starting point of valuing economic impacts is to use market prices (these are simply the prices at which goods and services can be bought in the market place). An economic impact assessment for other purposes (i.e. not related to a planning application) will often build in other impacts of the development which do not form part of a market transaction, for example environmental improvement, or traffic impacts. However, these factors will often already be material considerations in the planning process. Where this is the case, there is no need for duplication by assessing them under net economic impact as well.

Risk and Uncertainty

24. The outcomes of a development proposed by a planning application may be subject to significant risks. Any assessment of the net economic benefit should indicate whether the level of uncertainty is high, medium or low. Where the level of risk is expected to be high, this should be explained and quantified as far as possible. Where the risks and associated outcomes can be quantified, the expected value of the project can be calculated (the sum of each possible outcome multiplied by the probability of its occurring).

25. Where the evidence makes it difficult to quantify with precision the probability that various events will occur and the impact if they do occur, then the assessment should still make best use of the available evidence to inform a judgement on the risks⁷ and sensitivity analysis⁸ may be helpful. Care should also be taken, particularly in the case of large-scale, complex projects, to guard against ‘optimism bias’⁹.

Discount rate and inflation

26. Particularly in the case of large-scale projects which will last for a considerable period of time, and where the time profile of costs is significantly different from the time profile of benefits, it is advisable to adjust costs and benefits for inflation and discount them so that costs and benefits which arise at different times are treated on a comparable basis. Generally, the long-term inflation rate used to deflate costs and benefits should be the

⁶ Annex 5 of the Green Book, in particular Box 5.2 contains suggestions on how this can be undertaken.

⁷ This could be achieved by giving ranges for the probabilities that events will occur and ranges for the impacts if they do occur. Where such quantification is not possible, a qualitative risk assessment should be undertaken, e.g. through a risk matrix which identifies each risk, provides a qualitative assessment of its likelihood, and sets out mitigating activity.

⁸ Sensitivity analysis considers how the net economic impact is affected when the values of key variables are varied.

⁹ Optimism bias is defined as ‘the demonstrated systematic tendency for appraisers to be over-optimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery’. See Annex 4 of the Green Book and supplementary guidance available at

<https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>.

Bank of England's inflation target, and the discount rate applied should be as set out in the HMT Green Book.¹⁰

Multipliers

27. It is not generally expected that an assessment to accompany a planning application should make use of input-output multipliers, but where it does so, the developer should ensure that the multipliers are used correctly. The latest multipliers, and advice on how to use them, are available on the Scottish Government website.¹¹

Evidence

28. The level of evidence required should be proportionate to the likely scale of the net economic benefit and the extent to which the proposal fits with development plan policy. In line with the Scottish Government's guiding principles on streamlining planning assessments¹², any information that is requested should be relevant to the development proposal and necessary to inform the decision. A straightforward application which has an impact on a limited geographic area may not require very detailed and technical evidence in support of it.

29. In each case, the key consideration is that the evidence provides sufficient grounds to robustly assess the likely position if the planning application is approved, and the likely position if the planning application is not approved, so that the planning authority can assess the difference and thus the development's net economic impact. Where more complicated assessment procedures are required, the evidence provided by the applicant should conform to the principles set out in HMT's Green Book, as described above.

¹⁰ The Bank of England's inflation target is currently 2% p.a., and the relevant discount rate to use is set out in Annex 6 of the Green Book.

¹¹ See <http://www.gov.scot/Topics/Statistics/Browse/Economy/Input-Output>. If multipliers are applied to the situation where the development is approved, it is important that they also be applied to the situation where the development is refused, so that the net economic impact of the development is not overstated.

¹² See Streamlining planning assessments: Guiding Principles <http://www.gov.scot/Resource/0045/00452134.pdf>

Example scenarios**Example 1: High, medium and low deadweight**

High deadweight: An application is lodged for a large development to manufacture offshore wind turbines. This is on a greenfield site which is not allocated for industrial use. However, within the local authority's boundaries there are sites allocated for this type of activity through the National Renewables Infrastructure Plan. In this instance it could be argued that, were the application to go ahead, deadweight would be high, i.e. there may be little additionality as there are already sites capable of accommodating this development identified within the development plan.

Medium deadweight: A mid-point deadweight example might be an application for a large retail development lodged in an authority where there are sites allocated for such uses. However the developer argues that the site being proposed has better access, is a better location in terms of customer catchment and can be serviced at less cost. In such an example it might be felt that there is an element of deadweight (say 50%), in that the development could be accommodated on sites that have a presumption for development, but which provide significantly smaller benefits in terms of access, customer catchment and costs of servicing.

Low deadweight: An application is lodged for a large financial services centre that is to be run by a global financial services company. There are no sites allocated within the development planning framework that can possibly accommodate this scale of development. Accordingly, it could be argued that deadweight is very low or non-existent in that, if planning permission is granted, then this will be completely additional to the local authority area. This example also shows the importance of the geographic level at which the assessment is made. There could be deadweight if there are other places in Scotland where the development could go ahead in line with local development plans. The degree of deadweight would then depend on whether the proposed site offers advantages over the other sites. However, even if there are potential sites in Scotland, if the development forms part of a regeneration policy, then the planning authority can narrow the scope of the assessment and validly prioritise the impacts at local level.

Example 2: City centre retail development

A retail development is proposed within an existing city centre. The assessment of displacement is influenced by the characteristics of the new retail offer, the context and also how retailing patterns may change over time. The key questions are the extent to which the new development will

- a) attract additional shoppers (and their spending) to the study area,
- b) retain shoppers who would otherwise have travelled outside the study area and
- c) replace on-line sales that would have been made by residents.

The characteristics of the proposed development and the context are important in making an assessment. The specification for the development indicates that the centre would attract higher value retail brands, which would help attract visitors and encourage more expenditure. There is also a high level of competition from neighbouring cities while the local retail product is considered to be relatively weak. These factors indicate the scope to limit leakage from the local authority area, as some of the new income generated would effectively be displaced from other cities (rather than from retailers within the study area).

These assumptions are informed by a review of retail impact studies, publications/data regarding the city's retail performance, online retail trends and perceptions of retail in the city. The assumptions are tested through consultations with both the private and public sectors.

The study develops a model used to assess net economic value and employment impacts for the city and for Scotland over a period of 25 years. This takes account of short term disruption (as a result of construction), the deadweight of losing the original centre and changes in levels of use over time.

Estimates of retail displacement are categorised on the basis of the developer's projections of shoppers' origins. The analysis differentiates between local residents and visitors. It assumes that expenditure by local residents is more likely to be displaced from other stores in the city than expenditure by visitors.

Although unemployment is relatively low, a review of the labour market data indicates that it is higher among younger people and those with fewer qualifications. This reduces the potential for displacement. Taken together the assessment concludes that there would be a medium level of displacement.

Example 3: Town centre retail development

Research is carried out to assess the net economic impact of a town centre retail development that would replace an existing shopping centre. The research includes an assessment of deadweight: the value of the sales and employment that the centre would have achieved without the proposed new development. This requires an estimate of the amount of turnover and employment which would have occurred on the site, and would be lost in the expansion.

The model projects the performance of the existing shopping centre for a period of 25 years. These jobs and turnover are then subtracted from the total gross values associated with the new development. For example, if employment in the existing shopping centre is 30 and the gross employment in the new development is 150 jobs, deadweight would be 20%.

In this case the estimation is complicated by the lack of planned future investment, which would eventually result in the closure of the centre altogether (and deadweight falling to zero). In this case, deadweight may be assumed to be 20% in the first couple of years, declining to 0% after five years.

Example 4: Business Development

A Technology Business Park is proposed on the outskirts of a city. This has the potential to attract new businesses to the study area, enable existing businesses in the city to grow (and increase productivity) and to provide space for new start-ups. In this case, the two key elements in determining the net economic impact are the extent to which the Park can be expected to accommodate businesses (and employees) relocating within the study area, and the extent to which it would attract new businesses. If the development simply encouraged existing businesses to relocate, leaving empty space within the city, displacement would be high.

The study includes consultations on the current property market, specifically for similar accommodation within the study area. These provide evidence of a high level of demand and find that a lack of suitable property is likely to constrain business growth, or possibly lead to businesses moving outside the study area. At the time of the proposal, there is evidence of a buoyant market, and the analysis demonstrates that rents for equivalent space are high relative to other similar sized cities.

The consultations and literature review find evidence of several similar developments elsewhere that demonstrate a combination of attracting new businesses and relocation of existing ones. In this case, the Park branding, the quality of the facilities and its location, close to a motorway, make attracting new business more likely. Where businesses are relocating to superior space, there may also be productivity improvements, particularly where specialised facilities are required.

Another form of displacement is the extent to which the new activity would compete for labour with existing businesses. The new Park aims to attract technology businesses. The labour market data shows that demand for higher skilled workers in these sectors is high and that wages are higher than comparable cities. The analysis suggests that while the displacement of labour within the city could be high, its location would mean that businesses could access a much wider catchment area. In addition the population is projected to grow faster than average over the next 20 years, providing a growing labour supply.

The study also considers whether the output of the goods and services associated with these businesses would displace those of competing firms within the study area. The Park will be marketed to technology businesses and they are not considered likely to compete directly with existing businesses. Overall displacement is considered to be medium (40% to 60%).

Example 5: Tourist accommodation

A new hotel development is proposed as part of a larger city redevelopment. In this example, the key question is to determine how much of the economic value and new employment would be a result of growing the market and how much would be at the expense of businesses elsewhere in the area. If the development can be shown to grow the market (bringing more visitors from outside the study area) displacement will be low. Displacement will be high if it simply attracts visitors who would otherwise have stayed in other accommodation in the same destination. The analysis considers the evidence from five factors:

- evidence that capacity in the market is limiting the number of visitors
- the strength of the proposed brand (the associated loyalty that will help grow the market)
- planned marketing expenditure for this specific development
- competition within this market sector in Scotland and locally
- the distinctiveness of the proposed development within its sector in Scotland.

Consultations with private and public sector representatives are used along with local labour and tourism market data, and examples from hotel developments elsewhere to draw conclusions on these

factors (for both the study area and for Scotland as whole). Using hotel occupancy data and room rates, the analysis finds that although there are constraints at certain points of the year, this is for relatively short periods.

The proposed operator has a strong and well-known brand, but no plans for marketing outside Scotland (which would help attract new visitors). However, there is competition locally in the sector, and the planned development itself is not particularly distinctive. Evidence from consultations on the experience of similar developments suggests that although the brand had been effective in attracting more visitors, it had negatively impacted on the performance of other local hotels.

The city faces higher unemployment than other parts of Scotland, particularly among younger people with fewer qualifications. The nature of the potential jobs meant that there would be capacity within the labour market. Overall the study concludes that displacement would be medium to high, between 50% to 70% of the gross economic value of the project.

Example 6: Onshore renewable energy¹³

A community group is engaged with a developer regarding a large-scale windfarm (20 MW). During initial pre-planning discussions, the developer has offered the opportunity for the community to invest 10% of the project costs, and own 10% of the project vehicle in a joint venture. A named community group is committed to exploring the offer, and if successful, the ensuing net profits to the community will be used to support a long-term community-led regeneration strategy, including the creation of one full-time development officer to focus on improving employment, social, learning and care opportunities in the area.

The developer presents this information in a planning application and this is considered to strengthen an application which is otherwise in line with local development plan and Scottish Government policy.

¹³ Source – SG Good Practice Principles for Shared Ownership of Onshore Renewable Energy Developments <http://www.localenergyscotland.org/media/79714/Shared-Ownership-Good-Practice-Principles.pdf> (2015) The Good Practice document outlines that where a community group is involved in a project proposal from an early stage and will receive long term socio-economic benefits, the developer may wish to include the expected net economic benefits in support of the planning application.