

By email to: [Chief.Planner@gov.scot](mailto:Chief.Planner@gov.scot)

John McNairney  
Chief Planner  
Scottish Government

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Dear Mr McNairney

## **Comments on Draft Advice on Net Economic Benefit and Planning, March 2016**

### Introduction

These comments on the Draft Advice on Net Economic Benefit and Planning issued in March 2016 are based on our experience of undertaking many net economic benefit assessments, for both public and private sectors.

BiGGAR Economics is an economics consultancy, founded in 2002 and based in Scotland. We have undertaken economic impact assessments of a wide range of organisations, proposed investments, proposed developments and economic policies for Governments and their agencies and for the private sector, in Scotland and in many other European countries. This experience has included net economic benefit assessments of a range of developments in support of the planning process. This has included giving expert evidence on socio-economic issues at a number of public inquiries.

### Welcome for Advice

The development of advice on net economic benefit and planning is welcome and it should help to improve the quality of the economic assessments that are available to those making planning decisions.

However, some parts of the advice could lead to unintended consequences, particularly if the guidance on deadweight and displacement was used to conclude that proposed developments would generate little or no net economic benefit.

### Reference to Green Book (Paragraph 11)

Drawing on other guidance, such as the UK Treasury's Green Book is welcome since it avoids conflicts between different sources of guidance on best practice. However, it should be recognised that there are important implications of referencing the Green Book. In particular, the application of the discount rate recommended in the Green Book will make a difference to the timescales over which costs and benefits are assessed. The use of a high discount rate will encourage shorter term thinking while a low discount rate will encourage longer term thinking, since it will mean longer term benefits are more prominent in an assessment of costs and benefits. The current edition of the Green Book recommends a discount rate of 3.5%, informed by an

assessment made in 2008 of a long term growth rate in the UK economy of 2% per annum. Since 2008, the growth rate in the economy has been much lower and so it may be appropriate to use a lower discount rate in economic impact assessments than that recommended by the Green Book.

## Deadweight and Displacement (Paragraph 13)

The approach and concepts that are set out in the advice are helpful, including those of deadweight and displacement. However, care needs to be taken on how such concepts are applied in net economic impact assessments, in particular so that due consideration is given to market and factor conditions.

For example, based on how the advice is currently written it could be argued that there would be little or no net economic benefit of a proposed onshore wind farm if there was an alternative site that could accommodate the development. However, site selection will be influenced by a wide range of factors including wind conditions and environmental considerations and it would be difficult for the author of an economic assessment or a planning officer to determine whether a viable alternative site was available.

Similarly, if an office development was proposed, the advice as written would suggest that there would be little or no net economic benefit if it could be accommodated at an alternative location. However, market considerations, such as the demand for offices at particular locations, will usually be much more important drivers than whether sites can accommodate a proposed development.

The advice should also be clear that assessments of deadweight and displacement should be dynamic rather than static. The planning system should not discourage the type of competition and innovation that drives economic growth. A proposed development may have high levels of displacement in the short term, but if the proposals are offering something better suited to existing or expected future market demands, it should not be the role of the planning system to constrain competition. It is necessary to also consider displacement over the longer term, since existing businesses would be expected to respond to competition from a new entrant and market conditions will change over time.

The method that is commonly used to take account of these factors is to compare the potential economic impacts of a proposed development with a “reference case”, an assessment of what might happen if the proposed development did not proceed. In some circumstances the reference case may be that the current market and economic conditions would stay as they were. However, it is more likely that the reference case would also have a dynamic element, including trends of growth or decline in the markets relevant to the proposed development.

The advice would be strengthened if this was added to the section on deadweight and displacement, and also reflected in the examples.

## Example 1 (Page 9)

The examples given of high, medium and low deadweight do not give sufficient consideration to market conditions. The availability of alternative sites for the proposals should not be the main consideration, since sites identified by planners for particular uses might not be considered suitable by developers (as evidenced by several sites around Scotland that have been zoned for particular uses for many years but remain undeveloped). Each case must be determined on its own merits and assumptions made on deadweight must consider the suitability of alternative sites as well as their availability.

## Examples 2 & 3 (Page 10)

The retail examples demonstrate the potential dynamic effects of a development well. However, assessments of net economic benefit must also recognise the risks and uncertainties that exist. For example if an assessment was based on projections for retail 25 years into the future, it would be wise to recognise that many of the current issues in retail, such as online retail, would not have been predicted 25 years ago.

## Example 4 (Page 11)

This example highlights the dangers of considering displacement from only one market perspective, in this case the property market. The relocation of a business from one location to another will not necessarily result in displacement. A business is unlikely to go through the disruption of relocation unless the alternative premises are more suitable than their existing premises. So relocations are likely to result in higher business growth rates.

The example also highlights labour market displacement. While this is an appropriate consideration for economic development agencies, it should not be the focus of a net economic benefit assessment undertaken to inform planning decisions. If displacement does occur in the labour market, the appropriate policy response should be an education and skills initiative to increase the supply of labour, not a planning decision that would constrain the demand.

## Example 5 (Pages 11 & 12)

The proposed approach in this example would lead to the inappropriate conclusion of high displacement for almost all proposed tourism accommodation. This can be illustrated by considering a historic example. Over the last two decades, the development of limited service hotels has displaced many lower quality B&Bs. But concluding that this is displacement would not take account of consumer preferences. Those tourists staying in limited service hotels are doing so because they prefer that to the alternatives and this has been part of a global trend. So, if planning decisions had discouraged limited service hotel development in Scotland, it is likely that the lower quality B&Bs would have closed anyway, since they were not meeting changing consumer demands, and this would have reduced the overall capacity of tourist accommodation and constrained the growth of the tourism sector as a whole.

## Example 6 (Page 12)

This example could be misinterpreted to imply that particular models of ownership may be relevant to planning decisions. While this may be consistent with other policy objectives, it should be clear that, in an assessment of net economic benefit, it is not the ownership structure that is relevant but the associated economic benefits. This would require consideration of the commercial feasibility of the investment and assumptions on what the community might do with profits generated.

## Conclusion

The development of advice on net economic benefit and planning is welcome. However, some revisions would be welcome to avoid unintended consequences such as discouraging development, in particular development that provides the competition and innovation necessary to generate growth in the Scottish economy.

Yours sincerely  
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Director, **BiGGAR Economics**