



Scottish Government
Riaghaltas na h-Alba
gov.scot

Optimal Economics

ANALYSIS OF EVIDENCE:

NET ECONOMIC BENEFIT AND PLANNING – DRAFT ADVICE 2016

January 2017

Report prepared by:

Optimal Economics
1 St Colme Street
Edinburgh
EH3 6AA

Tel: 0131 220 8461
Fax: 0131 220 8201
Email: info@optimaleconomics.co.uk
Web: www.optimaleconomics.co.uk

The opinions expressed in this report are those of the author.

Report commissioned by:

Planning and Architecture Division
Area 2H South
Victoria Quay
Edinburgh
EH6 6QQ

Tel: 0131 244 7534
e-mail: DMprocedures@gov.scot
web: <http://www.gov.scot/Topics/Built-Environment/planning>

© Crown Copyright 2017

Applications for reproduction of any part of this publication should be addressed to:
Planning and Architecture Division, Directorate for Local Government and
Communities, Area 2H (South) Victoria Quay, Edinburgh, EH6 6QQ

This report is published electronically to limit the use of paper, but photocopies will be
provided on request to Planning and Architecture Division.

Executive Summary	4
1 Introduction	6
2 Analysis of Responses	8

Executive Summary

1. The consultation on guidance on Net Economic Benefit and Planning received 34 written responses of which 13 were from local authorities or planning bodies, 11 from investors/developers, 4 from third sector organisations, 3 from professional bodies and 3 from professional advisors.
2. The review of the responses identified nine main topics, beginning with general comments on the principles of the proposed advice, into which responses could be grouped
3. **General** The majority of respondents (23) welcomed the guidance as providing greater clarity on the assessment of economic benefit. However, 4 respondents argued that the guidance gave too much priority to economic benefit issues and one of these opposed the guidance entirely on this point. In contrast 4 organisations welcomed what they saw as a desirable increase in emphasis on economic benefits.
4. **When Assessment Required** The guidance document contains a flow chart intended to explain when an assessment would be needed. Several consultees referred favorably to this chart but one third of the respondents commenting on this issue stated that still greater clarification was needed as to when the guidance should be applied.
5. **Area of Impact** It was recognised by a number of respondents that economic impacts would often flow over authority boundaries and there was some call for further guidance on how this should be dealt with in assessments.
6. **Methodology** There was widespread support for the methodological approach of the document though detailed points and criticisms were made by individual respondents. The largest number of comments (12) related to the technical level of the guidance in the document with ten calling for more detailed guidance and two arguing that the existing document was too complex. More detail on definition of economic benefit and on presentation of results was also called for by several respondents.
7. **Displacement and Deadweight** The technical issue which attracted most consistent comment was the treatment of displacement in the guidance. Four organisations criticised the use of “availability of an alternative site” as evidence of potential displacement. It was argued that this approach did not allow for dynamic effects, for the role of competition or for the fact that some sites would offer economic advantages over others.
8. **Wider Impacts** Six organisations made reference to wider social and environmental effects with four respondents identifying the omission of reference to natural capital as a weakness in the guidance.
9. **Examples** The examples in the Draft Advice were generally welcomed but a number of criticisms were made. The examples were described by some respondents as brief and narrowly focused, lacking clarity with respect to deadweight and displacement, and having wording which could be open to

misinterpretation. The example relating to on-shore wind power received the greatest number of critical comments.

10. **Resources** Thirteen organisations commented on the skills and capabilities required to assess economic benefits. Respondents argued that local authorities, operating in times of cost savings, may not have the resources or skills to review and assess economic benefit documentation. This could lead to a slowing of the planning process, increased use of outside contractors and need for training and additional resources.
11. It was also argued that the level of detail requested in assessments should be proportionate so as not to place unnecessary burden on developers and authorities and one respondent argued that the draft guidance is unnecessarily complex and will place a disproportionate burden on developers and planning authorities.

1.1 Introduction

1.1.1 In March 2016 the Scottish Government Planning Division published advice in draft form on Net Economic Benefit and Planning.

1.1.2 Scottish Planning Policy (paragraph 29) sets out that, in the context of supporting sustainable development, planning policies and decisions should be guided by a number of principles, including 'giving due weight to net economic benefit'. The draft advice is intended to provide clarity on what net economic benefit is, and how this can be expressed meaningfully so that it can be given due weight in the planning process.

1.1.3 A consultation exercise was conducted in relation to this guidance and 34 consultation responses were received, from a range of stakeholders. Responses received were local authorities/planning authorities (13); businesses (11); third sector organisations (4); professional and academic bodies (3); and consultants/lawyers (3).

1.2 This report

1.2.1 The purpose of this report is set out an analysis of the written evidence and to provide a concise account of the main issues raised by respondents. The brief for the review of responses called for consideration of:

- the extent to which the advice is welcomed or otherwise
- the main comments, noting where points are made by several respondents and those which may occur only once
- recurring issues and themes, and
- areas where there are contrasting views.

1.2.2 The review of the documents identified eight main topics, beginning with general comments on the principles of the proposed advice, into which responses could be grouped. These are as follows (the number of respondents commenting on each topic is shown in brackets):

- General Comments (27)
- Where and when the assessment of net economic benefit should be required including sectors covered (29)
- The geographical area of assessment (9)
- Methodology (18)
- Adjustments for displacement and deadweight (14)

- Wider social and environmental effects (6)
- The examples given in the document (18)
- Resource requirements (13)

1.2.3 The responses are summarised under these headings below.

2 Analysis of Responses

2.1 General Comments

2.1.1 The majority of respondents (23) clearly welcomed the guidance as providing greater clarity on the assessment of economic benefit. Within the responses there were, however, two smaller sub groups. One group (4 organisations in the private sector) saw the guidance as giving increased weight to economic benefit issues in planning while 3 organisations expressed reservations that the guidance might be misinterpreted to imply that economic benefit considerations ranked above other material considerations or even the development plan. One further organisation opposed the guidance altogether on this basis.

2.1.2 Some bodies involved in planning, while not opposing the guidance, sought to point out that planning authorities already took account of economic development considerations. One organisation argued that there was a need to detail where this guidance stood in the “hierarchy” of planning documents.

2.2 When to apply the Guidance

2.2.1 The guidance document contains a flow chart intended to explain when an assessment of net economic benefit would be needed. Several consultees referred favorably to this chart but there were, nevertheless, many responses on this issue.

2.2.2 One third of the respondents commenting on this issue stated that still greater clarification was needed as to when the guidance should be applied. Several suggested that some form of impact threshold or screening might be specified below which an assessment would not be needed. The term “compliance” in relation to the Development Plan was stated by one respondent to be unclear.

2.2.3 Although the guidance can be read, and was read by many respondents, to imply that any need to assess net economic benefit will be the exception so far as planning applications are concerned, a few respondents argued that net economic benefit should be more widely included in planning decisions. Thus four respondents argued that housing developments could have effects (positive but possibly negative) on economic benefit and that the inclusion of these as a material consideration should be recognised in the guidance.

2.2.4 There were specific sectoral concerns. Representatives of the renewable energy sector were concerned that the national (as opposed to local) economic benefits of renewable energy development would not be properly recognised. Other comments were made on 1) the absence of references to Section 36 of the Energy Act in the guidance and 2) the interpretation of Paragraph 169 of Scottish Planning Policy. With regards to the latter which, as the draft guidance correctly points out, states that economic benefit may be a development management consideration, respondents argued that economic benefit is *always* a relevant development management consideration in energy infrastructure projects and should always be taken into account.

2.2.5 A representative of the telecommunications infrastructure sector argued that the guidance might impose a new test on the installation of telecommunications

infrastructure. Moreover, it was argued that the guidance was not suitable for the assessment of “non-conventional” telecommunications infrastructure where the local economic benefit of one installation can appear negligible while the benefit arises from the network as a whole. It was suggested that the guidance needed to be redrafted to exempt single installations from any need to assess net economic benefit. One other respondent also called for more guidance on infrastructure assessment.

2.2.6 Two respondents stated that the guidance should make reference to the economic benefits linked to the built and natural heritage and to the impacts (negative or positive) of specific developments on these.

2.3 Assessment Area

2.3.1 A substantial number of respondents recognised the importance of correct definition of the area over which impact should be assessed. It was acknowledged that impacts would often flow over authority boundaries but also that both developers and authorities might seek to adjust assessment boundaries to suit their own interests. There was some call for further guidance on this point.

2.4 General Methodological Issues

2.4.1 A large number of comments were made on a wide range of methodological issues. Overall, there was support for the methodological approach and the comments were mainly on points of detail.

2.4.2 The comments made are summarised as follows:

- Twelve respondents commented on the level of guidance on assessment in the document with ten calling for more detailed guidance and two arguing that the existing document was too complex. Several respondents argued that the Treasury “Green Book” would be unfamiliar to local authority staff and possibly unsuited to their skills. More detail on definition of economic benefit and on presentation of results was also called for by several respondents.
- Two respondents argued that the guidance needed to say more about the distribution of costs and benefits between the public and private sectors
- Two respondents called for more reference in discussion of benefits to place making, regeneration and sustainable development
- Two organisations, both in the power sector, argued that the guidance did not properly reflect the benefits of power projects with insufficient reference to community funds, training and skills
- Two organisations argued for use of a lower discount rate than 3.5%
- One organisation called for a clearer definition of additionality and another for a clearer definition of net economic benefit
- One organisation suggested that the treatment of risk and uncertainty in the guidance was impractical, partly because of commercial sensitivity of relevant information

- One organisation was highly critical of the methodological format arguing that it conflated and confused Economic Impact Analysis and Cost Benefit Analysis.

2.5 Deadweight and Displacement

2.5.1 Comments on these issues were made by 13 organisations. Most of these respondents acknowledged that developments could have negative impacts which should be assessed but a number of criticisms and other comments were made as follows:

- Four organisations criticised the use of “availability of an alternative site” as evidence of potential displacement. Thus it was argued that this approach did not allow for dynamic effects or for the fact that some sites would offer economic advantages over others. Two respondents argued that the overall treatment of deadweight and displacement failed to take account of the positive aspects of displacement – e.g. the economic benefit of more efficient or innovative producers replacing the less efficient. It was also suggested that the approach did not consider how likely development was to occur on the alternative sites
- Two respondents (both in the renewables sector) argued that the analysis of deadweight and displacement in the guidance did not consider the nature and circumstances of renewable energy projects
- Other points, each made by one respondent, were
 - That housing projects might give rise to displacement
 - That displacement should include consideration of the loss of social and public amenity assets with consequent economic losses
 - That the space given to consideration of displacement might lead to an excessive focus on negative aspects of development
 - That analysis of displacement must be balanced with consideration of potential place making, land use and regeneration effects
 - That the concept of the “reference case”, being the expected economic output in the absence of the project, should be developed
 - That a table setting out likely displacement levels for different types of project (as in relevant Scottish Enterprise guidance) would be useful.

2.6 Wider Social and Environmental Effects

2.6.1 Six organisations made reference to wider social and environmental effects with four respondents identifying the omission of reference to natural capital as a weakness in the guidance. It was suggested that introducing the concept of “natural capital” would be a valuable way of measuring the impact on the natural environment/heritage from planned developments. One organisation recommended the use of a cost benefit framework to allow the wider social and environmental costs to be included in the analysis.

2.6.2 The social benefits of certain types of infrastructure in rural areas were also noted.

2.7 Examples

2.7.1 Eighteen respondents commented on the examples in the Draft Advice. While examples were welcomed, they were described by some respondents as brief and narrow, lacking clarity with respect to deadweight and displacement, not giving sufficient consideration to market conditions and market dynamics, having wording which could be open to misinterpretation and potentially setting a precedent (in relation to on shore renewables).

2.7.2 Example 6 – Onshore Renewable Energy received the most comments, mainly about community ownership, including:

- The assumptions are unrealistic about community capacity to engage and deliver economic benefit (1 respondent)
- Ownership of the asset should be irrelevant, it is community benefit that matters (2 respondents)
- Not clear if it is ownership or actual benefits which matter and would weighting associated with these matters be a factor if development finely balanced? (1 respondent)
- Community ownership should be a material consideration (2 respondents) but at an early stage the level of detail which can be decided is very limited. Projects which cannot offer shared ownership should not be disadvantaged in a system which gives weight to shared ownership offers (1 respondent)
- Shared ownership is not the only measure of economic benefit, others include maximizing local construction, maintenance and supply contract opportunities and delivering a mechanism for enabling long term community growth (2 respondents)
- Shared ownership will become increasingly difficult post renewables obligation. The advice should focus on delivering outcomes (net economic benefits) rather than imply expectation of the mechanisms to achieve those outcome (shared ownership) (1 respondent)

2.7.3 The following points were highlighted in relation to the other examples:

- The examples need a wider focus than just job creation e.g. use of derelict land, opportunities for SME growth (1 respondent)
- Impacts on natural capital should be considered (1 respondent)
- More content is required on the potential effects from development on the rural economy and island economies (2 respondents)

- Examples 2, 3 and 5 present situations where the proposed developments are likely to be in accordance with planning policy. It is not clear why an assessment of economic benefit would be necessary (2 respondents)
- The displacement of jobs from other hotels in Example 5 could be open to misinterpretation which could suggest that the impact of competition is a material planning consideration (1 respondent) and the example does not recognise that allowing better quality/more efficient operators to replace others is an economic benefit (1 respondent)

2.8 Resources Required

2.8.1 Thirteen organisations commented on the resources required to assess economic benefits. Respondents recognised that local authorities, operating in times of cost savings, may not have the resources or skills to review and assess economic benefit documentation. This could have a number of impacts including:

- The planning process may be slower
- Experts may have to be used (i.e. outsourcing analysis of economic benefits) which will incur costs which would have to be recovered from developers
- Training will be required to establish a pool of officers to undertake assessment's, possibly with transitional arrangements until internal expertise is developed

2.8.2 It was suggested that a simplified version of appraisal and evaluation guidance or web links to data sources and information would be helpful

2.8.3 It was also argued that the level of detail requested should be proportionate so as not to place unnecessary burden on developers and authorities and one respondent argued that the draft guidance is unnecessarily complex and will place a disproportionate burden on developers and planning authorities

2.8.4 One respondent also highlighted the need for communities to be able to engage.