

Economic Impact Review

Precognition

in respect of

Menie Estate Development

19th May 2008



EKOS Limited

economic development & regeneration

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1. Introduction

My name is Mhairi Donaghy. I am employed as Associate Director at EKOS Economic Development and Regeneration in Glasgow heading the Place Development and Regeneration team.

EKOS is one of Scotland's largest independent economics consultancy practice, specialising in economic development and regeneration. Established in 1993, EKOS employs 24 professional staff in offices in Glasgow and Inverness.

EKOS has substantial experience of project appraisal, including economic impact assessment, for a wide range of clients including European and national government departments, regional development agencies across the UK, local authorities, housing associations and community organisations. While the majority of our clients are public sector organisations we regularly work with private sector clients to support planning applications through the estimation of economic impacts arising from property development proposals. Recent experience includes impact assessment of Ravenscraig, SECC extension, regeneration of Irvine Bay and hotel options assessments in Glasgow.

I have worked in economic development since 1991 when I was employed at Scottish Enterprise where I worked as a Property Development Executive until 2002 when I joined EKOS. I have an honours degree in Social Science (economics and politics) followed by two post graduate diplomas one in urban property appraisal, the other in local economic development.

Since joining EKOS in 2002 I have undertaken numerous research studies covering the broad remit of economic development, but have focused on project appraisal and physical area regeneration. Over the past three years I have undertaken over 25 property development related economic and financial impact appraisals including residential, retail, business and leisure proposals.

2. Economic Impact Analysis – Method

Economic impact appraisal is the industry standard method of estimating the actual impact that any proposal will have on the local and national economy. EKOS' appraisals use orthodox appraisal techniques (of which there are several), including government statistics and guidance materials. It is, however, important to say that impact assessment is not a complete science and requires judgement, based on professional experience, in the application of these official data sources and guidance materials to any specific project proposal.

The purpose of appraisal is to estimate the net additional impact that a specific development proposal could have on the local and national economy, taking account of competition, displacement and spin-off benefits.

There are a number of technical terms and stages involved in economic impact appraisal:

- additionality – this normally refers to the additional impact of public sector assistance on development projects and proposals, but for this proposal I adopted a broader definition that considers the likelihood of any element going forward in the absence of the whole proposal i.e. the additionality of each element. I have estimated that the only element affected by this is the residential element, for which I have reduced the gross impacts by half;
- displacement – this is an estimate of those impacts that may reasonably have been achieved by other competitor businesses in the absence of this particular proposal. A proportion of the business at Menie Estate will constitute 'new' sales to Aberdeenshire and/or Scottish economy, but a proportion will also include 'existing' sales taken from existing businesses. We also considered displacement effects on the local labour market and the extent to which employees will be displaced from existing, primarily local, businesses;
- leakage – this considers the proportion of the jobs that will be taken by residents outwith the area (local and national levels) for each of the individual project elements. We have assumed that potential employees will be prepared to travel further to access higher value and salary jobs, but that the majority of the on-site jobs will be taken by existing local residents or by those moving to the area based in the proposed staff accommodation; and
- multipliers – these are the indirect employment impacts generated by the purchase of goods and services by residents and businesses located in the new development and the induced employment generated by the consumption expenditures of those directly and indirectly employed at the development.

It is standard practice to estimate economic impacts at both the local and national levels. Local level impacts are those that could occur in the Aberdeenshire and Aberdeen City area. National level impacts are those that could occur at the Scottish level. Impacts are normally different, but are not cumulative, at the local and national levels depending on local baseline economic conditions and the technical factors described above.

Estimates of economic impact are normally reported against six main types of impact:

1. gross jobs – are those accommodated through the operation of the completed development – this equates to the number of people that will be directly employed and is normally reported as the number of Full Time Equivalent positions, translating temporary and part-time employment into a proportion of permanent and full-time positions;
2. net additional jobs – are those generated through the development, but takes account of additionality, displacement, leakage and multipliers. Net jobs are different, but not cumulative, at the local and national levels, dependent on levels of competition within the local area and the geographic dispersal of multiplier impacts i.e. spend;
3. construction jobs – reported as both gross and net that are generated through the physical development and construction of the proposal. EKOS adopts a method of estimating construction jobs in terms of annual equivalent posts i.e. the number of people that would need to be employed to complete the development over one 12 month period;
4. off site jobs – are the employment impacts that will be generated by the spend patterns of the additional residents and visitors at the local and national levels, associated with the development;
5. the wages and salaries generated by the local and national level net additional jobs; and
6. the GVA, or economic contribution, of the net additional jobs at the local and national levels measured in simple terms by the wages, salaries and profits generated through the production of goods and services.

For this appraisal, EKOS has employed official statistics from the Government's Annual Business Inquiry giving average output, salary and GVA factors by industry sector for 2005. We inflated these indicators through two stages:

1. using RPI, we inflated prices from 2005 to 2008 rates; and
2. using official data on the proportion of part-time employees within each industry sector to identify full-time equivalent rates.

The Annual Business Inquiry is produced by the UK Government and gives economic data for industry sectors against a number of geographic levels. The data is not operator specific and provides industry averages – I used Scottish level data, rather than Aberdeenshire level data, to improve the reliability of the data and avoid any specific operator issues at the local level.

3. October 2007 EIA

On 11th October 2007, EKOS was appointed by Aberdeenshire Council to undertake an economic impact assessment and financial review of a report prepared by Deloitte MCS Limited for Trump International Golf Club Scotland Ltd. The Council were particularly interested in finding out how many jobs would be created by the operation of the completed development and to understand how much additionality and displacement would occur as a result of the development.

We were given a copy, in confidence, of the full Deloitte Economic Impact Assessment and Financial Review, dated March 2007. After reviewing this report we concluded that we were unable to replicate the appraisal contained therein, due only to the lack of detailed information in the report and instead undertook an independent assessment of the potential economic impacts.

4. May 2008 Economic Impact Appraisal

In April 2008, I was asked by Aberdeenshire Council to appear as an economic development witness at the forthcoming Public Inquiry for the Trump International Golf Links Scotland development proposal. Following discussion with the Council and their representative, we were given the opportunity to revisit our initial appraisal and to prepare a detailed baseline review for the project and the area. This allowed us to review issues and information in greater detail, which we were unable to do given the timescale of our October 2007 review.

This baseline review covered three areas:

- socio-economic profile, focusing on the labour market;
- established and proposed leisure attractions, focusing on golf; and
- hotel and conference facilities, focusing on capacity and occupancy.

Given the location of the proposed development, the review covered both Aberdeenshire and Aberdeen City.

This analysis informed our views on the potential for the development proposal to compete with, or contribute towards, the economy at the local and national levels. Our assessment of economic impacts therefore changed, with some elements increasing but others reducing.

Our revised assessment of economic impact, as presented in our May 2008 Economic Impact Review report, are:

- 900 net additional jobs at the national level, generating salaries of £16m and GVA of £42m per annum; and
- 4,050 net additional one-year equivalent construction jobs at the national level, generating total GVA of £190m.

5. Fraser of Allander Institute

The Fraser of Allander Institute was appointed by Trump International Golf Links Scotland Ltd to review and independently update the economic impact assessment for the development proposal. I obtained a copy of this report on 14th May 2008 and have had the opportunity to briefly review the content and impacts presented therein.

Based on an initial review of this report it is clear that Fraser of Allander has adopted a different method of estimating gross employment impacts, using estimated wage payments for the operational running of the completed proposal, as outlined in the financial appraisal prepared by Johnston Carmichael.

At the time of writing, I have not had an opportunity to review or analyse the Johnston Carmichael report. I did not obtain this report prior to completing my economic impact assessment and was therefore unable to use the data to estimate job impacts. My appraisal adopts an industry recognised method of using standard employment densities, together with EKOS' experience and professional judgement, to estimate gross jobs.

EKOS has also estimated the off-site impacts associated with the leisure and residential elements of the proposal i.e. the net additional jobs, salaries and GVA that could be generated through resident and visitor spend in Aberdeenshire and Scotland as a direct result of their residence at, or visit to, the proposed development.

The two methods therefore produce different gross and net impact assessments with EKOS' impacts lower for net additional employment at the national level i.e. 900 FTEs against 1,237 FTEs, but higher for net additional GVA - £42m against £35m. The EKOS review also estimates lower construction impacts at the national level for both employment and GVA - 4,050 against 4,694 and £194m against £267m. It is important to



make a distinction between construction jobs, which have a one-off impact, and the operational (on- and off-site jobs) which have a continuous annual impact.

The method adopted by the Fraser of Allander Institute is a valid approach, and one that EKOS could have adopted if we had been provided with the financial data prior to completing our economic impact assessment. As outlined above, EKOS approach is based on industry averages and is not operator specific. This is a valid approach in economic impact assessment.

Adopting this comparable method would, however, still have produced different estimates of net additional impacts as we would have used our separate professional experience in the interpretation of economic impact appraisal measures i.e. additionality, displacement, leakage and multiplier factors.

6. Conclusion

While the EKOS and Fraser of Allander appraisals produce different levels of employment and GVA impacts, both identify significant economic impacts at both the local and national levels.

The impacts could be considered against public sector grant awards to create new or safeguard existing jobs in Scotland. RSA grant is awarded to create or safeguard jobs and may involve significant grants. Information is available in the public domain.

I have estimated that the TIGLS development proposal will generate 900 net additional FTE positions, at no cost to the public sector. This will help the process of local economic growth and diversification.

Mhairi Donaghy
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19th May 2007