Tesco submission to the Barker Review of Land Use Planning

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At Tesco we believe in appealing to all customers, whether they are urban or rural, deprived or affluent or somewhere in between. To deliver this goal Tesco have become frequent users of the UK planning system and strongly support effective, efficient and sustainable planning. With this in mind we are pleased to have this opportunity to submit our views to the Barker Review of Land Use Planning.

The comments below set out the detailed response from Tesco Stores Ltd to the questions posed in the Barker Reviews' Call for Evidence.

Detailed commentary

1. Is the planning system sufficiently flexible and/or responsive to the right signals to deliver the right development in the right place, given the changing economic circumstances due to globalisation, demographic change, natural resource pressures and environmental change? If not, what policy measures might help deliver this flexibility?

An effective and efficient planning system is important for long-term social, economic and environmental progress. The delivery of essential infrastructure – from renewable energy to waste management facilities, schools, hospitals, retail outlets, and housing – relies on pro-active planning processes to guide and facilitate development. In our view the current planning system is not resourced or managed in a way that will provide this kind of flexible, responsive and proactive approach.

To help the UK effectively respond to demographic change, globalisation, and climate change we believe that the planning system must be properly resourced and managed. Under-resourcing and poor management result in slow and inconsistent decision-making, which can erode business confidence, impede investment, lead to delays, and could ultimately reduce the amount of land coming forward for development.

In recent years reports from the Audit Commission, RTPI, LGA, and others have found that:

- many local authority planning departments are under-resourced, and unable to cope with their increasing workload
- the Government's 13 week performance targets have introduced perverse incentives to progress some major developments at the expense of others, and reduced the quality of decision-making
- planners are the second most difficult post to recruit to in local government
- there is a shortage of experienced planners, and only limited attempts to source private sector consultancy expertise
- revenue from planning fees on major applications covers a small proportion of the actual costs incurred, ensuring that backlogs of key applications are allowed to build up

These problems, and others, have ensured that effective development control services have not been provided by many local authorities. Local plan-making has also suffered and, despite a system which promised to offer a streamlined approach, can still be inconsistent, inflexible and too long in preparation. This in turn delays the development control process further and can reduce the quantity of sites progressing through the planning system.

Central government has made a number of attempts to reform the system, and increase the level of resources directed to it. For example we welcome the increased funding for planning provided through the Planning Delivery Grant in recent Budgets. ODPM research, and our own experience, shows that this resource has been used by most local authorities to fund their planning departments - but major problems remain. To achieve the real step-change in performance necessary we would encourage government to:

- introduce new targets for local authorities on the backlog of applications they build up, not just their performance on 60% od their decisions
- introduce statutory maximum timeframes to supplement the current 13 weeks targets
- set statutory targets for itself, with the time between an application being submitted and the final decision (including any appeals and call-ins) never taking more than one year
- use national planning policy to provide clear leadership to local authorities on the benefits of regeneration and growth
- encourage local authorities to supplement their in-house services with solutions available through the private sector
- increase the funding of undergraduate and postgraduate planning places at university
- incentivise local authorities to share planning resources with neighbouring authorities

2. Do you have any views on the scope of plans at the different spatial levels in England which are now emerging following the introduction of the new system in 2004? Are there further improvements to the plan-making process at the different spatial levels in England, particularly regarding the need to encourage a positive/proactive approach to planning, which was a key theme of the new plan-making system? Does the current system strike the right balance between central direction and regional and local discretion?

Improving local plan-making

In retail planning there is a heavy emphasis on the importance of the plan-led approach, especially around positive planning for town centres. This depends in turn on local authorities producing plans in the first place, and on these plans giving due regard to retail. As discussed in our answer to question one this is often not the case.

In addition to the measures outlined above we would also recommend further steps specifically targeted at supporting the development of local plans, for example:

- simple completion targets and incentives, with local development frameworks being created within eighteen months
- the use of Area Action Plans should be more carefully targetted, to ensure plans are clearer on the areas where growth is expected.
- public engagement should be front-loaded through local plan-making, and made more effective and representative (see our answer to question 10)

- duplication of responsibility and overlapping layers should be avoided, with a clear relationship set between local and regional plans

Regional Planning for Retail

Central government, through Planning Policy Statement 6, has asked Regional Planning Boards to make strategic choices as to where retail growth should be directed. PPS6 also asks them to assess the overall need for additional floorspace over the Regional Spatial Strategy period, and for five year periods within that timescale. We see little evidence that Regional Planning Boards are dedicating sufficient resource to carry out these responsibilities fully.

To achieve real improvements we would suggest:

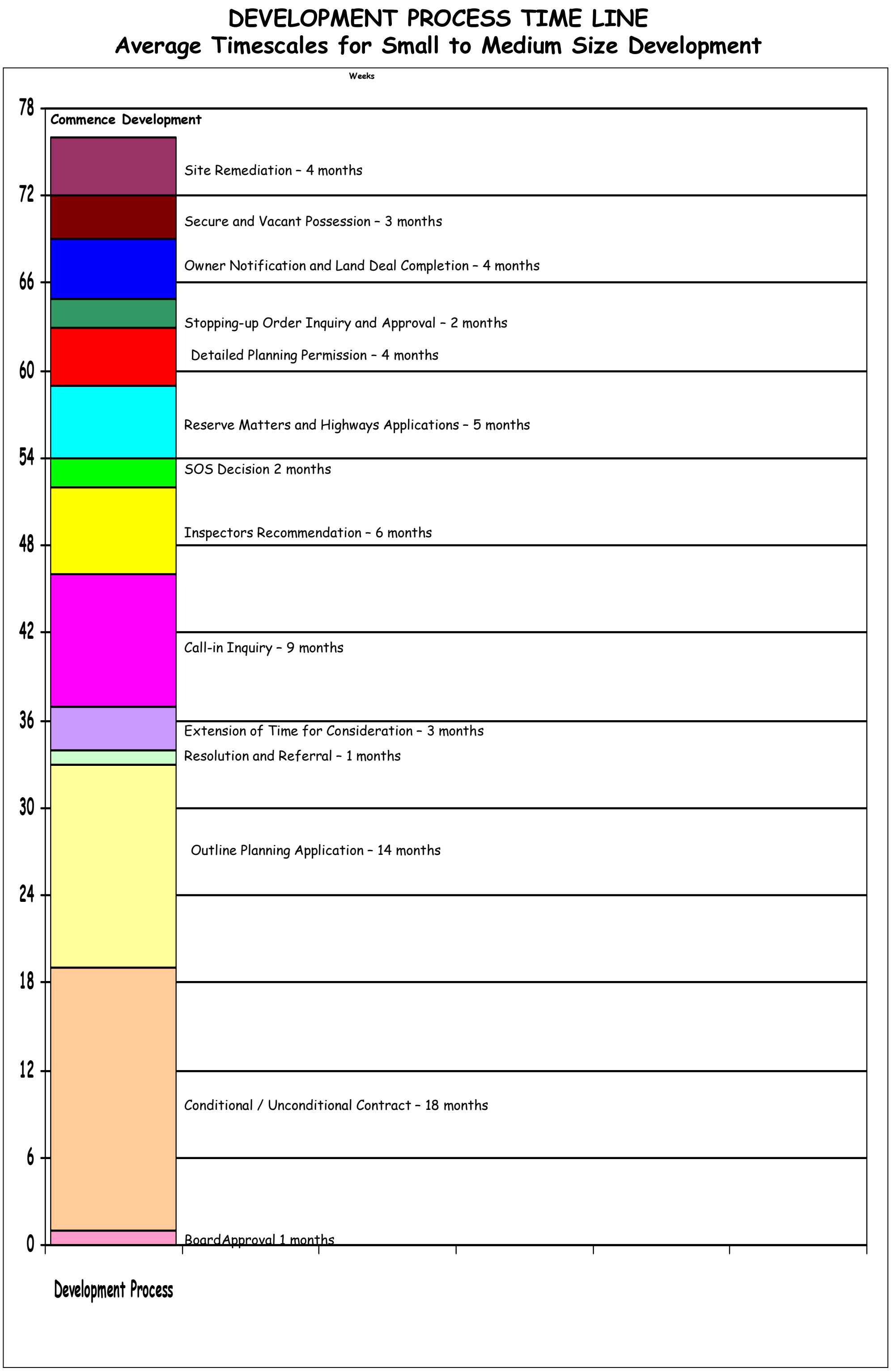
- greater co-ordination between Regional Spatial Strategies, and other regional strategies – for example on the regional economy. In future these should be produced at the same time and proceed through the various statutory processes together.
- The 32 month timetable set out by central government for Regional Spatial Strategies is realistic, but must be adhered to – again incentives may have a role.
- Retailers or their representative bodies should be included in the list of potential participants in the RSS revision process.

The role of central government

As we discussed in our answer to question one, national planning policy should provide greater leadership to local authorities on the benefits of regeneration and growth.

Central government also needs to improve its record on development control, and Secretary of State call-ins. We believe that statutory targets should be introduced ,and adhered to, to ensure that the time between an application being submitted and the final decision (including any appeals and call-ins) should never take more than one year. More importantly in our view the majority of planning applications that are referred under the current regulations and are called in, do not involve issues of more than local importance.

Overleaf is a chart showing average timescales for our small to medium sized developments. It is clear from this that a called in application can take in the order of 3 years from the submission of the application until a decision is finally issued by the Secretary of State.



The process begins with Board approval to pursue a site. A period of 18 months can then be taken up by agreeing contracts with the landowner before an application is submitted. During this period we also work up the various reports that are required to support a planning application, for example on traffic or retail capacity. The time then taken to obtain planning permission from submission of the application to Secretary of State approval on average takes about 36 months. Even after this additional consents are often needed, for example on reserved matters, before development can commence. This can take up to two years. Clearly these timescales are not set in stone and vary from site to site. The case studies set out in our answer to Q7 (on speed of decision-making in planning) illustrate the type of timescales that we can be faced with.

3. Sustainable development is the core principle underpinning planning. Does the current system achieve the right balance between economic and other goals, such as the regeneration of areas and the promotion of social cohesion, improving the quality of design of buildings and urban environments, and the protection and enhancement of our natural and historic environment? Are some environmental, natural resource, or social considerations given too much or too little weight?

As we mentioned earlier an effective and efficient planning system is important for long-term social, economic and environmental progress. Planning needs to balance competing short-and long-term objectives, alongside local and national interests. Planning is vital for making decisions on the best use of land and other natural resources in town and country in the wider public interest. Planning can add value to local economies by protecting and improving the quality of life and enforcing standards, and it provides certainty for businesses to make long-term investment in jobs, amenities, and housing. The process of planning provides a forum for public debate and securing a degree of consensus over change.

PPS6, the planning policy for town centres, provides a fairly clear set of parameters for retailers, and retail developers, to operate within. But, in our view, it does not effectively capture the positive wider benefits that retail development can bring. To achieve a better balance between managing retail floorspace, and the wider needs of the community, we believe that qualitative need, including factors like physical regeneration and employment creation, should be given just as much weight as quantitative need when assessing a development proposal. Such a move would enable local authorities to take a wider view of the economic, social and environmental benefits of development. Tesco agree that “regeneration of the built environment alone cannot deal with poverty, inequality and social inclusion” and support Regeneration Partnerships linking employment and training to physical investments in infrastructure. The planning system should better recognise the benefits that such schemes provide.

4. What, if anything, could the English planning system learn from the planning and consent systems operated in other countries in order to respond to this new economic environment?

The planning and development control systems experienced in other countries where we operate can offer greater certainty to the developer than the English planning system. However, we understand that the English system is the product of a complex – and probably unique - mix of cultural, administrative and legal processes. The ability to “import” ideas from other systems (however appealing) may well be constrained.

We would however encourage Government to look at positive elements of the Scottish planning system. Although it remains similar to the English approach in many respects Scotland has a much reduced number of central government call-ins. This is largely due to the floorspace threshold for referral for retail developments to be 10,000 sq. m. in Scotland as opposed to 2,500 sq. m. in England. Scotland also has a streamlined development plan system of single city-region plans, and an approach to retail planning policy which allows local authorities to take a more dynamic approach towards regeneration.

5. What is the impact of planning on encouraging or impeding business investment? In this context, how would you assess the potential of recent reforms to the English planning system, which are now being implemented? Are they increasing the transparency of the system and providing greater certainty for businesses? What further reforms, if any, are desirable in order to improve the transparency and effectiveness of the system still further?

Our answer to question 1 outlines suggestions for improvements to the planning system.

6. Is the planning system sufficiently "joined-up" with other related aspects of government policy? In particular, are Regional Economic Strategies delivering a clear economic framework to help inform Regional Spatial Strategies? Is there sufficient interaction between RDAs and RSSs when preparing their respective regional strategies and if not how might greater interaction be encouraged?

Our answer to question 2 outlines our view on regional planning, and areas for improvement.

7. Planning applications for major projects will typically take a considerable time to work through all the necessary stages. Do you consider the system puts too much emphasis on speed or do you feel that is too slow? If there is an undue emphasis on speed, what are the negative consequences of this and how could they best be avoided? If the process is too slow, what could be done to overcome delays? In particular, what improvements might be made to the planning appeal system to improve its speed and efficiency?

As we discuss in our answer to question three the processes of site acquisition, initial planning application, referral to, and call-in by the Secretary of State can take up to five years - if not longer. For example:

- at Litherland we first became involved in the site in October 1997, our planning application was submitted in 1999, only to be ultimately refused by the Secretary of State following call-in in November 2002. Our re-submitted planning application received a Resolution to Grant from the Local Planning Authority in September 2005. This will not be called-in and planning permission will be granted once the S106 Agreement has been completed.

- our replacement store at Hanley took 2 years from the Council's Resolution to Grant to receiving planning approval from the Secretary of State. Our Outline planning application was submitted in January 2003, with resolution to grant in November. After a call-in, and public inquiry, the Secretary of State finally published a decision in May 2005.

- the public inquiry into our called-in application for a replacement store at Shrewsbury was held in March 2003 but the Secretary of State's decision was not issued until July 2004. The application was submitted in 2001.

This is far too long. At any given time, Tesco applications called in and subject to a two-year delay can account for between £150 million and £200 million of investment, and in the order of some 4,000 jobs. To reduce these delays we believe that statutory targets should be introduced to ensure that the time between an application being submitted and the final decision (including any appeals and call-ins) should never take more than one year.

As discussed in our answer to question 1 we also believe that the planning system must be properly resourced and managed. Under-resourcing and poor management result in slow and inconsistent decision-making, which erode business confidence, impede investment, leads to delays, and ultimately reduce the amount of land coming forward for development. We made a number of suggestions for improvement in our answer to question 1.

8. Is there evidence to suggest that the direct costs of making a planning application are deterring investment? Are there any unnecessary burdens/how might information requirements be streamlined to reduce the regulatory burden from the process of making an application?

Fees for planning applications are at a level which will not deter applicants. We would be willing to pay higher planning fees, should this result in a better resourced, faster, and more professional service from planning departments. We have made suggestions in our other answers on ways to improve the planning system.

9. To what extent are high occupation costs in England likely to be due to planning constraints, or due to other factors such as imperfect competition or lack of transparency in the land market? What is the economic impact of these costs in terms of the main drivers of productivity?

We are aware that several previous studies have concluded that UK planning constraints result in higher occupancy costs for UK retailers and lower productivity. We have never been convinced by such simple arguments. Occupancy costs are higher for a number of reasons, and it is difficult to demonstrate that planning is the most important element. Similarly, whilst occupancy costs do appear to be higher in the UK, this does not mean that productivity is lower. Indeed, on some measures, UK retailers are clearly much more productive than retailers from any other country.

Occupancy costs

In retail, occupancy costs cover many different areas of cost, relating to property and associated services and can include:

- freehold land values;
- rents;
- rates;
- other property-based taxes;
- construction and maintenance costs; and
- other property related costs such as energy and security.

It is generally accepted that occupancy costs in the UK are higher than in other countries, although this is not limited to the cost of land. Many different explanations have been offered to explain these cost differences, including:

- the impact of the physical geography of a small island nation on land supply;
- poor transport and infrastructure provision in limiting the supply of viable sites for key sectors;

- the role of planning;
- the UK's restrictive laws on property ownership, which give landlords a huge imbalance in negotiating power – and have enabled practices such as upward-only-rent-reviews to flourish;
- the comparative price of constructing commercial property, and the efficiency of UK contractors;
- shortages of skilled and unskilled construction labour (e.g. joiners, plumbers);
- the role of local business taxation based on property values. Business rates now raise over £18Bn per annum through a tax on occupation; and
- the role of energy costs, and the structure of the energy supply market.

The relationship between land supply, business space, and occupation costs is difficult to quantify and, to our knowledge, no previous study has provided robust evidence to prove that planning constraints (as opposed to other factors) are the key driver of high occupancy costs.

UK retail productivity

International retail productivity is difficult to measure and compare, and many studies have tried to evaluate relative performance. There are important differences in these studies which, in our view, explain the different results they tend to find.

Those studies that find UK retail productivity relatively low in relation to other countries all tend to focus on labour productivity - output or value added per employee. Other studies consistently find that UK retail productivity is high in relation to other countries. These studies tend to focus on capital productivity – output or valued added per £ of capital or per unit of retail space.

The table below, taken from the recent DTI commissioned study into UK retail productivity,[1] demonstrate the point. Whilst UK retailers have shown the fastest growth over recent years on both measures of productivity, there is a striking difference between labour productivity, where the UK ranks behind the USA and France, and space productivity, where the UK ranks significantly ahead of the USA and France.

Comparisons of retail productivity
Data in $US OECD PPP

Sales per average employee	1999	2000	2001	2002	2003	2001-2003
UK	124.1	131.3	138.7	141.3	152.4	10%
USA		143.6	143.6	149.4	156.3	9%
France			252.3	249.1	234.9	-7%

Sales per sq. ft. of net retailing space	1999.0	2000.0	2001.0	2002.0	2003.0	2001-2003
UK	575.0	608.4	699.3	704.4	740.7	6%
USA	420.8	453.0	456.2	455.8	456.0	0%
France				597.8	561.6	NA

Source: Oxford Institute of Retail Management, April 2004

These two measures of productivity are equally valid. The interesting question is why they show different things. Again, there is little conclusive evidence on this point. However, one explanation is the apparently higher occupancy costs in the UK. Another is the flexible labour markets in the UK.

1 *Assessing the Productivity of the UK Retail Sector*, Oxford Institute of Retail Management, Templeton College, University of Oxford, April 2004

If a specific input cost is expensive, companies will be incentivised to use it as productively as possible. Conversely, if an input cost is relatively inexpensive, companies will expand the use of that input. In the UK, occupancy costs are higher than in the USA so retailers have become highly skilled at using space efficiently. This is why sales densities in the UK are so much higher. However, labour is much more expensive than land in the USA so retailers tend to use it sparingly – customer service standards, such as bag packing, are rare in the USA but common in the UK.

These differences in operating model may relate to differences in relative costs, but it would be wrong to say that one is more efficient than the other.

Other factors explaining productivity

As noted above, the role of planning in explaining the relatively high occupancy costs in UK retail is unclear. Similarly, it is incorrect to link these higher occupancy costs to overall levels of relative productivity – they are likely to raise capital productivity but lower relative labour productivity.

Many other factors have been shown to influence UK productivity. A number of international studies have suggested 5 key factors:

- A stable macro-economic environment – low inflation, non-distortionary taxes and free trade.
- Enterprise - government must provide a climate that encourages business start-ups, development and risk-taking. It must avoid conflicting messages (e.g. increasing taxes on business). Businesses contribute to enterprise through innovation. Tesco has a strong track-record on this, ranging from 24-hour opening to our successful internet home shopping business.
- Education and skills - poor basic skill levels and lack of training inhibit productivity. To help close the productivity gap, Tesco is active in providing basic skills and retail training for recruits, and in providing structured career development in the retail sector. Tesco also has world-class systems of talent spotting and staff development, and has pioneered regeneration partnerships in deprived areas to train long-term unemployed people and bring them into work.
- Streamlined regulation and administration - increasing regulation and bureaucracy hinders economic growth.
- Effective national infrastructure, including road, rail and air transport, and communications.

Although it is difficult to measure the relative impact of these and other factors, we believe that a more efficiently run planning system will help to promote economic growth, although the effect will be limited.

10. How does the planning system impact on competition, through influencing barriers to entry and exit and economies or scale? If there are areas where there is a negative impact, how can these be addressed, while protecting other goals of the planning system?

Planning needs to balance competing short-and long-term objectives, and local and national interests. Planning is also vital for making decisions on the best use of land and other natural resources in urban and rural areas in the wider public interest.

We recognise that any set of rules that are intended to balance out different objectives are likely to pose some constraint to development. However, we do not believe that these constraints have a significant impact on competition between retailers because:

- all retailers operate within the same system;
- there is still lots of space left to develop;
- new developments are only one aspect of competition; and
- there is significant and substantial evidence that UK retail markets are competitive.

As noted, above, we do feel that the UK planning system could be improved if it were made more efficient, and if implementation were quicker.

The degree to which planning constraints are likely to impact on competition will depend on the degree to which new development is a key competitive weapon. Whilst this may be an important factor in other UK industries, in retail this is limited.

Most retail competition is fought around price, product range, product quality, retail service, brand and availability. Getting these things wrong, irrespective of the stores held, is a recipe for failure. Retailers compete in many different ways, depending on what they are selling and what their customers value. Convenience plays a role and so having stores in good locations is obviously beneficial.

UK retail, particularly the UK grocery market, is intensely competitive. Propositions change regularly, price inflation is often negative, value for money is increasing and market shares move rapidly.

High occupancy costs (whether or not they come from planning constraints) do not impact on this. As discussed in the response to Question 9, they may influence how competition takes place but there is no reason to believe that they in any way reduce the intensity of competition.

It could be argued that planning constraints, both in terms of planning policy and in how development control is delivered, can hinder the speed at which competitors can reshape their store portfolios over time – for example moving towards smaller formats. It is difficult to know how true it might be to attribute such a role to planning, given the obvious space constraints in the UK, but we do not feel this has a material impact on competition between retailers.

Firstly, there is still a substantial amount of space left to develop and those retailers who are willing to work with the system can find many new opportunities for development. Tesco is a good example of this, developing new store formats and being willing to develop on brownfield sites. More recently, many of our competitors are now adopting similar strategies, with Sainsbury's rolling out a smaller store format and Asda starting trials of new formats.

Secondly, and as noted above, the role of new stores in the competitive process has to be seen in the context of other strategies and business models. For example, one impact on UK retail competition in recent years has been the expansion of online shopping. This growth of this form of retailing is not materially constrained by planning.

As discussed in our answers to earlier questions, the Government can improve the planning system by ensuring greater speed, efficiency and consistency in the operation of the system. The Government, and other stakeholders, should invest more in skills and training of planning professionals, and by streamlining the development plan process. Such measures would reduce delays in the system, increase certainty for developers, and increase the number of sites being brought forward for development.

11. To what extent does the planning system effectively support innovation through fostering the formation of business clusters and wider agglomeration of economic activity?

We have no view to offer on this question.

12. Do planning authorities have the skills and resources required to help promote sustainable economic development? If not, what is the best way to ensure that resources match the challenges the system faces? Are there ways to increase further efficiency of process?

Please see our response to questions 1 and 2.

13. Are the new arrangements for stakeholder engagement in the plan-making process succeeding in engaging those representing economic interests, including SMEs? If not, what are the barriers to that engagement and how might they be addressed?

It is important that local communities, including residents and businesses, are able to engage effectively with a process that helps to shape their future. At Tesco we support the fundamental right of people to be heard, and believe that the correct way to achieve this is through good community consultation early in the process.

We do however note that recent Scottish Executive research ("Planning and Community Involvement in Scotland", 2004) found that those who currently comment on or respond to planning applications are not representative of the local population, with retired people dominating the responses to local authorities. The research also found that opponents of planning applications were far more motivated than those who supported a scheme, that their opposition was more deep-rooted, and that this led to a situation where opposition to change could be exaggerated, sometimes highly. The research also found that this type of exaggerated opposition could lead both councillors and officials to interpret local views inaccurately, and reject schemes that had support from the general population. To avoid this confrontational style of representation, and the inaccurate picture of local views it creates, we would recommend that local authorities are supported by central government to:

- Resource greater engagement through the local plan process;
- Adopt modern marketing techniques;
- Introduce greater use of focus groups, opinion polls, and consumer panels;
- Widen use of information technology;
- Hold open days in schools, community centres, shops and pubs;
- Engage proactively with local businesses and potential investors.

14. Are there ways that the incentive structure for decision-makers and local communities can be improved so that a balance is achieved between local interests and the interests of the wider community regarding proposals for

economic development?

At Tesco we recognise that developments can have an impact on their neighbouring area, for example by creating additional road congestion. The planning process needs to be able to mitigate such impacts so that local people have a greater incentive to support positive changes in their community.

The system of section 106 planning obligations provides a robust and familiar framework for locally-determined mitigation, and contributions to infrastructure. The last 18 months has seen progress on reforming and streamlining section 106 agreements as local authority best-practice has rolled out, and new ODPM guidance has been adopted. With further positive reforms s106's could achieve many of the goals the Government have set for PGS. More than 85% of our planning applications for new stores, replacement stores and extensions involve section 106 agreements. We believe this has helped to deliver developments – including mixed-use and regeneration schemes – that maximise local support, benefits to the community, and sustainability. We would now encourage the Government to:

- incentivise local authorities to negotiate planning obligations more expeditiously, for example by linking payments under the Planning Delivery Grants to performance on this;

- introduce measures to ensure that negotiations begin earlier, and are supported from the outset by people with the right legal and other skills. We would be happy to lend our support to developing best practice in this area;

- support local authority efforts to "pool" section 106 contributions for major infrastructure projects that are related to new developments, but where cross-boundary working is essential. Again, we would be happy to lend our support on this area;

- include the scope of planning gain from any particular development within a criteria based policy of the local development framework. This would set predictable limits on the scope of obligations and provide a start point for negotiations;

- require applicants to include heads of terms as part of a planning application. This would make the obligations transparent and in the public domain. It would be possible to model standard agreements to further speed up the process;

- require full disclosure of the issue at the planning committee.

We believe that the current proposals for a Planning Gain Supplement will centralise the power to extract community benefits away from elected local representatives towards unaccountable national bodies. This will reduce the community benefits of development, and make them less attractive to local people - and their representatives. This will reduce the supply of housing and commercial property that is essential if we are to deliver sustainable development.

The Business Growth Incentives Programme, by allowing Local Authorities to share the benefits of business growth, also offers a useful tool. But our experience is that the possible revenue gains are too small to give local authorities, and the communities they serve, new incentives. We believe that more resource should be dedicated to the programme, and that it should be redesigned to encourage local authorities in both areas of high and low property development.

15. Economic development can help achieve the regeneration and renaissance of urban and rural areas. Are there ways which planning could strengthen economic performance in regions, sub-regions (including city regions) and at the local level?

Economic performance within the UK varies significantly across regions. Several reports have suggested that London and the South East are as competitive as the top ten nations in the world, and are much more competitive than Wales, the North East and Yorkshire and Humberside. Government policies on growth should take into account these regional disparities by seeking to encourage development in the less productive regions. It is debatable whether this happens to any significant degree at present, and individual planning policies – for example on town centres – do not encourage regeneration and job creation as a priority.