



A Response to the Barker Interim Report – Economic Issues

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A Response to the Barker Interim Report – Economic Issues
for RSPB

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Executive Summary

This paper has been prepared to inform and support the submission of the RSPB to the Interim Report of the Barker Review of Land Use Planning published in July 2006 focusing on economic aspects of the Barker analysis which represents the planning system as a constraint on productivity and on business activity in the economy.

The paper firstly argues that the scope of the review has been narrowed by a focus on research by the McKinsey Global Institute into the causes of UK's low labour productivity which suggested that the UK land use planning system was a constraint on productivity. This paper examines the planning and productivity case in its own terms but also suggests that the terms of reference of Barker places a narrow emphasis on the link between planning and productivity when:

- it is apparent that many other areas of public policy – particularly on education, skills, investment and financial regulation, health and science – have a more direct impact on the “five drivers” of productivity - competition, innovation, skills, investment, and enterprise - than planning, and
- conversely, planning policy has an impact on a much wider range of social, environmental and other economic conditions of ‘places’ than the productivity of business.

The paper also argues that the review is premature since it is too soon to say what impact the major overhaul of the planning system in the Planning and Compulsory Purchase Act 2004 will have on economic growth. Together with the UK Sustainable Development Strategy and PPS 1, this has fundamentally changed the approach to plan making and development control.

Productivity

The Barker Review directly links the ‘land-use planning’ process to constraints on economic growth and the UK's productivity gap. However a paper prepared by Roger Tym and Partners (RTP) in 2003 as part of the review of the planning system by the ODPM Select Committee on Planning, Competitiveness and Productivity concluded that “*claims that planning damages the nation's competitiveness seem to have been made without evidence The cost benefit approach to planning has not only tended to focus on easier to measure costs but has also failed to produce definitive answers, fostered anti-planning sentiments amongst those predisposed to that perspective and delayed attention to what matters ...*” This paper shows that macroeconomic data produced since the RTP give no reason to revise this conclusion.

Recent research has instead sought to break down the gap into its constituent sectoral parts to better explain the ways in which deregulation and liberalisation (which would include the reduction of planning and land regulation) may be constraining productivity. The evidence implies a relatively strong microeconomic climate for productivity including deregulated markets, low business start-up costs and quick start up procedures. The main constraints appear to be managerial skills and firm level stocks of labour skills. The influence of planning in these areas is highly limited and firm evidence one way or the other remains to be found.

Given that almost 90% of the UK's available land remains undeveloped - the majority of which is farmed for relatively low-valued output - it is possible that planning restrictions may constrain productivity through the inefficient allocation of land between competing sectors. However, this allocation is influenced by a range of economic factors and a more economically efficient policy would align land-use policies to reflect the value of non-market goods.

The paper examines drivers of productivity which Government uses to understand UK productivity performance. Whilst land and planning issues may form part of this wider evidence base, no direct connection has been made. Moreover the paper argues that these drivers have overlooked more holistic factors that play a role in determining productivity, such as health (including mental health), environmental and overall quality of life factors. Gross inequalities in health are usually matched by inequalities in the quality of living environments and in this case planning restrictions may be helping to maintain a healthy and productive workforce. The environment and quality of life are also factors which impact directly on productivity particularly through the choice of firm location. A lack of comparable data means that factors like health and

quality of life cannot be ranked against skills and capital but some can be expected to be picked up by the more important labour skills or total factor productivity variables.

The paper takes a dynamic view of the influence of planning on productivity to determine to what extent productivity gains from Barker-envisaged planning changes would be one-off or cumulative. It argues that with a relaxing of planning constraints that allows for more land to be developed, although short run productivity would rise, scarce land would be used up quicker and there is no long run boost to productivity. However, if the planning system was to be improved so as to speed up the development control process, then barriers to entry would be reduced meaning that inefficient incumbent firms would be competed out of the market by more efficient new entrants. However, further changes at this time would be premature and similar cumulative improvements could also be expected from investments in skills or in physical capital that raise the long term productivity of each piece of land.

The Direct Impact of Planning on Business

The RTP paper for the ODPM Select Committee on Planning, Competitiveness and Productivity also measured other direct impacts of the planning system on business and the economy including development control and restricted land supply. This paper updates this work and extends the analysis to other factors such as the impacts of environmental planning on economic development and of the recent changes to the plan making system on regional economic development.

Further research on development control impacts suggests that, whilst the control workload has increased significantly since 2001, the number of decisions made within the new target periods set have improved significantly. Data on the number of applications analysed by RTP focus on applications made by businesses – mostly housing developers – but this paper argues that the number of decisions made on employment generating developments is a better measure of impact on the economy and that these have declined between 2000 and 2005. It is housing sector applications by householders and others that have increased the workload significantly in this period. Major reforms are also planned on the costs of development control to business on both planning fees and S106 type obligations – both intended to be more transparent and more closely based on direct cost recovery principles. The paper argues that the Barker Review should therefore await the outcome of these measures before making significant further revisions to the system.

More reliable survey information is now available from the RTP study of the impact of housing supply and affordability on businesses which now suggests that it is a less significant problem than other costs constraints. More recent IPD data also suggests that rental growth is now in the same range as in Germany and France and that higher retail land costs specifically - and the resulting use of smaller sites - results in higher profit densities in the UK than France or the US, suggesting a more efficient use of space.

The paper also suggests that the economic significance of the natural environment is increasing. Sustainable development depends on further integrating environmental concerns into sectors such as agriculture, forestry, fisheries and tourism which depends, in turn, on further development of environmental land management activities. The Barker Review need to recognise the economic opportunities that planning of the environment offers and not regard it as merely a constraint to economic development.

Finally, although it early days for the new Regional Spatial Strategy (RSS) and sub-regional planning process, the paper concludes that strategic added value to the regional economy – and specifically to Regional Economic Strategies - is most likely where there is strong coordination between the various regional strategies and a clear leadership provided by the RSS working with regional partnerships and Regional Assemblies. Indeed, this process may be more effective if national “infrastructure” plans for key economic infrastructure sectors such as ports, airports, roads, rail and housing, are prepared with a similar level of participation and democratic accountability as the present planning system provides.

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1 CONTEXT OF THE PAPER

1.1 Brief

1.1.1 This paper has been prepared to inform and support the submission of the RSPB to the Barker Review of Land Use Planning – specifically in response to the Interim Report – Analysis published in July 2006¹. The work of this paper focuses on economic aspects of the Barker analysis which represents the planning system as a constraint on productivity. The RSPB is concerned that, while the Interim Report recognises many of the benefits of the planning system, its sustainable development purpose, and the importance of environmental protection and enhancement, it sees the planning system in general, and environmental designations in particular, as constraints to economic growth.

1.1.2 The brief for this paper therefore proposed an economic critique focusing on the following areas:

- To return to and update work carried out by an ODPM Select Committee in 2003 which concluded that planning is not a significant constraint on productivity, by summarising and updating the research and identifying where this evidence, or the ODPM Select Committee's report's other arguments, may have been overlooked in the Barker report.
- To examine the view that planning is crucial to productivity by ranking the importance of planning to productivity in the context of all drivers of productivity including for example the role of education/skills in productivity gains and the role of health drivers in productivity losses.
- Considering other factors affecting the influence of planning on productivity including:
 - To what extent would productivity gains from Barker-envisaged planning changes be one-off or linear, and those through other key factors (such as skills) be repeating or exponential.
 - Examining if the Barker Interim Report fully accounts for the influence of additionally and displacement in calculating productivity gains.
 - Examining the possibilities that spatial constraints can drive innovation, such as congestion charging and logistics management and the loss of innovations through looser planning controls.

1.2 The Barker Review Process

1.2.1 The Barker Review was commissioned by the Chancellor and the Deputy Prime Minister as an independent review of the planning system in December 2005. Barker acknowledges that the Government has implemented a number of important reforms to the planning system in recent years including the major overhaul of the plan making system in the Planning and Compulsory Purchase Act (PCPA) 2004 and the availability of an additional £600 million through the Planning Delivery Grant system to improve the capacity of local planning authorities.

¹ Barker Review (July 2006) Barker Review of Land Use Planning, Interim Report – Analysis

1.2.2 The Review initiated a consultation process to which the RSPB responded in March 2006 and the Interim Report was published in July 2006 inviting further responses by September 2006. The focus of the Interim Report is on “evaluating the outcomes of the planning system with regard to economic growth and productivity, in the context of increasing pressures from globalisation.”² The RSPB and others have noted that this is a key area of concern for HM Treasury, as they have a PSA target on productivity. A final report setting out recommendations is anticipated towards the end of 2006.

1.3 RSPB Submission to the Interim Review

1.3.1 The RSPB’s initial response to the call for evidence was entitled “Planning, Prosperity and the Environment”³. The paper argues that the planning system, through its pursuit of sustainable development, promotes environmental and social objectives integrated with economic objectives and in this way contributes directly to, rather than constrains, local and regional economies. Specifically it highlights the following areas of concern:

- It argues that the review is premature since the planning system has only very recently gone through a major overhaul in the PCPA of September 2004. It is therefore in a transitional phase and it is too soon to say what impact the system will have on economic growth.
- Sustainable development is now a statutory duty of section 39 of the PCPA 2004 and this is newly detailed by the UK Sustainable Development Strategy and PPS1. This introduces the concept of integrated sustainable development – replacing the language of “balancing” these objectives and avoiding “trade-offs” which Barker’s terms of reference and Interim Report still reflect.
- RSPB recognises the importance of economic activity to sustainable development but as a way to support the quality of life rather than as an end in itself – hence the importance of an integrated approach.
- The environment should be seen as an important integrated component of economic growth and competitiveness. It is an economic driver, directly creates jobs and wealth in the environmental, resource and tourism sectors and is a dynamic and innovative industry. Studies have shown that:
 - Environmental protection is a mechanism for economic development
 - Environmental damage is a threat to the economy
 - The environment is an essential part of modern business and a market opportunity.
- The planning system is increasingly playing a proactive role in delivering environmental improvements as part of the sustainable development agenda. It does so through a system which is participative, transparent and democratically accountable and gives the business sector a high degree of certainty about the spatial context for investment decisions.
- The recent changes of the PCPA 2004 have enhanced the status of regional planning and this is now more closely integrated with other plans and strategies (notably including the Regional Economic Strategies). However, the RSPB

² Barker Review – (July 2006)

³ RSPB (March 2006) Planning Prosperity and the Environment: Memorandum by The Royal Society for the Protection of Birds to the Barker Review of Planning

believes this could be improved further through the adoption of a National Spatial Strategy to join up Government policy on national development and infrastructure issues such as aviation, ports, road, rail and energy. The RSPB notes the inefficiencies that have been incurred as a result of a lack of a national approach to, for example, port development.

- 1.3.2 These concerns inform the context of the productivity debate and raise some further issues regarding the impact of the planning system on the economy that are also considered here.

1.4 Approach and Structure of the Paper

- 1.4.1 Based on this brief, the focus of the Barker Interim Report and RSPB's original concerns on the treatment of economic growth and productivity issues, we have structured the rest of this paper as follows:

- Section 2 considers the Barker Review Interim Report itself but focuses on the broader contextual issues affecting its stance on productivity and competitiveness such as its terms of reference, "balanced" rather than "integrated" approach to sustainable development and its limited definition of the environment. We also identify its failure to consider the ODPM Select Committee⁴ review and the findings of the associated study by Roger Tym and Partners (RTP)⁵.
- Section 3 summarises and, where appropriate, updates work carried out in 2003 by an ODPM Select Committee and the RTP report. That work can be divided into two broad areas:
 - The impact of the planning system on productivity, and
 - The direct impact of the operation of the planning system on business competitiveness.

- 1.4.2 These are summarised separately and then the issues raised developed further in the remaining sections of this paper.

- Section 4 reviews and develops the debate on the impact of planning on productivity considering planning's place among a wider range of drivers of productivity and other aspects of how this is measured.
- Section 5, finally, develops some other important issues about the way in which Barker addresses the direct impact of planning on economic development and, in particular, how the recent changes in the spatial planning system are already changing this impact.

⁴ ODPM Select Committee (2003) ODPM Housing, Planning, Local Government and the Regions Committee Planning, Competitiveness and Productivity Fourth Report of Session 2002-03

⁵ Roger Tym & Partners (2002) ODPM Housing, Planning, Local Government and the Regions Committee Planning, Competitiveness and Productivity Memorandum

2 THE BARKER REVIEW: INTERIM REPORT

2.1 Barker Review Terms of Reference

2.1.1 This section starts by considering the terms of reference and some issues around the approach of the Barker Review Interim Report itself which appear to materially affect its stance on productivity and competitiveness. Many of the issues relating to the positioning of the Interim Report relate back to RSPB's primary concern, expressed in the March 2006 consultation response, that the Review is premature since the major overhaul of the planning system in the PCPA 2004. Not only is it therefore too soon to say what impact the system will have on economic growth, but the Act, together with the UK Sustainable Development Strategy⁶ and PPS1⁷, have fundamentally changed the approach to both plan making and development control such that sustainable development is now a statutory duty of the PCPA 2004. The concept of integrated sustainable development has replaced the language of "balancing" objectives which Barker's terms of reference and Interim Report still reflect.

2.2 Planning and Productivity

2.2.1 In setting out its objectives, the Barker Review finds that the review of the planning system is timely because "several factors are likely to put pressure on the planning system over the next 10-20 years. The most significant are globalisation, more rapid population growth, climate change,resource depletion andbiodiversity issues."⁸ The terms of reference however are more explicit:

*"To consider how, in the context of globalisation, and building on reforms already put in place in England, planning policy and procedures can better deliver economic growth and prosperity alongside other sustainable development goals...."*⁹

2.2.2and goes on immediately to state that the focus of the Interim Report "is on understanding how the planning system impacts on economic growth and employment, by analysing the direct and indirect impacts of policy and processes on the key drivers of productivity – enterprise competition, innovation, investment and skills."

2.2.3 This narrowing of the scope of the review appears to be influenced by what has become known as "The McKinsey position" – quoted in the Interim Report – Analysis document at the outset of Chapter 2 on "The changing context of planning". The widely quoted research by the McKinsey Global Institute¹⁰ investigated the causes of UK's low labour productivity by bench-marking UK companies against other top performing countries and argued that planning was a primary cause of low productivity in the UK by constraining the development of high technology clusters and making it difficult for large format food retailers to develop new sites. Indeed much of the difference in

⁶ DEFRA (2005) Securing the Future: The UK Sustainable Development Strategy

⁷ PPS1(2005) Planning Policy Statement 1: Delivering Sustainable Development

⁸ Barker Review (July 2006)

⁹ Barker Review (July 2006)

¹⁰ McKinsey Global Institute (1998) Driving Productivity and Growth in the UK Economy

productivity growth between the UK and US was estimated to be attributable to US productivity growth in the retail sector.

- 2.2.4 This report examines this planning and productivity case in its own terms in more detail in the following sections but this focus of the terms of reference places a surprising emphasis on the link between planning and productivity when:
- As Barker itself points out, the “five drivers” of productivity are competition, innovation, skills, investment, and enterprise, and it is apparent that many other areas of public policy – particularly on education, skills, investment and financial regulation, health and science – have a more direct impact on these drivers than planning, and
 - conversely, planning policy has an impact on a much wider range of social, environmental and other economic conditions of ‘places’ than the productivity of some sectors of business.

- 2.2.5 This narrowing of the focus of the debate has restricted the scope of the rest of the review of the important factors which will affect the planning system and levels of UK productivity in the next 20 years.

2.3 Sustainable Development and the PCPA 2004

- 2.3.1 We have noted that sustainable development is now a statutory duty of section 39 of the PCPA 2004 and this is newly detailed by the UK Sustainable Development Strategy and PPS1. Whilst Chapter 1 of the Interim Review refers to and recognises the role of planning in sustainable development, it is clear from the title of the report – “Review of Land Use Planning” - and the tenor of many of the questions posed in the initial consultation – “Does the current system achieve the right balance between economic and other goals....” – that there is no recognition of the fact the new legislation has replaced the language of “balancing” objectives and avoiding “trade-offs” which Barker’s terms of reference and Interim Report still reflect.

- 2.3.2 CPRE’s submission to the Barker Review also states that Barker’s terms of reference seem not to be aware of the substantial changes to the scope and intent of planning in the last few years. The most important of these has been the shift from land use to spatial planning. The reference in the title of the review to land use planning fails to interpret PPS1 which states that “spatial planning goes beyond the traditional land use planning to bring together and integrate policies... with other policies and programmes which influence the nature of place”.¹¹ The CPRE also notes that references to “balancing” the pillars of sustainable development also implies trade-offs between social, economic and environmental policy objectives rather than an integrated approach. PPS1 stresses that “Development plans should ensure that sustainable development is pursued in an integrated manner, in line with the principles for sustainable development set out in the UK (Sustainable Communities) Strategy”. The new guidance specifically replaces the old language of balancing objectives with an integrated approach which seeks to achieve “win-win-win outcomes and avoid trade-offs”.¹²

¹¹ PPS1(2005)

¹² PPS1(2005)

2.3.3 The submission of the Wildlife and Countryside Link (endorsed by the RSPB) on the Interim Review¹³ also believes that the subsequent analysis in Barker misinterprets sustainable development by assessing “optimality” and “efficiency” against the criteria of economic benefits to the developer. In this context, Wildlife and Countryside Link are also concerned “about the use of the term ‘sustainable economic development’. This is a corruption of the term ‘sustainable development’ and is likely to result in a misunderstanding of the goals of sustainable development which is about the fulfilment of social, environmental and economic development objectives together, not in isolation.”¹⁴

2.3.4 It is Barker’s lack of attention to the PCPA 2004 and associated changes around sustainable development, and the misinterpretation of the integrated approach in an effort to focus on productivity and the economy, which is the fundamental weakness in the treatment of the proposition being tested.

2.4 The ODPM Select Committee and RTP Report Findings

2.4.1 In the same context of the Barker Review’s terms of reference, the review fails to recognise or give proper consideration to the fact that the issues concerning the impact of the system on productivity and competitiveness were considered in 2003 as part of the review of the planning system by the ODPM Select Committee on Planning, Competitiveness and Productivity. The findings of the associated study by Roger Tym and Partners carried out for the Committee which concluded that “the benefits of planning are especially hard to pin down (and) there are social and economic costs and benefits aside from the economic ones” and that “the costs and benefits to businesses of the planning system is a much more narrow topic than the overall balance of costs and benefits of the planning system” are not referenced in the Barker Interim Report.

2.4.2 We consider the RTP work for the Select Committee in more depth in the following section. However it is significant to the scope and focus of the Barker Interim Report that, although it acknowledges the specific reference to the fact that the Committee concluded “the consensus is that land-use planning has little to do with UK productivity – the key factor in explaining (it) is lack of skills”, Barker’s chosen approach sets aside the main conclusion of the Select Committee in 2003 that:

“claims that planning damages the nation’s competitiveness seem to have been made without evidence The cost benefit approach to planning has not only tended to focus on easier to measure costs but has also failed to produce definitive answers, fostered anti-planning sentiments amongst those predisposed to that perspective and delayed attention to what matters ...”¹⁵

¹³ Wildlife and Countryside Link (August 2006) Barker Review of Land Use Planning Interim Report Response

¹⁴ Wildlife and Countryside Link (August 2006)

¹⁵ ODPM Select Committee (2003)

3 PLANNING COMPETITIVENESS AND PRODUCTIVITY: SUMMARY AND UPDATE OF THE ODPM SELECT COMMITTEE AND RTP REPORT 2003

3.1.1 As noted in Section 1, as part of the then ongoing overhaul of the planning system, the ODPM Select Committee in 2003 addressed many of the issues raised by Barker and responded with a report saying that planning was not a significant factor in productivity. They took evidence in committee and commissioned research from Roger Tym and Partners¹⁶ (RTP).

3.1.2 This section summarises, and updates where appropriate, the case put by RTP in two areas. The case on these issues is then developed more fully in sections 4 and 5. The two areas are:

- The productivity case
- The impact of planning on business case.

3.2 The Productivity Case

3.2.1 The paper by RTP presents a selective review of the literature on the effects of land use planning on productivity and competitiveness of the UK economy. As RTP pointed out, the evidence at the time was extremely patchy and furthermore had a strong bias towards the costs or adverse effects of planning; there was virtually no research to estimate the system's benefits. In spite of this bias in the literature, the RTP paper concluded that there was no evidence that planning was a significant explanatory factor for the UK's low productivity compared to its main competitors. This was RTP's conclusion as of December 2002. It therefore needs to be considered whether new research has come to light or whether the situation has deteriorated significantly in the intervening period for these conclusions to be challenged.

Updating the Macroeconomic Data

3.2.2 The UK has a widely-acknowledged aggregate productivity gap with its main international competitors. Using the standard measure of output per hour worked, productivity in the US was still nearly 30% higher than the UK in 2002 (the most recent data published academically). As shown in Table 1, output per hour worked is also 27.5% higher in Germany and just over 30% higher in France.

3.2.3 The Treasury has recently taken to quoting data on output per worker rather than output per hour. On this measure the gap between the UK and Germany is almost insignificant. However, the practical implication of this finding is that UK workers produce the same output as German workers but have to work 16% longer to do so¹⁷.

¹⁶ Roger Tym and Partners (2002).

¹⁷ Economic and Social Research Council (2004) The UK's Productivity Gap: What the research tells us and what we need to find out

Table 1: Comparative GDP per hour worked and GDP per capita, total economy (UK=100)¹⁸

	1990	1995	2000	2001	2002
United States					
GDP per hour	138.8	128.2	126.5	126.3	128.4
GDP per capita	140.1	138.4	139.3	136.3	135.8
Germany					
GDP per hour	131.4	130.3	127.3	127.5	127.5
GDP per capita	111.5	109.8	104.2	103.1	101.6
France					
GDP per hour	137.1	130.8	129.8	130.7	131.2
GDP per capita	112.2	108	105.4	105.3	104.4

3.2.4 The UK's productivity gap has been further exposed by the 'productivity miracle' witnessed in the US since the mid-1990s, whereby productivity growth has accelerated in the US whilst decelerating in Europe. Annual productivity growth in the US increased from about 1.2% between 1977 and 1995 to 2.2% between 1995 and 2002 – a structural shift that its European competitors have not been able to match. Although absolute annual differences in growth rates between the US and EU countries since 1995 have been small, it is the sudden improvement over past performance and the reversal of the convergence process that attracted so much attention. Much of the literature on this acceleration has highlighted the driving role played by productivity improvements in market services, in particular those where information and communications technology is prominent. The infamous Solow Paradox, where the prominent economist was quoted as saying “we see the computer age everywhere but in the productivity statistics” has since been dismissed in light of evidence citing first positive returns to ICT spending at the firm level, then at the macro level too.

3.2.5 Despite difficulties in finding comparable data series, there is little evidence to suggest that the aggregate productivity picture has either markedly improved or deteriorated since the publication of the RTP paper. Macroeconomic data produced since the RTP report show little statistical cause to update the paper's original conclusion. The literature since RTP has instead sought to break down the gap into its constituent sectoral parts to help better explain such phenomena as the productivity miracle in the US. It is at this more microeconomic level that arguments could be made for planning constraining productivity, as discussed below.

Digging a Little Deeper and Updating the RTP Arguments

3.2.6 The RTP paper identified the usual macroeconomic suspects to explain the UK's productivity gap: poor skills and low capital intensity, and this remains the consensus of the literature today. In particular, a review conducted by the Economic and Social Research Council (ESRC) with the aim of identifying 'what the research tells us and what we need to find out' regarding the UK's productivity gap, confirmed the common perception that the UK's European competitors have more capital invested per worker and their workers are more skilled¹⁹.

¹⁸ Source: Broadberry S. and O'Mahoney M. (2004) Britain's Productivity Gap with the United States and Europe: A Historical Perspective

¹⁹ Economic and Social Research Council (2004)

- 3.2.7 RTP goes on to consider how planning may influence productivity, for example through delays in obtaining planning permission and a failure to reap economies of scale by restricting firms to less than fully efficient plant sizes. However, little conclusive evidence was found to either support or refute such hypotheses.
- 3.2.8 The years since the RTP report have witnessed the publication of some interesting academic and policy work on closing the productivity gap. While comparatively little of this work has investigated the role of planning, or indeed considered it as having any impact whatsoever, attempts have been made to dig a little deeper into the productivity puzzle by looking beyond the standard story of poor skills and low capital intensity, and instead to seek to better understand the gap through a consideration of its long term development, the microeconomic constraints that may be holding back investment in capital and skills, and a sectoral decomposition of the gap to highlight which industries are the most constrained.
- 3.2.9 For example, recent research into the history of the productivity gap and the various policies that have helped to bring about convergence has highlighted the long term nature of the problem. US productivity overtook the UK in the 1890s and has remained ahead ever since. Likewise, Germany would have overtaken the UK a lot earlier than the 1960s had it not been for the setback of the two world wars²⁰. The long term nature of the productivity gap implies that not only is there no single remedy, but also that the evolution of the planning system over the past century has had little discernable impact, or at least no impact that has yet been identified by the academic literature.
- 3.2.10 Instead, the potential causes identified to explain the evolution of the gap have reflected the changing microeconomic climate and the difficulties in the adaptation and implementation of new technologies. The data from the decades immediately following the Second World War point to a period of catching up as Europe imitated US ideas of mass production and working practices. However, this catch up process was much slower in the UK than in France or Germany. Broadberry and O'Mahoney have since argued that this was because the UK chose to copy US structures too precisely without due adaptation to local circumstances²¹. Bean and Crafts have also shown how these attempts to mimic US practices, combined with a damaging system of industrial relations and a weakness of competition, resulted in a decline in vocational training and subsequent relatively low levels of investment in human capital and research and development²². Deregulation of product and labour markets in the 1980s, and in particular the weakening of the unions²³, helped to halt the UK's relative productivity decline, but its international ranking has still not improved. Indeed, the gap has since grown again with the onset of the US productivity miracle.
- 3.2.11 The implication of this historical perspective is that deregulation and liberalisation (which would include the removal or reduction of planning and land regulation), while helping to reduce the productivity gap, have only achieved so much. The literature has therefore moved on to consider the root causes by looking at the productivity gap from a more disaggregated perspective, elements that the RTP paper touched on in its

²⁰ Broadberry S. and O'Mahoney M.(2004)

²¹ Broadberry S. and O'Mahoney M.(2004)

²² Bean, C. and Crafts, N.F.R. (1996), British Economic Growth since 1945: Relative Economic Decline... and Renaissance?

²³ Metcalf, D. (2004), British Unions: Resurgence or Perdition?

citation of O'Mahoney and De Boer.²⁴ With the help of Broadberry, O'Mahoney has since updated this work to produce the data shown below in Table 2.

Table 2: Comparative labour productivity levels by sector: output per hour worked (UK=100)

	1990	1995	2000	2001
United States				
Agriculture	162.3	137.8	193	187.4
Industry	151.9	133.2	134.9	130.3
Market services	149.9	136.3	137.2	139
Market economy	148.8	134	137.4	136.9
Germany				
Agriculture	37.4	39.6	46.2	46.9
Industry	138.1	115	113.5	113.8
Market services	145.5	141.1	132.8	131.1
Market economy	138	127.7	124.7	124.1
France				
Agriculture	61	71.5	78.8	78
Industry	133.9	120.1	121	119.9
Market services	169.8	145.8	128.2	126.2
Market economy	142.6	129.3	122.1	120.7

Broadberry, S. and O'Mahoney, M. (2004)

- 3.2.12 The table shows a significant UK labour productivity gap with all three countries in both industry and market services, with the United States also ahead of Britain in agriculture. Data for the market sector of the economy (i.e. excluding public administration, health, education and property) indicate that output per hour worked in the UK is around 37% below that in the US. While the gap narrowed by a small amount between 1979 and 1995, it has widened again since.
- 3.2.13 The ESRC paper notes that disaggregating the data even further down to its industry-level composition is particularly interesting²⁵. Between 1990 and 2001 the UK narrowed the productivity gap in network industries, business services and manufacturing excluding machinery and equipment. However, over the same period the gap widened in key services such as wholesale and retailing, hotels and restaurants, financial intermediation and machinery and equipment. Indeed, these sectors account for more than half the total productivity gap between the UK and the US, with wholesaling and retailing for around 25% of the gap alone. Productivity growth in this sector has been remarkable in the US. Indeed, McKinsey claimed that almost all of the US productivity growth is driven by this one sector, and that almost all of it is driven by Wal-Mart²⁶. McKinsey went on to argue that planning restrictions were constraining the UK's productivity growth in this sector, a claim that is investigated further in section 4.

²⁴ O'Mahoney, M. and de Boer, W. (2002) Britain's relative productivity performance has anything changed?

²⁵ Economic and Social Research Council (2004)

²⁶ McKinsey Global Institute (1998) Driving Productivity and Growth in the UK

3.2.14 In terms of updating the overall arguments of the RTP paper on explaining the productivity gap, the more disaggregated and historical approach means that we are now closer to establishing the root causes of the gap. However, direct evidence to prove the role of planning in this gap one way or the other is still lacking. Only McKinsey have produced data to suggest that planning is constraining productivity, and this paper dates back to 1998, considerably before the RTP paper and so is not enough to challenge its conclusions. Furthermore, the availability of the more disaggregated data implies that if planning is really such a constraint in retail, then why is it seemingly not holding back the equally land-hungry industrial sectors in which the UK has started to close the productivity gap? Section 4 therefore deals with this issue from another perspective: by breaking down the gap into its constituent elements then reviewing how planning might be a factor.

3.3 The Impact of Planning on Business Case

3.3.1 In addition to examining the literature on “Explaining the UK’s Poor Productivity”, RTP addressed a range of other “direct” and “indirect” impacts of the planning system on business competitiveness. In the context of the brief for this paper these fall into two main areas:

- The impact of development control procedures on business and investment, including delays, fees and other obligations, and
- The impact of a restricted land supply on prices, investment and affordable housing supply which increases costs to business.

Impact of Development Control

3.3.2 RTP cited the work of the CBI²⁷ who estimate that at that time there were 150,000 commercial planning applications made each year in England, covering leisure, retail, housing and industrial projects. The CBI infers that 'it is vital to business that this part of the planning process works efficiently'. RTP note that the ODPM (1999) study 'The Economic Consequences of Planning to the Business Sector'²⁸ takes a different view that, once minor applications been excluded, there are not more than 100,000 planning applications by business made each year.

Table 3 Planning decisions by type (Thousands and % of All Decisions)²⁹

	2001/2		2002/03		2003/04		2004/05	
	No.	%	No.	%	No.	%	No.	%
Housing sector	318.8	59.8	371.6	63.4	408.6	65.4	422.2	65.4
Offices/research and development/light industry	8.2	1.6	7.8	1.3	7.3	1.2	6.9	1.1
General industry/storage/warehousing	6.6	1.2	6.3	1.0	5.6	0.9	5.2	0.8
Retail, distribution and servicing	13.8	2.6	13.9	2.4	13.7	2.2	14.1	2.2
Advertisement	26.7	5.0	26.6	4.5	25.0	4.0	25.2	3.9
Change of use, special consents and other	159.9	30.0	159.5	27.3	164.9	26.4	171.6	26.6
Total	534.1	100.0	585.6	100.0	625.1	100.0	654.4	100.0

²⁷ CBI (2001) Planning for Productivity – A Ten Point Action Plan

²⁸ ODPM (1999) The Economic Consequences of Planning to the Business Sector

²⁹ DCLG (accessed 09/06) Development Control Statistics
<http://www.communities.gov.uk/index.asp?id=1161426>.

- 3.3.3 Either of these interpretations focuses only on commercial applications (ie. the “business” sector, the majority of which will be drawn from the development industry), however, and the most recent available data from the then ODPM on all applications (Table 3) shows that 28,600 (5.4%) of applications were made for the development of business premises and a further 30,000 for (undifferentiated) change of use of a total of 534,000 applications in 2000/1– but this had grown to a total of 654,000 in 2004/5. By 2004/5, however, the number of business premises development applications had actually fallen to 26,200 (4.1%). The steep increase in the number and share of housing sector applications is coming from householders and housebuilders - which grew from 319,000 (59%) in 2000/1 to 422,000 (65%) in 2004/5. This is a better measure of both the significant growth of the development control workload in the last 5 years and of the impact on business end user productivity.
- 3.3.4 It is clear that both in 2003 and even more so today there is significant concern about the growth of this workload and the potential for delays. RTP cited Keogh and Evans (1992)³⁰ who point out that planning delays are difficult to measure and the research found that the available estimates of delay cost were deficient. However they concluded that for a successful application “delays prolong the period over which land must be held and defers the realisation of profit for the developer; for the economy, delays slow the transfer of land to a more productive use”. Refusals however can be seen as economically beneficial when sub-optimal schemes are not taken forward.
- 3.3.5 In response to this situation, RTP note that “there has been continuing work on the efficiency of management of the planning process throughout the last decade resulting in policies such as Best Value and Public Service Agreement Floor Targets”³¹ for planning services. There was already at that time a Best Value target of processing 80% of applications within 8 weeks of registration. The Barker Interim Review acknowledges that by 2004/5 “almost 80% of all planning applications were decided in 8 weeks – up from 49% in 1999/2000. Even though volumes have risen there has been a 60% increase in the number of applications determined in the 13-week target for these”.³²
- 3.3.6 This improvement has been supported by the recent introduction of the Planning Delivery Grant (PDG) with £600 million of additional funding made available by Government. This improvement has been significant and the CPRE³³ have argued in their submission to Barker that there is now an over- emphasis on speed of decision making – driven by these targets – and that the approach to planning for industrial and commercial development in particular requires a “more intelligent approach” which might include the use of planning timetable agreements between applicants and local authorities to improve the quality of decision making.
- 3.3.7 RTP note that planning application fees for business are estimated to be of the order of £100 million pa, and other administrative costs, such as planning agreements, may be of a similar order of magnitude. A 2003 study of Planning Fees³⁴ for ODPM recorded a

³⁰ Keogh G. and Evans A.W.(1992).The Private and Social Costs of Planning Delay Urban. Studies Vol 29 No.5

³¹ Roger Tym and Partners (2002).

³² Barker Review (July 2006)

³³ CPRE (March 2006) Campaign to Protect Rural England, Barker Review of Land Use Planning Submission by CPRE in response to the call for evidence

³⁴ ODPM (2003) The Planning Service: Costs and Fees

total fee income of £174 million in 2002/3 compared with an estimated cost of fee paying development control services of £199 million to £242 million. Cost recovery is lowest on the largest applications where costs exceed fees by 100% to over 500%. The study recommends support for cost recovery and an increase in fees making them better reflect the workload involved, local circumstances and refunds for non-determination among other principles.

- 3.3.8 The other main area of contention for business has been S106. RTP note that “Government guidance on the use of obligations is clear that their purpose is to recoup the external costs, or mitigate the impacts, of new development”. They quote work from Sheffield University which has found that, on average, 1.5% of planning applications made each year are subject to planning obligations. The current system is also disliked by the property industry and at that time “fiscal research studies reveal that an impact-type fee is more likely to achieve improvements in predictability, certainty and public confidence than in keeping with the current system of planning obligations”.³⁵
- 3.3.9 At that time the system of planning obligations was about to be reformed and a Planning Green Paper proposed that local authorities set a system of standardised tariffs for different categories of development to replace the negotiated planning obligations. As a result a system of Planning Gain Supplement (PGS) was proposed by the Barker Report to the Treasury in 2004. A decision on this is still awaited. In 2005 a form of “roof tax” – a given sum per house or square metre of commercial development – was being pioneered by Milton Keynes. Guardian Society reported at the time that “Developers have mixed views about the tax, but Rob Ashmead, chief executive of the House Builders’ Federation, said a similar tariff was widely used in the US and had not affected house prices unduly.”³⁶
- 3.3.10 To summarise therefore, further work on the original RTP research on development control impact suggests that, whilst the control workload for LPAs has increased has significantly since 2001, the number of decisions made within the new target periods set have improved more so with support from the new PDG arrangements. Moreover data used on the number of applications by the CBI and tested by RTP focus on applications made by “businesses”, even though most of these are housing developers. The number of decisions made on employment generating developments is a better measure of impact on the economy and has actually declined between 2000 and 2005 whilst, in the same period, housing decisions have come to dominate the development control load. Major reforms on the costs of development control to business are now planned on both planning fees and S106 type obligations – both intended to be more transparent and more closely based on direct cost recovery principles. The Barker Review should therefore await the outcome of these measures before making significant further revisions to the system.

Impact of Restricted Land Supply

- 3.3.11 RTP also gave some consideration to the impacts of restricted land supply on business costs.
- 3.3.12 With regard to the impact of restricted housing supply on business, RTP noted that “scarce and/or expensive housing may affect business indirectly, by causing higher wages and/or labour shortages, which in the case of key workers may impose social costs as well. It may also generate external costs by causing longer journeys to work

³⁵ Batchelor (2002) FT February 27 2002 “An Englishman’s home....”

³⁶ The Guardian (2005) Society Guardian April 12 2005 “Expansion tax on new town housing”

(as people cannot afford to live close to their jobs) and constraining labour mobility³⁷. They concluded at that time that although these effects are much discussed, so far there has been little rigorous research about them. In the present state of knowledge, so far as we can tell there is no conclusive evidence to say whether the price and availability of housing have a significant effect on business competitiveness³⁸ They reported the results of their preliminary survey for SEEDA³⁹ but following interviews with a further 200 business and 10 public sector employers RTP's expanded report on the Economic Impacts of Housing Affordability⁴⁰ showed that:

- There is a large divide between the private and public sectors with only 28% of private sector employees reporting recruitment difficulties (12% ascribing the difficulties to local housing costs), as opposed to 78% in the public sector, in which 63% ranked housing costs as an obstacle to recruitment.
- As with the smaller sample, respondents found it difficult to distinguish precisely the extent to which housing issues were responsible for recruitment problems.
- As opposed to a flat rate of 35% in the small sample, the expanded survey shows 19% of private and 44% of public sector employers believing that local housing costs are causing longer commutes for their workers.
- The expanded sample allowed the report to detail the coping mechanisms used by the private sector:
 - 12% of companies (25% of those that believed they are affected by higher housing costs) reported investing in capital goods to reduce the demand for people (suggested in initial report)
 - Introduction of flexible working practices
 - Employment of older/younger people (typically less affected by housing affordability)
 - Improved pay / terms and conditions (however only 10% had raised wages as a result of increased housing costs)

3.3.13 The expanded report also considers the impact of housing affordability on regional competitiveness. Currently only 10% of the private sector companies surveyed had looked into the possibility of relocation outside the South East due to high housing costs, and only 6% stated that they were deferring or cancelling investment in their companies due to rising costs of a lack of competitiveness. RTP concluded that though the problem is not currently acute, “we may reach a point where competitiveness is affected to an extent that causes a relatively rapid change in sentiment towards locating businesses in the South East.”⁴¹

3.3.14 With regard to the impact on overall business land and property prices, comparisons were made in the RTP report on land price and rental rises to 1999. The IPD property

³⁷ Roger Tym & Partners (2002)

³⁸ Roger Tym & Partners (2002)

³⁹ Roger Tym & Partners (2002)

⁴⁰ Roger Tym & Partners (2003) The Economic Impacts of Housing Affordability

⁴¹ Roger Tym & Partners (2002)

databank⁴² provides consistent information on business sector rental changes from 2001 to 2005 see Table 4. Whilst the rental value of all UK properties grew over the 5 years to 2005 by 1.2% this was lower than France and higher than Germany. However in the business sectors apart from retail, rental growth was lower than these major European partners.

Table 4 Rental Value Growth (%) 2001 - 2005

	UK	France	Germany
Retail	3.7	2.5	-0.5
Office	-2.4	6.2	-1.0
Industrial	1.6	2.6	No data
All Property	1.2	3.1	-0.6

IPD (2006)

- 3.3.15 The case of retailing has been given significant attention in the productivity debate (see section 3.1 above). With regard to the direct effects on retail productivity, the recent data supports the RTP suggestion that the UK's smaller stores do not necessarily result in lower productivity when viewed in terms of land productivity. UK retailers have higher, and increasing sales and profit densities than France or the US see Table 5. Though higher sales densities can largely be explained due to 'natural' factors, higher profit densities indicate a more efficient use of space, especially given the greater economic costs of occupying space (40% compared to the US and 15% to France).⁴³

Table 5 Profit density, EBITDA per sq. foot of net selling space in \$US OECD PPP

	1999	2000	2001	2002	2003
UK	52.1	49.8	57.6	53.8	58.4
US	35.4	37.9	35.7	35.1	37.8
France				49.4	50.5

Note: EBITA profits relate to Earnings Before Interest, Taxes, Depreciation and Amortization, and in this way can remove the potentially distorting effects of accounting decisions.

Quoted in: Oxford Institute of Retail Management (2004)

- 3.3.16 With regard to the impact of land supply restrictions therefore, more reliable survey information is now available from the RTP study of the impact of housing supply and affordability on businesses which now suggests that it is a less significant problem than other costs constraints and has more impact on public sector employers than private. RTP suggested the supply restrictions were associated with higher land prices than European partners in the period to 1999 but more recent IPD data suggests that rental growth is now in the same range as in Germany and France and if retail property is excluded, growth has been lower from 2001-5 – suggesting that the evidence is ambiguous and is not consistent over time. The McKinsey position on the significance of retailing land costs on reducing UK productivity – cited by Barker – was also challenged by RTP and more recent data confirms that higher retail land costs and the resulting use of smaller sites actually results in higher profit densities in the UK than France or the US, suggesting a more efficient use of space.

⁴² IPD (2006) Index of Property Investment Funds
<http://ipdglobal.com/results/indices/indices.asp>

⁴³ Oxford Institute of Retail Management (2004) Assessing the Productivity of the UK Retail Sector

4 PLANNING AND PRODUCTIVITY

4.1 Introduction

4.1.1 The Barker Review directly links the 'land-use planning' process to constraints on economic growth and the UK's productivity gap. However, the RTP paper concluded that there was no evidence to verify this link. Section 3.1 updated the main data and arguments from the RTP paper but was unable to find any conclusive evidence of a direct link between planning and productivity. Section 4 therefore approaches the problem from the other direction. It uses economic theory to decompose the productivity gap into its constituent parts then asks how planning might affect each part.

4.2 Macroeconomic Factors Determining Productivity: Growth Accounting

4.2.1 Growth accounting is a mathematical framework that allows for the empirical decomposition of the labour productivity gap into the effects of the three components: capital intensity, labour force skills and total factor productivity (TFP). Total factor productivity, also referred to as the Solow Residual, is essentially just that: it is the component of productivity that cannot be explained by the quality or quantity of the factor inputs. Often interpreted as a measure of the contribution of technological progress, it also captures everything from the impact of new organisational structures to how hard people try, which depends a lot on incentives. In many respects it therefore provides an empirical reflection of the state of the microeconomic business climate within which individual firms operate and compete. The evidence cited in Section 3.1.2, that the historical evolution of the gap reflects disappointing attempts to replicate US production methods and the more successful interventions to deregulate product and labour markets, would therefore both be picked up in this residual.

4.2.2 Growth accounting analysis of the UK productivity gap finds that the UK lags Germany and France mainly on capital intensity and, to a lesser degree, on skills. The gap with the US by contrast is mostly explained by differences in TFP and, to a lesser extent, capital intensity.

4.2.3 Disaggregation in this manner provides a quick insight into the root causes of the UK's productivity gap. Furthermore, that skills and capital intensity are essentially stock concepts provides an immediate indication of by how much policy needs to raise the country's total human and physical capital stock to bring productivity growth on a par with its competitors. The relevant question for the Barker Review is how the planning process may be constraining this uplift process:

- There is little intuitive link between planning and the UK's relative skills shortages at the macro level since the stock of skills at the aggregate level is determined by years of education and training.
- There is a more intuitive link between land allocations and capital intensity since capital investments require space to house the new buildings or machinery. However, while it is easy to say that the UK's public and private capital stock is lower than a lot of its competitors, there is little that the government can directly do to raise private capital investment rates beyond correcting market failures to provide a more conducive incentive structure. This implies the imposition of a competitive microeconomic business climate, of which an efficient planning system is a necessary part.

4.2.4 The potential role of the planning system can therefore not be gauged from macroeconomic indicators. Instead, planning forms part of the microeconomic framework under which individual firms and workers make their day to day decisions. This institutional structure is picked up in the residual, TFP, which comprises the focus of the next section.

4.3 Microeconomic Factors Determining Productivity: Total Factor Productivity

4.3.1 Although the productivity gap is a macroeconomic concept, the gap reflects the aggregation of individual firm productivity since it is at this microeconomic level that wealth is created by individual firms producing valuable goods and services using efficient methods. The degree to which such firms can be productive rests on two interrelated issues: the sophistication with which companies compete and the quality of the microeconomic business environment⁴⁴. These issues then have internal firm-specific implications, such as the need for highly-skilled managers capable of making the profit-maximising decisions about whether to invest in new capital, training or technologies, and external implications, such as a possible lack of competition, too much regulation and poor public sector productivity⁴⁵.

4.3.2 It is the external issues that determine market competitiveness. An efficient market would have free entry and exit of firms to compete away any excess profits earned by the incumbent and to ensure that inefficient firms are competed out of the market. Regarding ease of market entry, the DTI has recently claimed that the UK remains one of the cheapest countries to start a business in, and one of the countries where it is easiest and fastest, by international comparison, to set up a business⁴⁶. This is supported by a 2003 report by Porter and Ketels which claims that reforms over the last two decades have left the UK with very low administrative costs for new business formation relative to other countries. In particular, the report highlights the success of privatisation, deregulation and liberalisation, but noted that these processes were coming to an end. For example, the Porter and Ketels report states that the UK already has the lowest level of product and labour market regulations in the OECD.

4.3.3 The Porter and Ketels report looked closely at how the UK might raise its productivity levels. The report recognised that the UK had been very successful in raising competitiveness through a deregulatory market approach and maintaining a stable institutional environment for firms. This deregulation of the labour markets has improved competitiveness by reducing barriers to work and increasing labour force participation. However, it had done little to raise productivity.

4.3.4 Instead, it was the recommendation of the report that it was time to shift the policy focus from a macro, market opening agenda to a microeconomics focus, with closer attention being paid to the constraints faced by individual firms. For example, though the UK capital market has often been blamed for the UK's relative lack of capital intensity, it was the opinion of Porter and Ketels that while the capital market might be involved, the overall microeconomic conditions that companies were facing were the greater issue. The planning regime forms part of this microeconomic climate but was not mentioned directly.

⁴⁴ Porter M. and Ketels C. (2003) UK Competitiveness: Moving to the Next Stage

⁴⁵ Economic and Social Research Council (2004)

⁴⁶ Vicky Pryce, Chief Economist, DTI, speaking at the Smith Institute's seminar on productivity, 2004.

- 4.3.5 Regarding internal issues such as the management of skills, it is a common belief that UK managers are lacking in the appropriate skills relative to their international competitors. Indeed, a striking conclusion of the DTI-sponsored Accounting for People report was that while the majority of chief executives described their employees and the way in which they are managed as the most important thing in driving growth, employees were not being managed as assets at all but as costs. In particular, they were not being managed in a way that enabled them to develop and grow⁴⁷.
- 4.3.6 Regarding the development of new technologies, the Lambert Review looked in detail at the relationship between companies and universities. Although the review found that universities could do a lot more, it was found to essentially be a problem of demand: companies do not really go out and seek to work with universities⁴⁸. Porter and Ketels recommended that the UK invest efficiently to build a stronger public asset base that would in turn encourage companies to think about potentially profitable investments in private assets⁴⁹.
- 4.3.7 On the specific matter of the uptake of Information and Communication Technologies (ICT), concerns remain in the UK that ICT investments have yet to show up in the productivity statistics, just like Solow once voiced in his Paradox. With direct relevance, recent work by the Bank of England (BoE) has suggested the existence of a five year time lag between investment in ICT and its feeding through in the productivity statistics. Many of the BoE's researchers now believe the benefits of ICT to be just around the corner following the substantial investments made in the latter half of the 1990s⁵⁰. This belief that ICT investments take time to feed through to the productivity statistics is supported by regression work by Basu et al who found a positive correlation between TFP growth and past investments in ICT, and a negative correlation with contemporaneous investments⁵¹.
- 4.3.8 The Solow Residual also captures attempts by countries to imitate foreign methods and technologies, with subsequent knock-on effects for the capital and labour stock. For example, Broadberry and O'Mahoney have suggested that US mass production methods were not well suited to European conditions of natural resource scarcity, skilled labour abundance and product market heterogeneity. The introduction of mass production techniques is widely seen as contributing to the decline of the apprenticeship system in the UK from 1961, in both industry and services. The knock-on effect on the UK's stock of skills was such that by the end of the 1970s, when data on the stock of qualified labour first became available, the proportion of the labour force with at least intermediate level qualifications was 65.5% in Germany compared to just 28.6% in Britain⁵². Even today, Britain still has a serious lack of workers qualified at the intermediate level, despite several decades of government initiatives.

⁴⁷ Accounting for People Task Force (2003) Accounting for People

⁴⁸ HM Treasury (2003) Lambert Review of Business-University Collaboration

⁴⁹ Porter M. and Ketels C. (2003)

⁵⁰ Opinion stated by Professor Jonathan Haskel to the Smith Institute's seminar on productivity, 2004

⁵¹ Basu, S., Fernald, J.G., Outlon, N., and Srinivasan, S. (2003) The case of the missing productivity growth: or, does information technology explain why productivity accelerated in the United States but not in the UK

⁵² O'Mahoney, M. (1999)

- 4.3.9 The relationship between the public and private sector was also considered to be important by Porter and Ketels. It was their belief that shifting the policy focus to the microeconomic business environment would leave government ill-informed on a very detailed, cluster-specific level about the bottlenecks that hold companies back from making extra investment. They consequently called for the inclusion of private sector leaders in the process of identifying public investment priorities and for government to relinquish unnecessary responsibility⁵³.
- 4.3.10 The final element highlighted by Porter and Ketels was the importance of the regional institutional structure. In particular, they considered it 'dangerous' if a situation were to develop whereby business leaders felt that its better to go to London as decisions are ultimately made there, rather than engaging with people in the regions⁵⁴.
- 4.3.11 The evidence of this section implies a relatively strong microeconomic climate for productivity. The UK benefits from deregulated markets, low business start-up costs and quick start up procedures, in contrast to the criticisms levelled at planning policy. Managerial skills appear to be an issue, as do firm level stocks of labour skills, but the influence of planning into these areas is highly limited. Planning could be hindering firm level investment in capital but the low start up costs imply that this might be more of an issue for firms wanting to expand rather than for market entry or exit. Furthermore, encouraging signs from the Bank of England suggest that the UK's very own productivity miracle could be just around the corner if past investments in ICT finally feed-through into the aggregate statistics. This is not to say that planning might not be constraining productivity, but that firm evidence one way or the other remains to be found.

⁵³ Porter M. and Ketels C.(2003)

⁵⁴ Porter M. and Ketels C. (2003)

4.4 How Might Planning Affect the Productivity Gap?

4.4.1 The evidence reviewed so far has highlighted:

- The UK has a productivity gap that reflects shortages in the capital and labour skills stocks compared with France and Germany, and more intangible TFP factors compared with the US.
- This gap has remained in spite of product and labour market deregulation and the evolution of the planning system.
- The US productivity miracle occurred predominantly in the market economy sector, and in retailing and warehousing in particular, in spite of the UK managing to close the gap in network industries, business services and manufacturing.

4.4.2 With respect to how planning might be able to explain these findings, a report by the McKinsey Global Institute in 1998 argued that the UK's poor productivity performance in retailing is a direct consequence of a land-use planning system that is constraining the development of efficiently-sized out-of-town superstores in the UK⁵⁵. Research has since been able to shed more light on this issue by considering micro level data from the sector in question. Productivity growth at the micro level can reflect either existing firms getting better, or new firms coming in and displacing inefficient firms by producing comparable products at lower cost or better products at little additional cost. Work by Professor Jonathan Haskel of Queen Mary University has found that in the US, 100% of the productivity growth in US retailing has come from the entry and exit of new stores. The comparable figure in the UK is just 7%. The implication is the existence of something in the UK that is inhibiting the opening and closing of new stores, with the intuitive culprit being overly restrictive planning regulations. However, Haskel admits that a causal link has yet to be proven and the DTI insist that business start-up costs are low⁵⁶. Furthermore, why this should be a particular issue in retail but not in the almost equally land-consuming industrial sector where the UK has managed to close the gap is unclear.

4.4.3 This is the only evidence uncovered to suggest the planning system might be hindering productivity. However, it should be noted that a consensus exists within the literature that a country is constrained by its geography which, given the relative lack of land in the UK, has knock-on implications for the planning system. Economic historians have identified a quite large impact that geography has historically had on productivity differences between Europe and America. This has brought itself to bear in terms of resource abundance during the industrial revolution, right through to the impact of land availability and population density on transport systems and the location of supermarkets in more recent times⁵⁷. With respect to railways for example, a body of literature has identified a substantial role for geography in explaining the US productivity lead, since the terminal handling element is proportionately larger on the short-haul routes that dominate British rail business⁵⁸.

⁵⁵ McKinsey Global Institute (1998) Driving Productivity and Growth in the UK Economy

⁵⁶ Professor Haskel was presenting his work to the Smith Institute's seminar on productivity, 2004.

⁵⁷ Broadberry, S. & O'Mahoney, M. (2004)

⁵⁸ See for example Rostas (1948), Smith et al. (1982), O'Mahoney M. et al (1998)

- 4.4.4 These arguments do not directly relate to the planning system, but instead to the natural land constraints that Britain as an island faces. Land is a much scarcer resource in the UK than it is in the US, or indeed even in France and Germany. As such its prices are higher and decisions about how best to allocate land require much more careful consideration. The US has the space to build the facilities that best reap natural economies of scale; in the UK greater thought has to be given to weighing competing uses and internalising the externalities of building potentially incompatible structures nearby.
- 4.4.5 The possible role for land as a natural resource in explaining the productivity gap was first explored by Habakkuk. Habakkuk argued that the abundance of land and natural resources in the US and the relative shortage of labour caused both the substitution of capital for labour in manufacturing and the development of labour saving technical innovations⁵⁹. By comparison, the UK has a relative abundance of labour but a shortage of land, perhaps explaining its relatively low capital intensity since the same incentives to substitute labour for capital did not exist. It is possible that a restrictive planning scheme may have further diminished this incentive but this remains just a hypothesis.
- 4.4.6 Given the shortage of land, it should be the role of a public planning system to ensure the efficient allocation of land that achieves the greatest social return. To that end it is interesting to note that evidence from the historical evolution of the productivity gap also highlights the importance of the switch from agrarian-dominated production to industry and services. As recently as 1870, 50% of US employment was in agriculture, compared with just 22% in the UK. By 1950 this share was down to 11% and 5% respectively; by 1990 just 2.5% and 2%⁶⁰. As Broadberry and O'Mahoney argue, the decline in agriculture's share of employment had a significant impact on aggregate labour productivity because agriculture is a relatively low value-added activity. This shift occurred later in the US, contributing to both the US catching-up with the UK and then surging ahead⁶¹.
- 4.4.7 Given that almost 90% of the UK's available land remains undeveloped according to data in the Barker Review - the majority of which is farmed for relatively low-valued output - it is possible to construct a similar argument whereby planning restrictions may constrain the productivity of UK Plc through the inefficient allocation of land between competing sectors. However, this allocation is influenced by a range of economic factors, for example it is heavily distorted by agricultural subsidies. Therefore a more economically efficient policy would firstly remove perverse subsidies, and secondly align land-use policies to reflect the value of non-market goods.

4.5 Drivers of Productivity

- 4.5.1 It should be noted that each of the three components in the growth accounting framework introduced in Section 4.1 are not causal per se, but are intermediate indicators of many other microeconomic indicators of an economy. This is something the government has acknowledged since the publication of the RTP paper with its consultations on moving towards a focused set of national productivity indicators in order to benchmark the UK's productivity performance against its main competitors more effectively. This was the subject of HM Treasury's 2004 paper, Productivity in the

⁵⁹ Habakkuk, H.J. (1962) American and British Technology in the Nineteenth Century

⁶⁰ Broadberry, S. and O'Mahoney, M. (2004)

⁶¹ Broadberry, S. and O'Mahoney, M. (2004)

UK 5: Benchmarking UK Productivity Performance. The set of productivity indicators would help monitor progress towards narrowing the UK's productivity gap and, as with the DTI's Productivity and Competitiveness Indicators, would be structured around the 'five drivers' of productivity: investment, innovation, skills, enterprise and competition. Between three and six indicators for each driver are to be updated regularly and will be used to benchmark the UK's performance against the US, France and Germany. The full list is provided below in Box 1. There is no direct mention of planning or land prices/allocation among these indicators.

- 4.5.2 The set of national productivity indicators will provide one component of a much wider evidence base that the Government will use to understand UK productivity performance. Other analyses, such as sectoral breakdowns and comparisons with a wider range of countries, as well as the extensive academic literature, are also cited for the consideration of the Government when formulating productivity policy. Whilst land and planning issues may form part of this wider evidence base, no direct citation is made.
- 4.5.3 This list comprises a fairly comprehensive list of economic indicators. However, it could be argued that the list has overlooked a few of the more holistic factors that also have a role to play in determining productivity, such as health (including mental health), environmental and overall quality of life factors.
- 4.5.4 A productive workforce necessitates a healthy workforce and yet the Cabinet Office's health economics model has calculated that physical inactivity in England costs £8.2 billion (£1.7bn for the NHS, £5.4bn for work absence and £1bn for early mortality)⁶². This comprises some 5% of the NHS budget, 72,000 days lost and 86,000 lives lost prematurely. Each day, 235 people die prematurely due to the effects of physical inactivity. The Department of Health recommends that adults should participate in 30 minutes of moderate physical activity on at least five days a week, but only 37% of men and 25% of women were meeting this target in 1998⁶³. Furthermore, the problem is getting worse: obesity already costs more in public health terms and will overtake smoking as Britain's biggest killer in 10-15 years if current trends persist⁶⁴.

⁶² Cabinet Office Strategy Unit (2002) Health economics model for Game Plan

⁶³ Department of Health (1998) Health Survey for England

⁶⁴ Pretty, J., Griffin, M., Sellens, M., and Pretty, C. (2003) Green Exercise.

Box 1: The UK Government's Productivity Indicators

Investment
<ul style="list-style-type: none">• Volatility in GDP growth rate• Volatility in short-term interest rates• Business investment as a per cent of GDP• Government investment as a per cent of GDP
Innovation
<ul style="list-style-type: none">• Publications and citations of research in academic journals• Gross Domestic Expenditure on Research and Development as a per cent of GDP• Business Enterprise Research and Development as a per cent of GDP• Patents granted in the US Patent and Trademark Office• Proportion of enterprises with co-operation arrangements on technological innovation activities with other enterprises or institutions• Proportion of sales accounted for by new or improved products
Skills
<ul style="list-style-type: none">• International comparisons of the overall level of qualifications• Highest qualifications of adults in the UK• Business executive perceptions of management quality
Enterprise
<ul style="list-style-type: none">• Entrepreneurial context• Cost and time to register a firm• Total entrepreneurial activity• Total entrepreneurship activity by gender• Venture capital investment as a per cent of GDP• Productivity growth of small and medium sized enterprises
Competition
<ul style="list-style-type: none">• Trade in goods and services as a per cent of GDP• Product market regulation• Competition regime peer review – a survey of competition experts relating to the effectiveness of the competition regime in different countries

HM Treasury & DTI (2004) Benchmarking UK Productivity Performance

- 4.5.5 This is an area of direct relevance to the allocation of land and hence to planning policy since large scale studies in Australia have suggested that people with very good access to attractive and large public open spaces were 50% more likely to have high levels of walking, defined as at least six walking sessions per week totalling 180

minutes⁶⁵. The deployment of healing gardens, greenhouses, atriums and plants in five nursing homes in Texas was also found to yield similar physical and mental health benefits as bedsores fell by 57%, the number of patients requiring restraint fell by 18% and behavioural incidents fell by 60%⁶⁶. Since gross inequalities in health are usually matched by gross inequalities in the quality of the environments in which one lives⁶⁷, planning restrictions may be helping to maintain a healthy and productive workforce by retaining access to nature.

4.5.6 There is also the direct impact of the environment and quality of life factors (factors that the planning system is there to uphold) on productivity to consider, particularly through the choice of firm location. This interest partly stems from changes in the structure of the economy, with improved communications and the growth of knowledge based businesses increasing the mobility of companies and their workers, and increasing the scope for quality of life considerations to influence the choice of business location. For example, a literature review and series of interviews by Wong (1998) found that while the traditional factors were essential in providing the basic and necessary conditions for economic development, intangible factors such as quality of life could provide a competitive 'cutting edge' if other conditions were satisfied⁶⁸.

4.5.7 To that end, Regional Environmental Economy reports for England and Wales found a tendency for the environment to be a stronger factor in influencing smaller, more mobile and knowledge-intensive businesses than larger enterprises highly dependent on other business factors such as the size and skills base of the local workforce, transport links, proximity to suppliers and customers etc. Since it is these smaller, knowledge-intensive industries that appear to drive productivity growth more than almost any other sector according to the disaggregated data, it is in UK Plc's interest that an attractive natural environment be retained.

4.6 Ranking Productivity Drivers

4.6.1 Attempts to rank the contribution of each driver to productivity on an abstract level is difficult given the complementarities between factors. For example, there is little advantage of having a highly-skilled workforce if they are all using an antiquated capital stock. The accumulation of skills and high-tech capital investments are strategic complements that are mutually reinforcing. Attempting to rank the relative importance of these two factors of production therefore depends entirely on the relative context. For example, Table 6 highlighted the UK's productivity gap in the market economy and market services sector. Using growth accounting techniques, Broadberry and O'Mahoney were able to break this gap down into its constituent elements, namely capital, labour and TFP, as shown below:

⁶⁵ Giles-Corti, B., Broomhall, M. H., Knuiman, M., Collins, C., Douglas, K., Ng, K., Lange, A., and Donovan, R. J. (2005). Increasing walking: how important is distance to, attractiveness and size of public open space.

⁶⁶ Pretty, J., Griffin, M., Sellens, M., and Pretty, C. (2003)

⁶⁷ Morris, N. (2003) Health, Well-Being and Open Space

⁶⁸ Wong (1998) Determining Factors for Local Economic Development

Table 6: Decomposition of comparative labour productivity levels (output per hour worked), 2000

	US	Germany	France
<i>Market Economy</i>			
Comparative Labour Productivity Levels (UK = 100)	137.4	124.7	122.1
Percentage contribution to comparative labour productivity:			
Physical capital	33.5	73.1	75.8
Skills	1.6	16.4	22.9
TFP	64.9	10.5	1.3
<i>Market Services</i>			
Comparative Labour Productivity Levels (UK = 100)	137.2	132.8	128.2
Percentage contribution to comparative labour productivity:			
Physical capital	23.3	56.1	49.7
Skills	3.0	16.3	19.2
TFP	73.7	27.6	31.1

Source: Broadberry and O'Mahoney (2004)

- 4.6.2 Recall that at the aggregate level, around half of the entire productivity gap with the US is down to TFP; this pattern is repeated in the market economy and market services sectors as shown. This table shows that the US is 37.4% more productive in market services than the UK, of which 33.5% can be accounted for by differences in the countries' capital stocks, just 1.6% can be accounted for by differences in skills and the remaining almost 65% of the gap is down to TFP such as different ways of working or use of technology.
- 4.6.3 The conclusion of the economic historians is that the UK's loss of its productivity lead in the market economy was central to its falling behind in aggregate productivity. The implication of the above table is that to make up the productivity gap will require a substantial increase in capital intensity to catch its European competitors and significant improvements in the microeconomic business climate and working practices to catch the US. Thus ranking the productivity drivers is a contextual exercise.
- 4.6.4 It is interesting that skills appear to be less of an issue relatively than many would believe. However it needs to be acknowledged that skills are a long term problem since it is the overall stock of skills in the economy that matters. Even though the UK system is doing well at educating new graduates it takes many years for these new generations of students to feed through the system. Furthermore, work by Professor Jonathan Haskel suggests that the current public expenditure gradient on skills may be inverted. As of 2004, public funding per primary child or student was about £3,200, whereas funding per university student was about £5,300. However, the social returns to primary and secondary education appear to be greater than those to tertiary education, with firms getting more of a productivity boost if there are more well-educated secondary students⁶⁹.
- 4.6.5 A lack of comparable data means that factors like health and quality of life cannot be ranked against skills, capital or TFP, but health implications would already be expected to be picked up by the labour skills variable and quality of life would form an element of TFP. They can both therefore be seen as lesser issues than the three main factors of

⁶⁹ Professor Jonathan Haskel, Speech at the Smith Institute's seminar on productivity, 2004

production but remain relevant. For example, work by OMIS Research into which UK cities were the best business locations found that workforce factors were by far the most significant consideration, but that the quality of the local environment among other factors playing an important supporting role⁷⁰.

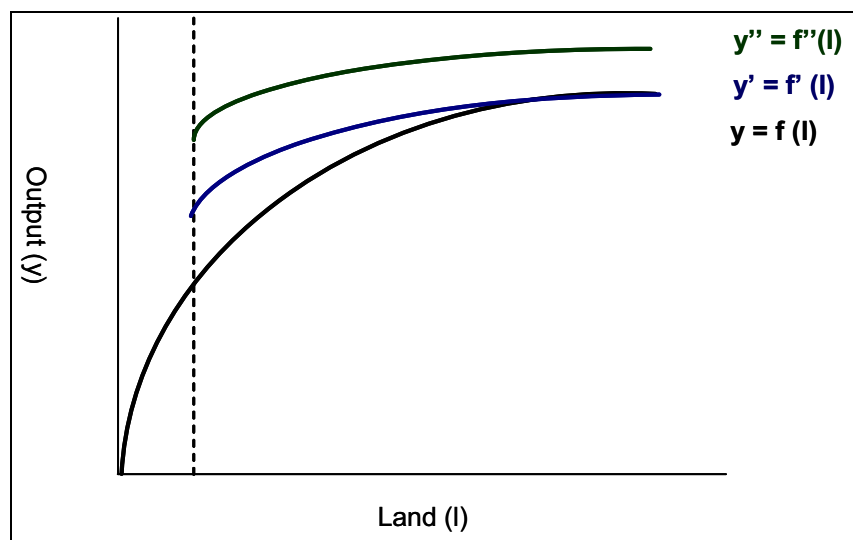
4.7 A Dynamic View of Productivity Gains

4.7.1 This final section takes a dynamic view of the influence of planning on productivity and seeks to determine to what extent productivity gains from Barker-envisaged planning changes would be one-off or cumulative. There is no literature available that has considered this issue so the question is best approached by analysis of the figure overleaf.

4.7.2 Land is a scarce resource and therefore exhibits diminishing marginal returns. In other words, assuming the most productive piece of land is used first, then the next most productive, then the next, the each additional piece of land will raise aggregate output but by less than the previous piece. Hence the declining slope of the line $y=f(l)$; this tangent is the marginal product of that additional piece of land.

4.7.3 The difference between a one-off impact and a cumulative impact is then shown by the two lines above $y=f(l)$. A one-off boost to productivity, given by the line $y'=f'(l)$, would imply more output per piece of land in the short run but no long run difference in productivity. This might reflect a relaxing of planning constraints that allows for more land to be developed. Although short run productivity would rise, the practical implication is just that scarce land gets used up quicker and so there is no long run boost to productivity.

Figure 1: The Potential Long Run Impacts of Releasing Planning Constraints



4.7.4 However, if the planning system was to be revamped so as to speed up the application, decision and appeals process then a more cumulative benefit might occur. The more efficient the planning process at dealing with applications, the greater the likely churn in the market as barriers to entry are reduced meaning that inefficient incumbent firms are competed out of the market by more efficient new entrants. Such a

⁷⁰ Omis Research (2003) Britain's Best Cities

restructuring would be expected to generate long term benefits as the market for each piece of land is more competitive, requiring firms to maximise productivity so as to survive. Thus the line $y''=f''(l)$ remains above the two other lines even in the long run.

- 4.7.5 Similar cumulative improvements would be expected from investments in skills or in physical capital that raise the long term productivity of each piece of land.

5 OTHER DIRECT IMPACTS OF THE PLANNING SYSTEM ON THE ECONOMY

5.1 Introduction

5.1.1 This final section completes the review of economic impacts by considering some additional areas of impact which were not raised directly in the RTP report and are not explicitly considered by the Barker Interim Review. Again, these impacts arise out of the recent changes in the spatial planning system, the emergence of the UK Sustainable Development Strategy and the development of Regional Spatial Strategies (RSS). Two main areas of impact are discussed:

- Direct impacts of environmental planning on economic development
- Direct impacts on Regional Economic Development

5.1.2 With regard to the second, it is again apparent that the Review is premature since the major overhaul of the spatial plan making system in the PCPA 2004 which introduced RSSs is only now being adopted. It is clear that they have fundamentally changed the role of planning in regional development, for example their relationship with the Regional Economic Strategies (RESs) of the Regional Development Agencies (RDAs).

5.2 Direct Impacts of Environmental Planning on Economic Development

5.2.1 In their original submission to the Barker Review⁷¹ RSPB recognised that economic activity is a key part of sustainable development – in line with the UK Sustainable Development Strategy. RSPB argued that the planning system should not treat economic performance as an end in itself, but as a way to support our quality of life. This is why sustainable development should be pursued by concentrating on integration, such as between environmental quality and economic activity.

5.2.2 In this regard RSPB noted that the environment supports substantial economic activity throughout the UK and estimated that environment-related activities in the UK support around 500,000 jobs and £18.6 billion of GDP. The European Regional Policy Group has produced a report⁷² on the importance of the environment to the economy, and why it is essential that we invest in the environment in the pursuit of sustainable economic growth and competitiveness. Based on this work, the RSPB's submission to Barker emphasised that:

- The environment is an economic driver
- Management of the environment creates jobs and wealth, and improves quality of life
- The environment is a vital tourism asset
- Investment in the environment improves economic competitiveness
- Efficient use of resources improves competitiveness, and
- The environment is a dynamic and innovative industry

⁷¹ RSPB (March 2006)

⁷² European Regional Policy Group (2006) The environment, economic growth and competitiveness

5.2.3 Further research has now been carried out for DEFRA by GHK and GFA Race Ltd⁷³ on the economic impact of environment linked activity and concludes that, collectively, activities within the sectors that are closely and positively connected with the management of the natural environment now support nearly 300,000 full time equivalent (FTE) jobs in England, and contribute £6.5 billion in gross value added (Table 7). This is more employment than is supported by either the chemicals or motor vehicle manufacturing industry in England. More than 50% of rural tourism activity is dependent on landscapes and wildlife, supporting nearly 180,000 FTE jobs and over 2% of the £120 billion food chain involves the production and marketing of produce linked to a high quality rural environment.

Table 7: Impact of Activities Contributing to/Benefiting from a High Quality Natural Environment⁷⁴

	Employment (FTE)	GVA (£m)
Management of the rural environment:		
Nature and Landscape Conservation	8,600	223
Agriculture	27,100	400
Forestry and wood processing	3,600	93
<i>Sub Total</i>	<i>39,300</i>	<i>716</i>
Activities that benefit from the rural environment		
Tourism	177,000	4,400
Food processing and marketing	63,000	1,029
Fisheries	5,300	159
Fish Processing	8,300	175
<i>Sub Total</i>	<i>253,600</i>	<i>5,763</i>
Total	292,900	6,479

5.2.4 GHK and GVA Race Ltd conclude that the major economic significance of the natural environment is often under-estimated. Conserving and managing the rural environment is not only important in its own right, but also in securing the range of benefits that the environment provides for society and the economy.

5.2.5 GHK and GVA Race Ltd suggests that the economic significance of the natural environment is increasing, especially as environmental objectives are becoming increasingly central to the development of the main rural sectors such as agriculture, forestry, fisheries and tourism. Sustainable development depends on further integrating environmental concerns into these sectors. As a result, the rural environmental economy is likely to grow further. Increasing environmental activity in the larger sectors such as food and tourism offers particularly strong growth opportunities, and depends in turn on further development of environmental land management activities. Thus, policy making processes such as the Barker Review need to recognise the economic opportunities that the environment offers, and not regard it as merely a constraint to economic development.

5.3 Direct Impacts on Regional Economic Development

The Reform of the Spatial Planning System

5.3.1 One of the questions raised by the Barker Review's initial consultation (Question 6) was whether the planning system is sufficiently joined up with other related aspects of

⁷³ GHK and GVA Race Ltd. (2005) Revealing the Value of the Natural Environment In England

⁷⁴ GHK and GVA Race Ltd. (2005)

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?”⁷⁵

5.3.2 Perhaps the most radical aspect of the PCPA 2004 reform of the planning system was the introduction of a regional spatial planning dimension – the Regional Spatial Strategy (RSS) and a simplification of local plans and action plans in the form of Local Development Frameworks. The RSSs replaced the former structure plans and provide a spatial planning dimension to regional economic development and governance that is designed to complement and support the objectives of Regional Development Agencies and Regional Assemblies.

5.3.3 Although it is too early to comment on whether RSSs and RESs are well coordinated, evidence is already emerging of their interdependence and the importance of the RSS in delivering the spatial dimension of regional economic development, regeneration and key regional investment in infrastructure and land.

Regional Economic Development and the role of the RSS

5.3.4 Although at this stage it is not clear whether they are sufficiently “joined-up”, the CPRE⁷⁶ have suggested that “the main problem is the absence of a clear understanding of which strategy ultimately takes priority. Regional Spatial Strategies, which benefit from a much more robust process of public engagement and independent scrutiny, should clearly take precedence”. It is interesting to note however that there is also an emerging economic development imperative for the precedence of the RSS in work being carried out on measuring the Strategic Added Value (SAV) of the Regional Economic Strategies.⁷⁷

5.3.5 SAV is the primary measure recommended for the current round of evaluations of the RESs of all RDAs – specifically to account for the synergy achieved by the RESs in adding value to the other regional strategies and policies. For example, RDAs have had an important role both in relation to implementing a strategic employment land use programme, aligning their RES with the RSS and working along with the Regional Assembly responsible for the RSS, local planning authorities and local regeneration and other Partnerships. The SAV of these outcomes is currently being assessed by individual RDAs focusing on the impact of the leadership, influence and coordination provided by the RES.

5.3.6 Reviews have been finding that leadership of the delivery of the challenges is complicated by the different regional and local responsibilities – particularly for infrastructure investment. In practice the lead responsibility in transport infrastructure for example, is with the Regional Transport Strategy – both in the context of the RSS - and this position has inevitably weakened the SAV of the RES giving the main leadership role to the RSS.

5.3.7 Stakeholder consultation confirms the effect of omitting stronger guidance in RESs on transport the influence on defining the priorities of others and that investment decisions

⁷⁵ Barker Review (2005) Barker Review of Land Use Planning: Call for Evidence

⁷⁶ CPRE (March 2006)

⁷⁷ See for example KPMG (2005) SEEDA Economic Impact Assessment of the RES, and GHK (2006) Evaluation of the West Midlands RES

have not been subject to major appraisal against the regional economic development priorities.

- 5.3.8 A measure of coordination in regional infrastructure strategies has been achieved by some RESs where, by design, alignment of the RTS to the RES has been through the RSS review process rather than by specific guidance in the RES itself.
- 5.3.9 Alignment and coordination of regional development priorities - ensuring consistency of approach – has mainly been delivered through the work of the various Regional Partnerships set up to prepare the RSS and various sub-regional spatial strategies, and of the regional assemblies. The regional partnerships were largely established independently of the RES. In this case SAV results more from the development of the RSS, and through place-based delivery mechanisms and related partnerships which are co-ordinating specific projects. Finally, important SAV is beginning to emerge from the efforts to coordinate and align the RES and RSS in terms of the preparation of a common evidence base for both strategies, ensuring they are established on the same premises.
- 5.3.10 It is still early days for the new RSS and sub-regional planning process. The conclusion which is emerging is that Strategic Added Value for the regional economy – and specifically for the RES - is most likely where there is strong coordination between the various regional strategies and a clear leadership provided by the RSS working with regional partnerships and the assembly.

National Spatial Plan Issues

- 5.3.11 Finally, the RSPB's submission to the Barker Review consultation⁷⁸ commented on the development of the spatial planning framework and the better integration of social and environmental objectives with economic development. It suggested that a key missing element in the planning system in England is consistent and joined-up Government policy on a range of development and infrastructure issues, such as ports, road, rail and energy. The lack of Government policy on ports has led to particular problems for the RSPB "because of potential conflicts between internationally-protected biodiversity resources and port development. A string of recent public inquiries for port development in the south and east of England could have been avoided, or at least significantly shortened, if there had been a clear spatial framework for future port development."⁷⁹
- 5.3.12 RSPB has suggested that a national spatial strategy (NSS) could be a possible solution to these inefficiencies providing a framework for considering the location of major infrastructure on which economic development depends and subject to robust sustainability appraisal which properly considers needs and alternative solutions with adequate opportunities for public and stakeholder engagement which the planning system provides.
- 5.3.13 It could also be argued that the experience of the Sustainable Communities Plan⁸⁰ which has set challenging housing targets for growth in the South-East and the Midlands and large scale reductions of stock in the north may also have benefited from a clear place in a hierarchy of statutory local, regional and national spatial plans. The

⁷⁸ RSPB (March 2006)

⁷⁹ RSPB (March 2006)

⁸⁰ DCLG (2003) Department for Communities and Local Government Sustainable Communities: Building for the Future

RSS process for the East of England Plan⁸¹ – where much of the new greenfield housing growth is to be found – has been difficult as a result. The Examination In Public process for the Plan the Milton Keynes – South Midlands Sub-regional Growth Area has struggled to align sustainable housing, infrastructure investment and economic growth strategies.

- 5.3.14 The RSPB has suggested that a national spatial strategy is already in use in the devolved administrations of Scotland (the National Planning Framework) and Wales (the Wales Spatial Plan). The former House of Commons Transport, Local Government and the Regions Committee also recommended that ‘the Government should evaluate the desirability of establishing a National Spatial Strategy’ in its report on the Planning Green Paper⁸². In practice the Wales and Scotland Plans have more in common in terms of their spatial coverage with the English RSSs. It may be more effective if national “infrastructure” plans for these key infrastructure sectors, including housing, were prepared either within the planning framework, or at least with a similar level of participation and democratic accountability as the present planning system provides.

⁸¹ East of England Regional Assembly (2004) East of England Plan: Draft Regional Spatial Strategy for the East of England

⁸² House of Commons Transport, Local Government and the Regions Committee (2002) Planning Green Paper. Thirteenth Report of Session 2001-02.