Barker Review of Land Use Planning

Interim Report – Analysis

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Foreword

Dear Chancellor and Secretary of State,

The English planning framework clearly performs a necessary role in contributing to the quality of life of people and the communities in which they live. The goal of all aspects of planning is to create successful places where people want to work, shop, live or visit, where businesses flourish and where the natural environment is respected and enhanced. By mediating between conflicting interests and objectives through a democratic process planning can support economic success together with other sustainable development goals.

The Government has driven through a number of important reforms to planning in recent years, to help it deliver these objectives. These include reforms to the plan-making system through the Planning and Compulsory Purchase Act (PCPA) 2004, which introduced a spatial and more flexible approach to local and regional plans, and an additional £600 million to increase capacity and improve the speed of decision-making. Housing supply has also begun to increase.

These are considerable and overall welcome changes. I believe this further review is timely for two main reasons. First, 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, heightened concern about resource depletion, and a changing approach to biodiversity issues. None of these are new, but added together they imply that the issues the planning system addresses will be getting more difficult. The PCPA 2004 addressed large parts of the plan-making process in particular; however, this is not the whole of the picture, and there are still other questions to ask.

Second, there are a number of other reviews and studies being conducted at present (in particular the Eddington Study, the Energy Review, and the Lyons Inquiry on Local Government) which may have implications for the planning system. There is a strong case for looking at how the planning system as a whole will fit with their likely recommendations to enable policy-making to move forward in a properly joined up way.

In this interim report, the focus is on evaluating the outcomes of the planning system with regard to economic growth and productivity, in the context of increasing pressures from globalisation:

- there is a continuing concern about the levels of complexity in policy, plan-making and development control. Much complexity is inevitable. Many decisions will require a wide range of factors to be considered. However, undue complexity may arise if policies are not always considered at the appropriate spatial level (in particular, if national policy is too detailed) or where planning policies seek to deliver outcomes which might more appropriately be tackled, at least in part, by other policy routes. This adds to costs and resource pressures – planning fees alone are now over £200 million per annum, though are still a small proportion of overall development costs;

- in terms of the efficiency of planning processes, there are still concerns about delays that can hold back desirable economic investment. Start-to-end time for major applications, including infrastructure projects, can take years rather than months. In 2005-06 over a third of public inquiries took more than a year to determine. Of course, time must be taken to consider the merits of development, or to consider how a proposal might be enhanced. But many delays arise from issues around process, or resources, or reflect weaknesses in spatial plans with regard to infrastructure location.

The plan-led system has a number of important benefits, including the vital opportunity for local community involvement in the vision for their area. It adds certainty so that businesses and individuals know what development is likely to take place and where. This aids forward planning and protects historic investment from bad neighbour effects. It provides the framework within which the regeneration of run-down urban areas can be tackled successfully. The system can also help to ensure that our most important natural and built environment is protected and enhanced.

However, there may also be some hidden costs. This report sets out how these may impact adversely on the five key drivers of productivity – investment, innovation, competition, enterprise and skills. This should not be over-stated. Neither the system of plans, nor the individual decisions taken at local level are likely to be the main source of the UK's productivity gap. But consideration should be given to whether reforms could support wider efforts to close the productivity gap between the UK and other major competitors, and even small gains in productivity can have a significant beneficial effect on living standards over a number of years.

There are tensions between a system where decisions on land use and development are made according to plans of up to 15 to 20 years' duration, updated every five, and the reality of rapid economic and social change. There are also issues around land supply for development. Land is obviously a finite resource, but that makes it particularly important that it is used in the best way. With occupation costs for prime commercial rents at £98 per square foot, London West End has by far the most expensive prime commercial space in the world, twice that of the next most expensive European city, while occupation costs in Manchester and Birmingham are around 40 per cent more than Manhattan. These figures are beyond what can be explained easily by a relatively high population density. At the same time, there are increasing concerns about bio-diversity, climate change and resource constraints which may change views about where development is best located.

It is not surprising to encounter concerns from all sides about particular planning decisions. In many cases there will be losers who suffer adverse effects, and it is often difficult even with hindsight to judge if the 'right' decision was reached. Some of the factors relevant to plans and decisions are inevitably subjective; planning will always be more than a simple tick-box exercise, often demanding both judgement and imagination.

For the final report, I will explore what further can be done to enable the planning framework to deliver the outcomes, for productivity, for the environment, and with regard to social concerns which maximise overall welfare and quality of life. While this interim review has focused on business concerns it is clearly vital that the final recommendations do not advance business interests above environmental and social ones.

It is unlikely that there will be one or two simple proposals which will resolve these issues. And there are risks that change itself will add to uncertainty. In this context, it is perhaps helpful to say now that the overall flavour of the consultation process indicated little appetite for a radical rethink of the plan-making processes set in place by the PCPA 2004, and many observed that this still needs time to bed-down. As the terms of reference indicate, the review will aim to build on those reforms.

I am very grateful to all of those who responded to the consultation, or with whom we have held meetings over the past few months. In particular, members of the panel of experts have been generous with their time, and given helpful advice drawing from their wide experience – although this does not imply their agreement with the conclusions. I hope that over the summer there will be a further response to this interim report, although many of the views already expressed are very relevant to the final document.

Kate Barker

Further copies of this report can be obtained from the Barker Review of Land Use Planning website at www.barkerreviewofplanning.org.uk. The responses to the call for evidence can also be found on this website.

Executive Summary

Context and terms of reference

1.1 The Chancellor and the Deputy Prime Minister commissioned an independent review of the land use planning system in England in December 2005. The terms of reference were:

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

- *ways of further improving the efficiency and speed of the system;*
- *ways of increasing the flexibility, transparency and predictability that enterprise requires;*
- *the relationship between planning and productivity, and how the outcomes of the planning system can better deliver its sustainable economic objectives; and*
- *the relationship between economic and other sustainable development goals in the delivery of sustainable communities.*

1.2 This report sets out the initial analysis of the review. Its focus 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. It also sets out areas that will be explored further in the final report. This will be submitted to the Chancellor and Secretary of State for Communities and Local Government in late 2006.

1.3 The Planning and Compulsory Purchase Act 2004 addressed large parts of the plan-making process in particular, but this is not the whole of the picture. There are still other questions to ask in the context of the wider challenges to the planning system which are set out in this report. Globalisation, for example, is intensifying – according to the OECD there was a 27 per cent increase in global foreign direct investment in 2005 alone, to $622 billion.[1] And there is the need to look at how the planning system as a whole will fit with the potential recommendations of related government reviews and studies to enable policy-making to move forward in a properly joined-up way.

The planning system plays a key role in the delivery of sustainable development

Aims and objectives

1.4 The planning system has a profound impact on our quality of life. Its outcomes influence almost every aspect of our life, from the quality of our urban environment to the size of homes we can afford, the employment opportunities available to us, and the amount of open countryside we can enjoy. By addressing deficiencies in the free market for land use and development, the planning system can work towards the delivery of sustainable development objectives that maximise net welfare to society. It does this by integrating and, where necessary, balancing complex sets of competing economic, environmental or social goals within the framework of democratic accountability. Overall sustainable development goals can be hard to define and to measure. However, the planning system broadly aims to deliver a range of outcomes to help deliver sustainable development:

[1] OECD, *International Investment Perspectives*, September 2006 (forthcoming).

- economic objectives – plan-making can support the economy by providing greater certainty for investors about the likely shape of future development in a locality or region; it can help deliver public goods such as transport infrastructure; it can promote regional inward investment by supporting regeneration and enabling comprehensive redevelopment where the landowner has monopoly power, for example via compulsory purchase orders;

- social objectives – positive planning can also help deliver important social objectives, including protecting the vitality of town centres, providing new housing, aiding regeneration, and protecting our historic built environment in part via the listing of 370,000 buildings. Planning authorities can play a positive role in shaping our towns and cities through, for example, urban design coding; and

- environmental objectives – there are benefits to the environment more widely, through protecting and enhancing the countryside and natural environment, minimising the effects of, or influencing the location of, developments that create noise, pollution or congestion and using mitigation measures to limit the flood risk potentially associated with new developments in certain areas.

1.5 But while planning policies and processes aim to address market failures, there can also be costs associated with government intervention. Where information is imperfect, plans may under- or over-provide for certain non-market goods, while the transaction costs of intervention may be high. There may also be unintended consequences of policy. The planning system therefore needs to ensure it tackles market failures in an efficient and effective manner.

How the system operates

1.6 The principal legislative framework through which planning is delivered is the Town and Country Planning Act (TCPA) 1990, as recently modified by the Planning and Compulsory Purchase Act (PCPA) 2004. Both are based on the first comprehensive planning legislation that was introduced in 1947. The TCPA 1990 is a plan-led system of land use regulation, with important roles for participation and democratic accountability. Other planning consent regimes with separate legislation exist for certain sectors such as transport and energy infrastructure. Key elements of the town and country planning system are:

- a hierarchical structure of guidance and plans at national, regional and local level against which planning applications are assessed – following the PCPA 2004, the plan-framework comprises a Regional Spatial Strategy and a Local Development Framework (LDF);

- the requirement of planning permission for any development of land. Planning applications are normally determined by local planning authorities. Under the plan-led system, decisions on planning applications are made in accordance with the development plan unless there are material considerations sufficient to overrule the plan;

- extensive powers for the Secretary of State (DCLG) enabling the direction and shaping of planning policy at both the national and regional level, and of determining a very small but high-profile number of planning applications through use of 'call-in' powers; and

- strong policies protecting the countryside and containing urban areas. Only 8.3 per cent of land in England is urban, as a result of a number of policies including density targets and the designation of large areas of land for the protection of biodiversity, important landscapes or to prevent urban areas coalescing (see Table 1).[2] The UK has around double the OECD average of the proportion of protected land.[3]

Table 1: Designations and other land uses in England

	Number of sites	Hectares	% of total land
Sites of Special Scientific Interest (SSSIs)	4110	1,072,540	8.2
Special Protection Areas (SPAs)	77	609,249	4.7
Special Areas of Conservation (SACs)	229	809,199	6.2
Area of Outstanding Natural Beauty	35	2,040,000	15.6
Green belt		1,678,200	12.9
National Parks		994,000	7.6
Urban Areas		1,100,000	8.3

Sources: Environment Agency, DEFRA, DCLG, JNCC, ONS

But the changing context of planning means more is likely to be demanded of it in coming decades

1.7 In every country, planning involves making difficult and complex decisions. This is particularly the case in England, where a relatively high population density of 383 per square kilometre combined with high levels of average per capita income leads to strong demand for travel, retail, recreation, and housing. With so many people in a relatively confined space, decisions on land use and development will often affect many others.

Long term challenges

1.8 Making these trade-offs is likely to become more challenging over the coming decades, as the planning system will need to adapt to a number of key trends. These include:

- *globalisation and technological change:* The global economy is in the midst of a radical transformation, involving far-reaching changes in technology, production and trading patterns. Emerging and developing countries are forecast to have increased their share of global output from 15 per cent in 1980 to 31 per cent in 2015.[4] This is resulting in significant structural change in the English economy. Demand for commercial land is increasing, while businesses need to respond with increasing speed to changes in the market. A flexible, responsive, and efficient system of plan-making and development control can help business respond to these changes. Some 79 per cent of respondents to a recent CBI survey stated that planning, as a public service, is important to supporting their competitiveness;[5]

- *climate change and environmental limits:* The clear evidence of changes in the global climate requires that the planning system at all levels plays its role in helping the UK meet its targets for greenhouse gas emissions through, for example, helping deliver renewable energy. Spatial plans can also help address the consequences of climate

[2] Some of these designations overlap. In particular SACs and SPAs often fall within SSSIs.
[3] OECD, *Environmental Data Compendium*.
[4] Consensus Economics, Inc., *Consensus Forecasts: Long-term Forecasts* (2004); International Monetary Fund, *World Economic Outlook 2004* (Washington DC, 2004).
[5] CBI, *Public Services Survey* 2006.

change – for example by taking full account of the flood risk associated with new development. The need to protect the wider environment is also a growing challenge given the changing understanding of environmental issues;

- *demographic change:* Rising population levels also pose important challenges for planning. More people require more homes, infrastructure, workplaces and retail premises. The population of England expanded from around 43 million in 1951 to 50 million in 2004. Current projections suggest the population will grow to 56.8 million by 2031, when there may be 435 people per square kilometre. Demographic changes, such as an increase in the proportion of single-person households, will also affect demand for space; and

- *increased prosperity:* The planning system also has to respond to the challenge of a more prosperous population. The more affluent people become, the more they seek larger homes, the more they are likely to travel both at home and abroad, and the more they are likely to consume leisure and other goods and services. A trend growth rate of even just 2.5 per cent per annum implies a doubling of national income in less than 30 years.

Implications for planning

1.9 All four of these factors are subject to considerable uncertainty. Economic change, population growth, climate change and other resource pressures can only be projected with a wide margin over long time frames. The 2006 household projections, for example, show average household growth of 209,000 per year, compared with 189,000 and 153,000 in the 2002 and 1996-based projections respectively.[6] The Government Actuary's Department variant projections show how sensitive these projections are to different variables. A low estimate for life expectancy results in a projected average annual household growth of 196,000 and a high estimate for life expectancy in 221,000.[7] This poses particular challenges for a planning system that operates on the basis of long-term plans, which on a regional level involve making estimates for housing or employment land needs over a 15 to 20 year time-period, though these estimates are reviewed typically every five years. A key question is whether the planning system provides the right balance between certainty for those making long-term decisions and responsiveness for those seeking to respond to changing circumstances.

1.10 In addition, while increased wealth and population growth implies pressure for development, environmental constraints make the location of this development increasingly sensitive. Many of these trends involve increased demand for space – ensuring the planning system releases space horizontally (through supplying sufficient land) or vertically (through permitting upward build) to respond to these pressures, while delivering its environmental responsibilities, is a major challenge. At the same time, there is pressure for efficient public service delivery to minimise costs to businesses associated with uncertainty and delay, and to maximise taxpayer value for money.

[6] Office for National Statistics, *Population Trends 123* (London, 2006).
[7] DCLG statistical release available at http://www.odpm.gov.uk/index.asp?id=1002882&PressNoticeID=2097

Despite some progress, more could be achieved in terms of efficient delivery of timely and transparent decisions

1.11 Planning decisions involve gauging individual and community preferences to factor non-market values into the decision-making process. Ensuring decisions are informed by the relevant economic, social, environmental and resource considerations through proper consultation is likely to be both costly and time-consuming, particularly for major projects. This is a necessary part of the planning process. Equally, the window of commercial opportunity for business tends to be rapidly shrinking. Firms therefore require a value-for-money service that is timely and transparent. A recent select committee inquiry found that the majority of concerns expressed by business around the planning system related to 'day-to-day operational issues such as delays, direct costs to firms, and uncertainty.'[8] The challenge is therefore to improve efficiency without compromising the effectiveness of outcomes.

Reform to date

1.12 The planning system has experienced substantial reform in recent years, as the Government has aimed to help planners respond to the changing circumstances in which land use regulation is operating and to address longstanding concerns surrounding the efficiency of the planning system – including tackling delays to plan-making and decision-making, and increasing transparency. These include:

- the introduction of PCPA 2004, which aimed to create a simple, transparent, efficient and effective system of plan-making, aiming to halve the 5-7 years which local authorities previously took to update their plans. Reforms included the removal of one of the three tiers of plans and the introduction of a new spatial approach that aims better to integrate planning into wider policy delivery;
- the introduction of the Planning Delivery Grant (PDG) to help local planning authorities respond to the needs of applicants in the context of rising case loads – almost 700,000 planning applications were determined in 2004/05. £600m of additional funding has been provided in this form. PDG has also enabled local planning authorities to manage the process of change regarding the introduction of new Local Development Frameworks. It operates alongside targets to incentivise authorities to determine planning applications within 8 and 13 week targets; and
- reforms to the national policy framework, including the introduction of Planning Policy Statements aimed at reducing the volume of national policy to reduce levels of complexity within the system in the context of a Green Paper that found that 'the sheer amount of guidance imposes considerable burden on the planning system and reduces its effectiveness as a means of communicating national policy priorities'[9].

Delays

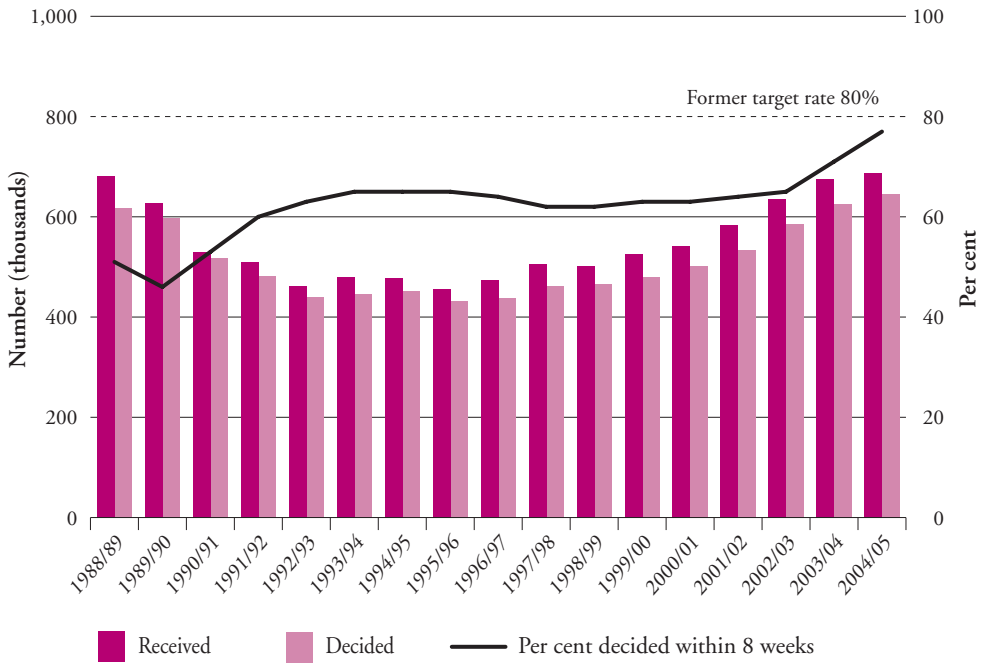
1.13 There has been some significant progress in terms of local authority development control processes as a result of recent reforms. Almost 80 per cent of all planning applications are now decided in eight weeks (Chart 1) and of the 18,800 applications for major developments in 2004/05, 57 per cent were made in 13 weeks – up from 49 per cent in 1999/2000. As volumes have also risen, there has been a more than 60 per cent increase in the number of applications determined within the 13-week target for major applications and a 50 per cent increase in the

[8] Housing, Planning, Local Government and Regions Committee, Fourth Report, 'Planning, Competitiveness and Productivity' (London, 2003).

[9] Office of the Prime Minister, *Planning: Delivery a Fundamental Change*, (London, 2002).

number of applications determined within the eight-week target.[10] Reforms have also been successful at reducing the length of the time to decision for 'call-ins' and major appeals decided by the Secretary of State (DCLG), with over 80 per cent of cases now decided within the 16 week target from the close of the public inquiry.

Chart 1: Applications received and decided and speed of decision England: 1988/89 to 2004/05



1.14 There will always be a limit to how quickly complex planning decisions can be made, particularly given the importance of consulting with a number of parties and the need for democratic accountability. But in the context of a survey suggesting that 69 per cent of businesses dissatisfied or very dissatisfied with the record of local government in improving the planning system,[11] more could be achieved:

- the appeal system has become slower in recent years, in part due to rising case loads: six per cent of planning inquiries took over a year to determine in 2001-02; by 2005-06 this had risen to 34 per cent, with increases in processing times for other types of appeal. Given that some of the most economically significant cases go to appeal this is a cause for concern;
- in terms of applications to local planning authorities, around a third of local planning authorities (130 in total) are not meeting their target of 60 per cent of major applications being determined in 13 weeks (though this number is falling) while over 20,000 minor applications take more than 13 weeks to process. Some recent reports have suggested perverse outcomes from the local authority targets, such as late registration of planning applications, though the nature and scale of this issue is disputed;[12] and

[10] DCLG, Development Control Statistics 2004-05.
[11] CBI Public Services Survey 2006.
[12] See, for example, Audit Commission, *The Planning System: Matching Expectations with Capacity*, London (2006).

- start-end times for larger or more controversial applications, which often include lengthy pre-application discussions or section 106 negotiations. Reliable data here is limited but according to a major housing developer large applications now take around 14 months to process, compared to 12 weeks 25 years ago.[13] Major infrastructure delays – often determined under separate legislation such as the Electricity Act – are also still common. These cases are often very complex, and so it is perhaps not surprising that they take considerable time to be determined. But the question of whether timings are excessive needs to be addressed. Transport and energy decisions can take several years (see Table 2) – the North Yorkshire power line took an exceptional six and a half years to determine. In this context it has been argued that a clearer articulation of national policy could reduce delays.

Table 2: Case studies of major transport decision timings (months taken)

Scheme	Years	Application to Inquiry	Length of Inquiry	Close of Inquiry to receipt of report	Receipt of report to decision	Total time
M6 Toll Road	1992-1997	28	16	17	4 (+20*)	65 (85)
Heathrow Terminal 5	1993-2001	27	46	21	11	86
London International Freight Exchange	1999-2002	13	7	6	15	41
Upgrade of West Coast main line	2000-2003	11	11	7	8	37
Dibden Bay Port	2000-2004	14	13	9	7	43
Camden Town tube rebuilding	2003-2005	11	5	5	6	27

** The additional time was the result of a legal challenge*

Source: Department for Transport; Planning Inspectorate

Complexity

1.15 Planning often involves making complex judgements and there will inevitably be some complexity of process in decisions involving many interests. But in this context it is particularly important that unnecessary complexity is avoided. This is the rationale behind recent reforms aimed at simplifying the national policy framework and plan-making process, and re-engineering the planning application process through, for example, the introduction of e-planning. It is too early to conclude what the impact of many of these reforms will be. A layer of plans has been removed, but there still appears to be substantial complexity in the system, which is adding to costs for both taxpayers and businesses, and increasing resource strain on local authorities:

- while some of the new planning policy statements are shorter than their predecessors, they are sometimes accompanied by lengthy guidance notes. Partly due to the range of interests to be considered, it has taken over two years to update just nine of the 25 national policy guidance notes – completing the task could take another five. There are still thousands of pages of national policy and guidance, including circulars;

- the new framework of plan-making needs time to bed down, and while it may deliver increased flexibility at the local level and should deliver quicker plan-making (the aim is a three year process) there are some concerns that Local Development Frameworks are jargon-laden and over-engineered; and

[13] Barratts Response to the *Barker Review of Land Use Planning* – Call for Evidence.

- in terms of the planning application process, the extent of supporting evidence, the range of players involved, the extent of conditions and the number of consent regimes (12 within the Town and Country Planning Act legislation alone) all add to complexity. Documentation can provide vital information but planning officers need the time and expertise to assess them.

1.16 For the reasons set out earlier, where it promotes the quality of the planning system in a proportionate manner, complexity should not be reduced nor speed arbitrarily increased. Indeed complexity can add to certainty for investors when it provides useful additional information. However, unnecessary delays and complexity result in additional costs for business and local authorities. Though planning costs typically are a small proportion of overall development costs, planning fees, for example, now cost over £200 million per annum, with hundreds of millions also being spent on consultants' and lawyers' fees. Very large applications (involving consultancy and legal fees) can cost millions of pounds – the recent Dibden Bay application, for example, cost £45 million. If further progress can be made to increase efficiency without compromising effectiveness this would therefore be desirable, although there are a number of constraints here.

The planning system can be made more responsive to the needs of sustainable economic development

1.17 In the context of globalisation, planning should help deliver productivity growth, where this is consistent with delivery of wider sustainable development goals. The review has therefore explored the potential impact of planning on investment, competition, enterprise, innovation and skills.

Planning and investment

1.18 There are a number of ways in which planning policies and processes can support investment. They can:

- *provide compatible land uses*. One of the economic benefits of planning is certainty of land use. A hotel, for example, can be built in the confidence that an unsightly or noisy industrial plant will not be given permission to build next door;
- *help provide regeneration and place-shaping*. Proactive planning, used effectively in conjunction with other tools and working alongside other private and public sector bodies, can help provide regeneration and to create places where people want to live and work. This can aid inward regional investment as in the city centres of Manchester, Birmingham and Liverpool. It can also help deliver the Sustainable Communities agenda, principally in the major growth areas of Thames Gateway, Milton Keynes/South Midlands, London/Stansted/Cambridge/Peterborough and Ashford; and
- *generate valued public goods*. Planning improves the physical environment through infrastructure provision and through helping deliver a sense of place and space. It thereby helps to make England an attractive place to come to work and to do business. It plays an important role, for example, in stimulating the £74 billion tourism industry.

1.19 The system can, however, work to the detriment of investment. Refusal rates have been growing in recent years. The proportion of refusals for major applications has grown substantially from around 13 per cent in 1998/99 to 25 per cent in 2004/05, with minor application rejections (which do not include householder consents) rising from 15 per cent to 24 per cent. Major non-residential application refusals have been rising for the past five years from nine per cent to 13 per cent though over a ten-year horizon they have been stable.[14] Total applications withdrawn or turned away have grown from 22,000 in 1995-1996 to 48,000 in 2004-5.

1.20 A proportion may be resubmitted, and in certain circumstances the investment loss will only represent the difference between preferred investment and the alternative, rather than the value of the whole investment. Conversely, there are likely to be some lost investment opportunities from applications which are not brought forward, but it is hard to measure the extent of these, or how it is changing. But there was a 36 per cent drop in the number of commercial properties built from 1991-2001 compared to 1981-1991 and a 20 per cent drop in new floorspace in the same period, and the question of whether the planning system has played a role in this needs to be considered.[15] In terms of foreign direct investment, according to UK Trade and Investment, planning is consistently one of the top six concerns of companies looking to invest in the UK.

Factors at issue

1.21 While it may impose economic costs, it is right that the planning system turns down inappropriate proposals or imposes necessary conditions. This is a vital function of development control. Investment objectives need to be balanced against other objectives. But while some factors work to the advantage of applicants – large firms, for example, may have financial resources available to them that work in their favour – there are also a number of factors that may work in the other direction:

- there is currently *little financial incentive* for plans and decisions to promote economic development, particularly in the economically stronger regions of England. With the exception of section 106 payments, whereby developers pay local authorities for costs related to the development which would otherwise be refused, and initiatives such as the Local Authority Business Growth Initiative, the local government finance system may provide little incentive to adopt a growth agenda. This is in contrast to countries such as Germany, where a combination of local taxation and per capita grants provides a strong incentive for local authorities to promote growth;

- related to this, there are often *local interests against development*. These can be for good reason, and community involvement and democratic legitimacy are vital to planning. But plan-making and development control can favour smaller and more concentrated special interest groups at the expense of more diffuse interests. If a development will, for example, lower prices by improving the efficiency of a firm, it will do so for a wide group who each gain marginally, but may more directly affect a small group who may feel increased costs of higher congestion in the area. Evidence suggests that 60 per cent of planning changes brought about by the process of public participation result in a reduction in the amount of development proposed as against 13 per cent where development targets are increased.[16] A recent survey suggests there is broad opposition to development (see Table 3);

[14] DCLG *Development Control Statistics*, 2004-05
[15] Derived from DCLG data used for publication of the Commercial and Industrial Floorspace Statistics series.
[16] D. Adams, *The Urban Development Process* (1995).

Table 3: Public attitudes towards hypothetical developments being proposed in their area

	Strongly oppose or oppose	Somewhat oppose	Somewhat support	Strongly support or support	Net opposition
Waste collection/land fill site	80	6	3	9	–73
Power plant or utility	77	6	5	8	–70
Quarry	75	7	5	7	–70
Office	53	14	11	17	–39
Retail park	54	7	9	27	–24
Department store	50	8	9	29	–19
Supermarket	50	7	10	31	–16
Social residential – flats	39	13	15	27	–10
New road project	36	8	15	36	7
Govt office, church, non-profit	33	7	20	34	13
Private residential – housing	24	9	23	38	28
School	10	8	15	61	54

Source: Saint Index, March 2006[17]

- similarly, the *nature of political pressures and time-horizons* means that there can be a bias against developments that could have long-run gain and short-term costs: development may, for example, result in short-term local disruption to traffic (particularly with major infrastructure projects such as airports) even though the benefits it supports directly or indirectly may be felt over many years to come – though this can also work against certain long term environmental interests;

- *perceptions about development* are not always accurate. The public cannot be fully informed about the nature of a number of specialised policy processes, of which planning is one. For example, even twenty years ago two-thirds of the population believed that 65 per cent or more of the UK surface area is urban, when only eight per cent of England is urban today;[18] and

- finally, the *administrative boundaries* currently in place for planning authorities can exacerbate some of these tendencies. Local planning authorities for towns and city centres will frequently be smaller than the travel to work area, or wider city-region catchments, where benefits of economic development will be felt and this may therefore result in sub-optimal outcomes. New plan-making arrangements that provide opportunities for regional/sub-regional plan making and local development documents covering more than one area may help to address this issue.

[17] Percentages may not sum to 100 due to rounding.

[18] B. Cullingworth and V. Nadin, *Town and Country Planning in the UK* (London, 1988), p. 184.

Planning, competition and enterprise

1.22 There are a number of ways in which planning can help promote competition and enterprise. Compulsory purchase orders can be used to overcome barriers to new development. And it can also be used to provide wider public goods such as busy and attractive high streets. Where planning is delivering effective infrastructure and regeneration this can also support competition in specific locations, while providing employment land can support the development of new enterprises. But planning can also have some adverse effects, though their overall significance is hard to evaluate:

- the complexity of the planning system provides insider-power, as incumbent firms are able to exploit their knowledge of the system when making applications and objecting to proposals from competitors. Similarly the plan-led system may enable incumbent firms with the strongest lobbying powers to influence the location and availability of development sites. Large firms are more able to pay for quality consultants and legal fees; while delays provide rival firms with time to react to the threat of entry. Only 51 per cent of Small and Medium Sized Enterprises (SMEs) were satisfied with how their contact with Government in terms of planning permission process had been handled – the lowest levels of satisfaction of any of the ten areas surveyed.[19]

- planning requirements may lead to development to being constructed below an economically optimal size, shape, condition or in a sub-optimal location, leading to higher cost structures and/or lower revenue flows. Similarly other restrictions to the use and development of property can preclude the efficient use of capital and lower competitive intensity, though they may be justified by wider goals such as cultural heritage; and

- to the extent that restrictions to land supply raise land values and property prices, this raises the cost of entry to the market. Equally, the targets for development of previously developed land may mean that only larger developers are able to handle complex issues, such as site decontamination, tend to be able to enter some markets. Land supply restrictions also increase the potential for strategic barriers to entry to foreclose markets by closing off access to land – for example by purchasing land options. A recent report also found that local authorities also sometimes appear to favour the interests of firms indigenous to the area, for example by giving preference to local firms at particular sites.[20]

1.23 The impact on competition and choice may affect some sectors more than others. There is evidence that the hotel sector experiences difficulties with planning and that this might in part account for the age of England's hotel stock.[21] A number of studies have also concluded that land supply constraints are lowering retail productivity by raising barriers to entry and inhibiting the ability of more efficient firms to benefit from economies of scale.[22] For example, a Competition Commission report in 2000 found that there were substantial economies of scale in stores up to

[19] Small Business Survey, *Annual Survey of Small Business 2004/05* (London, 2005), Table 8.2a. Base: 674.

[20] ECOTEC Research and Consulting Ltd and Roger Tym and Partners, *Planning for Economic Development: A Report for the Office of the Deputy Prime Minister* (2004), pp. 9, 81.

[21] Better Regulation Task Force, *Tackling the Impact of Increasing Regulation – A Case Study of Hotels and Restaurants* (London, 2000).

[22] See, among others, M. Maher and M. Wise, 'Product Market Competition and Economic Performance in the UK', OECD Economics Department, Working Paper no. 433 (Paris, 2005) and R. H. McGuckin, M. Spigelman and B. van Ark, *The Retail Revoution: Can Europe Match US Productivity Performance?* The Conference Board (Groningen, 2005).

3,000 square metres, but that the average store size in the UK is less than 500 square metres, with the planning system being partly responsible for this.[23] Recent reforms to planning policy on town centres may go some way to addressing these issues and any costs associated with the impact need to be assessed against potential wider benefits. The relationship between town centre vitality, transport, and 'town centres first' policy is more complex than often assumed. Growing consumer expenditure, for example, suggests there is not always a zero-sum game between town centre vitality and development beyond the centre, and *Planning Policy Statement 6* takes this into account.

Planning, skills and labour flexibility

1.24 There is less evidence that the planning system causes an impact on demand for and supply of skills than for other productivity drivers. But it can be used to facilitate the expansion of the education sector at a time of growing demand for higher-level skills. It can aid labour market flexibility through its impact on housing supply and transport infrastructure. And it can be used to influence the types of employment and hence skill-base likely to be employed in a given locality:

- in terms of facilitating the expansion of colleges and universities the picture is varied. The biggest difficulties often relate to land supply issues, with planned expansions at Bath, Surrey and York all taking several years to negotiate their way through the planning system;
- in terms of influencing labour mobility there is evidence that regional house price-to-earnings ratios influence net migration between the South East and the rest of England, in part as homeowners from lower-priced regions cannot afford to move to higher-priced areas. Similarly, delays to transport infrastructure provision can influence labour market flexibility; and
- planning policies can also influence the demand for skills through the plan-framework that can influence the type of employment in a certain area. Policies to encourage jobs that suit the needs of low-skilled residents, for example, may limit the growth of new enterprises.

Planning and innovation

1.25 The planning system has the potential to influence the size and development of agglomerations of economic activity. Larger towns and cities may reap benefits in the form of labour market pooling and supplier specialisation. Where planning constrains city growth it may constrain these benefits – recent research has suggested doubling the size of a city can result in productivity gains of three to eight per cent.[24]

1.26 In terms of innovation, the UK has persistently spent less on research and development (R&D) than key competitors – in the last five years the UK has spent 1.8 per cent of GDP on R&D while Germany and France have spent over 2.5 per cent. There are a wide range of potential explanations for this, most of which are unrelated to planning. The Government has responded in a number of ways, including introducing a ten-year science and innovation investment framework. But in recent years there has been growing interest in spatial explanations and the cluster benefits from proximity to similar firms – 54 per cent of high-tech firms finding local access to innovative people, ideas and technologies of value to their business.[25]

[23] Competition Commission, *Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom* (London, 2000).

[24] S. S. Rosenthal and W. C. Strange, 'Evidence on the Nature and Sources of Agglomeration Economies', in J. V. Henderson and J-F. Thisse (eds.), *Handbook of Regional and Urban Economics*, vol. 4 (2004).

[25] D. Keeble, C. Lawson, B. Moore and F. Wilkinson, 'Collective learning processes, networking and 'institutional thickness' in the Cambridge Region', *Regional Studies*, 33/4 (1999), p. 325.

1.27 Planning is only one factor among many in determining the success (or otherwise) of innovative clustering. Local authorities that choose to adopt pro-growth policies aimed at promoting clusters can be instrumental in ensuring their development and continued success, as the City of London illustrates. But the system does not always play this positive role in the development of successful clusters:

- the Cambridge cluster, for example, now employs over 30,000 people but, until the early 1990s, regional and county planning policy guidance aimed to disperse economic activity;
- Oxford also developed a strategy of displacement, in the context of a tight city boundary which limits available employment land and raises house prices; and
- for 'Newcastle Science City' the planning framework and administrative boundary issues may also be slowing development aimed at attracting 100 new technology start-ups to Newcastle and the surrounding area by 2010.

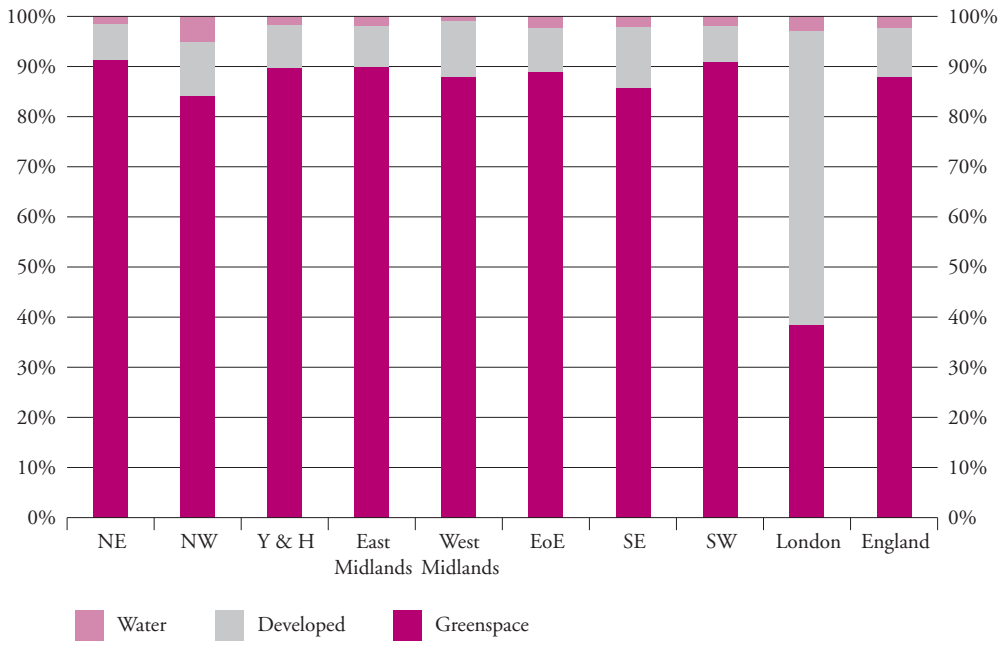
1.28 There is therefore evidence of land use regulation impeding the development of clusters that could have developed quicker or more extensively – a report for the DTI concluded that planning restrictions can be a 'significant barrier' to cluster growth.[26] This is true both in terms of land designated for the purpose of cluster formation, and wider policies relating to planning such as the need to ensure an adequate supply of housing to support local labour markets. Where the wider conditions exist for cluster formation, the planning system needs to ensure that it does not act as an impediment within the context of its wider sustainable development objectives.

There are issues around the responsiveness of the planning system to price signals

1.29 There are large differences in land values for different uses in England. For England and Wales (excluding London) the average value of mixed agricultural land is around £10,000 per hectare.[27] But land values for other uses with more limited supply (see Chart 2) are much higher. Average costs are £2.6 million per hectare for housing land, £660,000 for industrial and warehousing, and £780,000 for general office class B1.[28] In certain parts of the country this differential is even higher. In the South East, for example, while agricultural land is worth £12,000 on average, general business class B1 land is worth £1.7 million and housing land £3.2 million per hectare.[29] On average it is not surprising for there to be a large discrepancy in land values between certain use classes. But research suggests this discrepancy is also found at the border between use classes.

[26] Lord Sainsbury, *Biotechnology Clusters: report of a team led by Lord Sainsbury, Minister for Science* (1999), p. 41
[27] Valuation Office Agency, *Property Market Report 2006*.
[28] Valuation Office Agency, *Property Market Report 2006*.
[29] Valuation Office Agency, *Property Market Report 2006*.

Chart 2: Land use as a percentage of total area 2001



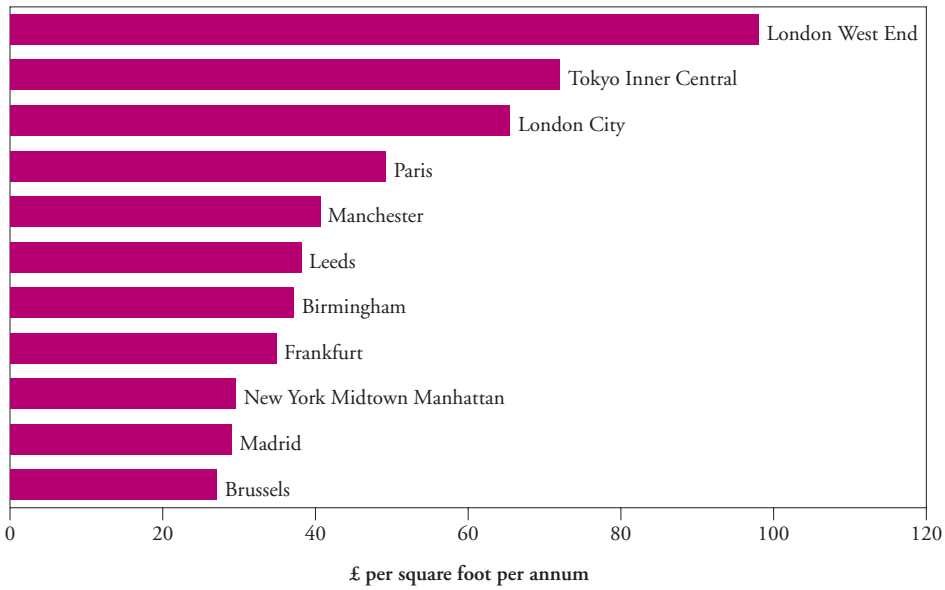
NB: Percentages have been rounded, a small percentage of land use is unspecified.

Source: Generalised Land Use Database

1.30 While there are non-market values of land to be taken into account, which can be substantial (rising to over £10 million per hectare for urban core public space) it is not clear that wider social or environmental benefits can always account for the level of discrepancy in land value for different use-classes.[30] In terms of traffic emissions, for example, although it is often suggested that there is a link between density and emissions – and that one justification for high price differentials between urban and agricultural land may be the need to reduce emissions – the nature and extent of this link is disputed. Over the long term, other policies, including road-pricing, may help to achieve the desired goals more efficiently. Equally, there may be wider costs associated with limiting the growth of towns and cities, as in some instances when sites of higher biodiversity within urban areas may be developed in favour of less valuable open space beyond the city boundary.

[30] Eftec and Entec, *ODPM Appraisal Guidance, Valuing the External Benefits of Undeveloped Land: A Review of the Economic Literature*, A Report for the Deputy Prime Minister (London, 2002).

Chart 3: Total Occupation Costs for Selected Cities, 2006 (Prime Commercial Office Space)



Source: CB Richard Ellis

1.31 Land supply restrictions (only 0.6 per cent of land is developed to non-domestic buildings) combined with height restrictions such as tall buildings policies or protected views, are likely to have a hidden cost of increasing business rents – usually the second highest component of business costs after wages. It is clear that there is some relationship between price and supply of space – developers are, for example, revising down their rent estimates in certain Central London locations in the light of the anticipated 5.2 million square feet of space coming on stream at the nearby Kings Cross development. Though precise rankings vary in part due to exchange rate fluctuations, England has some of the highest occupation costs in the world (see Chart 3):

- of the world's 15 most expensive prime commercial property locations, five are in England;
- London West End occupation costs of £98 per square foot are the most expensive in the world. They are around 40 per cent more than any other city in the world, and double those of Paris, the next most expensive European city; and
- prime site occupation costs in Manchester and Leeds are around 40 per cent more than mid-town Manhattan.[31]

1.32 While land is limited in England and demand is high, the magnitude of the differentials means it is difficult to account for the figures above in terms of these factors alone. Nor do construction costs appear to be higher in England than elsewhere. Research commissioned for the review on 14 local office markets going back to 1973 suggests that regulation – including planning – plays a significant role in determining price.[32] And the need to deliver land for housing may be

[31] CB Richard Ellis, *Global Market Rents*, January 2006.

[32] P. Cheshire and C. Hilber, 'The Cost of Regulatory Constraints on the British Office Market', Report for the Barker Review of Land Use Planning, May 2006.

having a knock-on effect of distorting the market for employment land.

1.33 But there is other data to consider. There is evidence that suggests that planning is not a major constraint on the supply of space. In London, for example, the stock of available permissions greatly exceeds the average rate of new construction starts, while in areas such as Yorkshire and the Humber there appears to be an oversupply of employment land. So in addition to supply constraints there may also be issues relating to the operation of the land market. In short, this is a complex area and research in the field is fairly limited. But though the degree is uncertain, planning restrictions are likely to be contributing, along with other factors, to high occupation costs in England.

Next Steps

1.34 Planning often involves making difficult decisions, and reaching judgements can be controversial. There are a number of ways in which the planning system appears to be integrating and where necessary balancing competing interests in an effective manner. The extent of open countryside, the degree of heritage protection, the vitality of many town and city centres, the successful separation between land uses such as heavy industry and housing, the ability to reach consensus about the nature and extent of development via community involvement, and the regeneration of many deprived areas are just some of the ways in which proactive planning actively contributes to wider quality of life goals. Many recent reforms should also help in the delivery of key outcomes – the new system of spatial planning, for example, should also help ensure that planning is better integrated with other policy goals at a regional and local level.

1.35 But more can be done to ensure the planning system responds more effectively to the challenges of globalisation. While there are important economic benefits associated with effective planning, there seem to be some negative direct and indirect effects, to varying degrees, on all five of the main drivers of productivity, though the literature in this area is often not extensive and it can sometimes be hard to isolate the impact of planning from other factors. This does, however, suggest that improvement in the performance of the planning regime could – where justified – help to close the productivity gap between the UK and other developed countries.

1.36 Responding to this challenge does not and should not imply prioritising the needs of businesses over other interests. Indeed, it may be that there are reforms that could also enhance environmental and social outcomes so that an overall better set of outcomes can be achieved. But it means improving a system whereby, according to a recent study commissioned by the Government, "in general, planning for economic development is a lower priority and has a lower profile compared to other major areas of the planning system, notably housing and retail development. A culture of positive proactive planning for economic development is not firmly embedded, although there are positive examples where it does occur[30]."

1.37 Among the issues that the review will explore in making its final recommendations are:

1. *Efficiency of process* – how can the planning system be made more efficient, so that it delivers high quality and sustainable outcomes while providing value for money? The review will consider how unnecessary delays and complexity in the planning system at all levels – national policy, regional and local plan-making and development control – could be further reduced, and how the skills of decision-makers can be enhanced and how to ensure they are able to focus those skills on the most significant issues. Where

[30] ODPM (now DCLG) Planning Research, *Planning for Economic Development: Report for the Office of the Deputy Prime Minister* (2004), p. 7.

planning policies seek to deliver important Government priorities, it will explore whether any might more appropriately be tackled, at least in part, by other policy routes or whether there are ways to deliver more joined-up policy.

2. *Efficient use of land* – many of the ways that planning impacts on the economy – including the expansion of universities, the impact on occupation costs, the development of innovation clusters, the setting up of small enterprises – relate to the supply of land. This raises questions about whether current land supply is optimal for development. In addition there are some environmental concerns about whether the right land is being used for new development.

3. *Flexibility and responsiveness* – can the planning system be made more responsive to price-signals and changing economic circumstances at a local and regional level, while also providing the certainty that businesses value? In this context the issue of the incentives facing decision-makers will be explored – for many local planning authorities there is often little financial incentive to adopt pro-growth strategies or enhance competition. The issue of the level at which decisions are best made will also be explored, considering how the principle of subsidiarity might best be applied.

1.38 In drawing its conclusions, the review will take note of emerging findings from related reviews, including the Lyons Inquiry, the Energy Review and the Eddington Transport Study. In considering potential reforms to address these problems, the review will also take into account four critical background issues:

- it is important that participation and democratic accountability is maintained within the system;
- in an age of increased legal challenge, risk-aversion among public bodies and private sector applicants is to be expected and this will necessarily have an impact on the speed and complexity of the planning system;
- beyond an assessment of evidence relating to gold-plating, the potential for reform of European legislation is constrained; and
- there have been a number of changes made to the planning system in recent years, and constant change bears its own costs.

1.39 There are complex sets of trade-offs to be made in planning and there are unlikely to be simple magic bullet solutions to many of these issues. Nor will reform be suggested for reform's sake. And given that the new plan-making process is bedding down, the focus of the final report will not be on this aspect of the system. But in the context of the issues identified, and the economic costs that may be being imposed on businesses and consumers as a result, the final report will consider how and whether planning can improve the efficiency and effectiveness of sustainable economic development while protecting or enhancing its wider sustainable development goals.

1 How the planning system works

INTRODUCTION

1.1 This chapter provides an introduction to the planning system and the main legislation governing the use and development of land in England. It outlines:

- the aims and objectives of the planning system;
- the rationale for government intervention;
- the main statutory framework of the Town and Country Planning Acts and European environmental legislation.[1]

AIMS AND OBJECTIVES OF THE PLANNING SYSTEM

Sustainable development

1.2 The way we use and develop land in England has a profound impact on our quality of life. Land is a finite resource with many competing uses: houses and gardens; schools and hospitals; shops, offices, factories, and warehouses; leisure facilities; roads, railways, ports and airports; utility infrastructure; agriculture and mineral extraction; and conserved open landscapes. The process of mediating between these competing uses and regulating the nature of development within these uses influences almost every aspect of working and social life. The employment opportunities available to us, the public amenities provided, the price and size of the homes we can afford, the price of goods we buy, the attractiveness of our urban areas and countryside, and the extent of open space we have in our towns, cities, villages and countryside are all affected. Proactive planning can shape the future of an area. It can find new uses for old buildings, regenerate town centres, improve access to public transport and improve the public realm.

1.3 The overriding aim of the planning system since the early 1990s has been to deliver sustainable development. Those bodies responsible for preparing spatial plans now have the duty to do so in a way that contributes to the achievement of this goal.[2] This is also a statutory purpose of the Regional Development Agencies.

1.4 There are a number of definitions of sustainable development. In 1987, the World Commission on Environment and Development defined the term as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.[3] The Government's broad strategy for sustainable development draws on this definition (see Box 1.1). In the context of planning, the Government's aims are set out in Planning Policy Statement 1: Delivering Sustainable Development (PPS1), which states that sustainable development aims:

[1] Other consent regimes, such as the regulations around pipeline construction or harbour consent, are set out in Annex B.

[2] Section 39(2) of the Planning and Compulsory Purchase Act 2004.

[3] World Commission on Environment and Development: ('The Brundtland Commission'), *Report of the World Commission on Environment and Development: Our Common Future* (UN, 1987).

should be pursued in an integrated way through a sustainable, innovative and productive economy that delivers high levels of employment and a just society that promotes social inclusion, sustainable communities and personal well-being, in ways that protect and enhance the physical environment and optimise resource and energy use.[4]

1.5 In more detail, the document states that the planning system should facilitate and promote sustainable and inclusive patterns of urban and rural development by:

- making suitable land available for development in line with economic, social and environmental objectives to improve people's quality of life;
- contributing to sustainable economic development;
- protecting and enhancing the natural and historic environment, the quality and character of the countryside, and existing communities;
- ensuring high quality development through good and inclusive design, and the efficient use of resources; and
- ensuring that development supports existing communities and contributes to the creation of safe, sustainable, liveable and mixed communities with good access to jobs and key services for all members of the community.[5]

1.6 There is a debate about whether the planning system integrates or balances wide-ranging and potentially competing objectives. There is not an inevitable conflict between environmental, social and economic goals: for example, when the quality of urban design creates attractive cities where people want to live and work; or when tourism brings investment into a rural area which can be used to support the local environment. But there are instances where a balance has to be struck: for example, protecting a nesting habitat for endangered birds or building affordable housing; or moderating between different environmental priorities as with wind farm development. In these cases, the question about balance in land-use regulation is an important one. And where objectives conflict, the challenge of how to make trade-offs fairly and efficiently arises.

Targets

1.7 To support these objectives both national and local targets are used to measure success. The Department for Communities and Local Government (DCLG) has a Public Service Agreement (PSA) for the planning system to deliver sustainable development outcomes at national, regional and local levels, 'through the efficient and high quality planning and development management processes, including through achievement of best value standards for planning'.[6] Meeting this objective is considered to contribute towards 'sustainable improvements in the economic performance of all English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions'.[7] In addition, national targets are set for both the process (for example, the speed of determining applications is measured by the percentage of decisions to be determined within 8 to 13 weeks), and a range of outcomes such as the proportion of new

[4] Planning Policy Statement 1: Delivering Sustainable Development is the Government's overview guidance setting out the objectives for the planning system. Published by the Department for Communities and Local Government (formerly ODPM) in February 2005.

[5] It also notes that development plans take account of the regional economic strategies of Regional Development Agencies, regional housing strategies, local authority community strategies and local economic strategies.

[6] DCLG PSA 6; Best value standards are tools used to measure and manage local authority performance.

[7] DCLG PSA 2.

development that should take place on previously developed land.[8] However, it is not clear that the desired outcomes are articulated sufficiently to allow effective measurement, in order to make a more complete assessment of success in achieving sustainable economic development.

Box 1.1: The UK's approach to sustainable development

The Government's approach to sustainable development is set out in the 2005 document '*Securing the Future: Delivering UK Sustainable Development Strategy*'. It states:

The goal of sustainable development is to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations.

For the UK Government and the Devolved Administrations, that goal will be pursued in an integrated way through a sustainable, innovative and productive economy that delivers high levels of employment; and a just society that promotes social inclusion, sustainable communities and personal wellbeing. This will be done in ways that protect and enhance the physical and natural environment, and use resources and energy as efficiently as possible…

Similar objectives will inform all our international endeavours, with the UK actively promoting multilateral and sustainable solutions to today's most pressing environmental, economic and social problems. There is a clear obligation on more prosperous nations both to put their own house in order, and to support other countries in the transition towards a more equitable and sustainable world.[9]

THE RATIONALE FOR INTERVENTION

1.8 An unregulated market is often an efficient mechanism for determining the use of scarce resources between competing demands. The planning system creates an opportunity to reform the market and thus negotiate between these competing demands. However, an unregulated market for development is undesirable due to:

- **Externalities**: these are side effects to economic activity. For instance, if a new development creates traffic flows that the surrounding roads are unable to accommodate, this increased congestion imposes an environmental cost on the neighbourhood. However, sometimes these side effects (or spillovers) can be beneficial, as when a new building improves a town's public reputation. These side effects will be inadequately accounted for by the free market but land use regulation can both mitigate adverse impacts and promote beneficial development. As the Royal Commission on Environmental Pollution noted:

  'if the town and country planning system had not existed, widespread damage to the environment would have occurred over the last 50 years, probably with serious social and economic consequences'.[10]

- **Public goods**: a public good is broadly defined as when one person's consumption does not affect the amount available to anyone else (for example street-lighting on a public road). These goods would be underprovided by the free market, and so are protected or provided through government intervention. The provision of urban open

[8] The major study of the post-war planning system suggested that the main outcome of the planning system was the containment of urban England and highlighted the costs associated with this. Many of the current targets relate to this aim. See: P. Hall, *The Containment of Urban England* (London, 1973).

[9] *Securing the Future: Delivering UK Sustainable Development Strategy* (London, TSO, 2005).

[10] Royal Commission on Environmental Pollution, *Key messages from twenty-third report on Environmental Planning* (London, 2002).

space is one example, as without protection of parks and open landscapes many of the benefits in terms of recreation or other amenity that is derived from this land would be lost. Infrastructure for communities is also ensured through the planning system;

- **Monopolistic behaviour**: where there is no alternative source of land for a certain development, owners are essentially in a quasi-monopoly position that they can exploit. Interventions such as compulsory purchase help to limit this;
- **Pursuit of equity**: positive planning can support socially fair outcomes. It can help to regenerate areas where local economies are failing. It can also foster mixed communities and ensure the representation of all to protect them from developments which would have undue negative effects;
- **Information asymmetries:** these occur when those making choices have different information from one another, or when they are not informed by all available knowledge. For instance, developers may build houses in areas of high flood-risk if potential owners are not aware of those risks. The planning system allows for positive co-ordination between different but complementary elements of planning, such as the need for new housing, the need for new infrastructure and the need to protect the environment.

1.9 The rationale for intervention is clear, and even those who criticise aspects of planning acknowledge widespread presence of market failure in the land market. However, just as markets do not always achieve optimal results neither do governments. Government failures can also result from information deficiencies: for example, local planning authorities may not be able to balance non-market costs and benefits due to the difficulty of valuing them. They may therefore over-provide or under-provide for the spillovers, positive or negative, that result from development. Transaction costs may be high. In addition, public choice theory suggests that government may not always have the incentive to act in pursuit of the wider public interest even where there is the necessary information setting out how to correct market failures, as when certain interests in society have greater lobbying power than others. Policies may also end up having outcomes at odds with those intended.[11] The extent of market failure is potentially so pervasive that all developed countries regulate land use to some degree (see Box 1.2). But while no serious commentator would support abandoning planning,[12] there is scope for considering whether the present English planning system in practice operates so that it maximises net welfare. Subsequent chapters consider ways in which this may not be fully achieved; either because the costs of the planning system itself are disproportionately high (as a result of the process or subsequent delays) or because the consequent pattern of land use is not optimal.

[11] For the most comprehensive treatment of the government failure critique of planning, see M. Pennington, *Planning and the Political Market: Public Choice and the Politics of Government Failure* (London, 2000). And some of the support for the planning system may derive from insider benefits (a system that limits the release of land to a small number of developers may result in higher profits for those developers, for example, than would otherwise be the case).

[12] Although some academics did consider the possible outcomes of ending planning in: R. Banham, P. Barker, P. Hall, P. Price, 'Non-Plan – An Experiment in Freedom' *New Society* (March 1969).

Box 1.2: International variations of land use planning

Ireland and Australia have similar land use regulation systems to England. They have a discretionary model of decision-making, whereby the authorities can determine cases on their merits rather than purely on the basis of a legally binding plan. There are, however, a number of important differences: Ireland, for example, has had a more permissive approach to planning and has also recently introduced a National Spatial Strategy to guide future development.

Germany, Austria and Switzerland operate a decentralised structure of planning based on binding plans. In Germany, the federal state sets out the goals and broad parameters for planning, while different states or Länder produce their own planning laws, and the municipalities develop their own legally binding plans. The Länder can only withhold approval of those plans on the basis of legal process grounds, rather than substance. There are no national powers similar to call-ins. Towns and cities often compete for development since development can raise finance through local taxation. The Dutch system gives the state a strong role in infrastructure development, while the Scandinavian model provides strong powers for land acquisition.[13]

In the United States, the 9th and 10th amendments to the constitution restrict the rights of the federal government in relation to the rights of the states and citizens. Planning operates via local zoning ordinances. The federal government intervenes through agencies such as the National Parks Service in the ownership of land. This decentralised model results in different types of regulation: some areas such as Portland, Oregon have strict planning laws for urban growth boundaries, while others have more limited controls. Houston, Texas has liberal planning policies, which preclude even a zoning system.[14]

Though it is possible to construct ideal types of land use regulation on the basis of these different models, in practice they are often more similar than perceived. In Germany, for example, it is possible to negotiate exemptions to the plan that weaken its legally binding force, while Houston has strict building regulations separate from its planning laws. In general, it is therefore important to distinguish how systems operate in theory from how they are delivered in practice.

HOW THE SYSTEM WORKS – THE TOWN AND COUNTRY PLANNING LEGISLATION

1.10 The planning system operates at the national level through the implementation of central government planning policies; at the regional or local level through development plans; and at the site specific level through the determination of planning applications that is known as development control or, more recently, development management. It has its origins in the 1947 legislation (see Box 1.3) and the principal planning act is the Town and Country Planning Act 1990 (TCPA 1990), as subsequently modified by the Planning and Compulsory Purchase Act 2004 (PCPA 2004).

1.11 The basis for planning control in England and Wales is Section 57(1) of the TCPA 1990, which provides that '[subject to the following provisions of this section], planning permission is required for the carrying out of any development of land'. Section 55(1) defines development as 'the carrying out of building, engineering, mining or other operations in, on, over or under land, or the making of any material change in the use of any buildings or other land'. There is, in addition, a considerable body of case law and precedent on the meaning of development.

[13] For a full analysis see P. Newman and A. Thornley, *Urban Planning in Europe: International Competition, National Systems, and Planning Projects* (London 1996).

[14] For a full analysis see J. B. Cullingworth, *Planning in the USA* (New York, 1997).

The plan-led system

1.12 England has what is known as a 'plan-led' system. This means that planning authorities must determine planning applications in accordance with the statutory development plan unless 'material considerations' indicate otherwise (PCPA 2004, section 38(6); TCPA 1990, section 70(2)). Where there are no other material considerations, the application will be decided in accordance with the plan only. Where there are other material considerations, the plan will be the starting point, although the other considerations must be taken into account and can, in principle, override the plan. The law determines what constitutes a material consideration and it is ultimately for the courts to decide. In principle any factor which relates to the use and development of land and is relevant to the application is capable of being a material consideration. The courts have held that government statements of planning policy can be material considerations to be taken into account when deciding whether to grant planning permission.

Recent reforms to plan-making

1.13 Recent reforms to planning legislation in PCPA 2004 mean that the statutory development plan for an area now consists of the Regional Spatial Strategy (or the Spatial Development Strategy in London) proposed by the Regional Planning Body and the Local Development Frameworks prepared by the district or unitary authority:

- Regional Spatial Strategies (RSSs): each of the eight regions in England prepares a RSS setting out the Secretary of State's policies in relation to the use and development of land within the region. In London, the RSS is the Spatial Development Strategy (called the 'London Plan'), which contains the Mayor's policies for the use and development of land in the Greater London area. These spatial strategies set out development goals for the region over a 15–20 year period, for example how many houses are needed and whether major infrastructure such as roads or airports are needed. They are the subject of public consultation and examination in public before being agreed ultimately by the Secretary of State. Preparations, revisions and alterations of the RSSs are the responsibility of Regional Planning Bodies (RPBs)[15] which are required to keep under review and, as necessary, revise the RSSs, subject to supervision by the Secretary of State. The RSS should be informed by a Regional Economic Strategy, although there are concerns in some regions about how well aligned these strategies are. In London, responsibility for the review and revision of the RSS rests with the Mayor. When revising the RSS, the RPB must take into account (amongst other things) national policies and guidance issued by the Secretary of State; and
- Local Development Frameworks (LDFs): a suite of documents which determine the local planning strategy for the area. LDFs are intended to streamline the local planning process and promote a proactive, positive approach to managing development. Local planning authorities, (district or unitary councils but also county council for minerals and waste including National Park authorities), must prepare a Local Development Scheme (LDS) setting out a programme for the production of Local Development Documents (LDDs). LDDs must set out the local authority's policies relating to the development and use of land in their area and must have regard, amongst other things, to national planning policies and guidance and to its RSS. The preparation and revision of the LDS and LDDs is subject to supervision by

[15] As of April 2003, the RPBs will be the Regional Assembly of each region. The PCPA 2004 however gives the Secretary of State power to recognise a new body as the RPB for the region.

the Secretary of State, who may require changes and exercise default powers. The LDFs are put in place after engagement with all sectors of the community, including the business sector, local residents and other bodies and an independent examination to consider if the LDDs are sound to discuss the plan's proposed policies.[16]

1.14 The 2004 Act reinforces the concept of 'spatial planning' as opposed to 'land use' planning. Spatial planning involves integrating traditional land use plans with other policies and programmes, such as economic or housing, health or education, waste or transport plans, which influence the nature of places and how they function. Spatial planning should also facilitate working across geographic and political boundaries, recognising that administrative boundaries do not always reflect behaviour. The aim is for a more spatial cross-border approach to facilitate greater joint working to the mutual benefit of neighbouring planning authorities.

[16] Mineral and waste authorities (county councils in two-tier local government areas) are required to prepare a minerals and waste development scheme and local development documents, following broadly the same procedures for the preparation of the LDS and LDDs.

Box 1.3: A brief history of land use planning in England

Government regulation of land use has taken place for centuries: Elizabeth 1 introduced the first state-mandated development control measures, requiring new buildings to be built on the foundations of old buildings.[17] But it was not until the early 20th century that the first legislation was passed giving local authorities powers and responsibilities to regulate land use. The Town Planning Act 1909 was a response to industrialisation, overcrowding, slum living and poor working conditions in the major cities. The Garden City Movement of the early 20th century pressed for reforms and the establishment of new self-contained suburban communities in areas protected from urban encroachment by agricultural land.

The post-war drive for nationalisation and plan-making developed from:

- first, concern about slum living, poor working conditions for many city dwellers and associated pollution and health problems caused by the rapid urbanisation in the 19th and 20th centuries. Post World War Two reconstruction, led by the public sector, aimed to provide housing in 'new towns';
- second, a perceived need to influence the location of industry. As the heavy industries of shipbuilding, coalmining and heavy engineering declined, unemployment and poverty rose, particularly during the economic depression of the 1930s, and failed to recover at the same rate as the rest of the country. The Barlow Commission (1937–40) recommended that a National Authority be established which would regulate the location of industry in order to stop industrial congestion in the South and distribute industry throughout the regions;[18]
- third, a concern to protect agricultural land, articulated through the Scott Committee on Land Utilisation in Rural Areas (1942).[19] This argument was readily received in 1942 when Britain was facing a sea blockade making her more dependent on home agricultural production than at any time since the 19th century.

The Abercrombie Plan for London (1943/44), the New Towns Act 1946 and the Reith Report into New Towns (1947) led to a number of new towns being built, not only to tackle the housing shortage and overspill from London but also to provide better quality housing for existing employment areas in towns such as Aycliffe (1947) and Corby (1950).

After the end of World War Two, planning was introduced throughout England through the introduction of the seminal Town and Country Planning Act 1947. It led to the creation of local planning authorities, the regulation of new development though the nationalisation of development rights, and the creation of new development plans. The development of the English planning system since the 1940s is characterised by reform to the 1947 Act: an increase in democratic participation in the 1960s; attempts to introduce a tax on the uplift in the value of land due to planning permission; and increased focus on sustainable development as the goal of planning. The focus has also tended to shift from mostly public-sector-led reconstruction post-war, towards a framework which provides the right conditions and incentives for private sector investment. Separate regimes have developed for the delivery of some major infrastructure schemes, including transport and utilities such as gas storage, electricity generation and water supply. Most recently the Planning and Compulsory Purchase Act 2004 (PCPA 2004) changed the structure of plan-making to reflect regional development goals better, increase public participation and speed up, simplify and increase flexibility of the plan-making process.

[17] J. Richardson, *London and its people* (London, 1995) pp. 62–3.

[18] *Report of the Royal Commission on the Distribution of the Industrial Population* (Barlow Report). Cmd 6153. HMSO (1940).

[19] *Report of the Committee on Land Utilisation in Rural Areas*. Cmd 6378. HMSO (1942).

1.15 The system of regional and local plans outlined above replaces an earlier system based mainly on Regional Planning Guidance (prepared by informal regional bodies and government offices), structure plans (prepared by county councils) and local or unitary plans (prepared by district authorities or unitary authorities in metropolitan areas). The purpose of the change was to simplify and streamline the framework of plans, in particular to speed up the process of updating plans. Existing plans have been preserved for three years unless replaced by new-style RSSs and LDDs. The old and new-style plans are therefore likely to coexist in most authorities until around 2008.

Development control

1.16 Development control or management is the process through which planning applications are made for site-specific development or for a material change of use of land or buildings. This can range from a large new shopping centre or a new waste disposal facility to a small-scale development such as an extension to a house. Some require other forms of permission, such as listed building consent if the proposed development affects an historic listed building. Some minor forms of development will not need planning permission because, under 'permitted development rights',[20] planning permission is deemed to have been granted. Permitted development rights are a way in which minor development is taken out of the regulatory framework and helps to reduce the burden on local planning authorities, developers and householders.

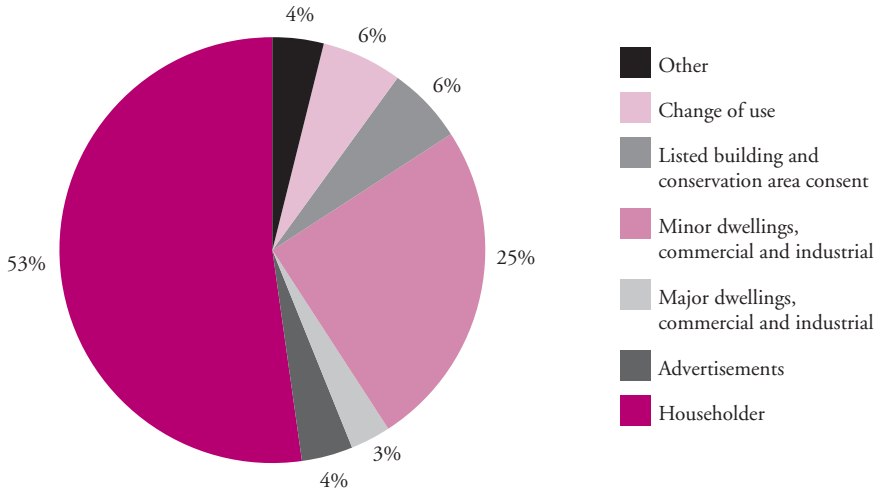
1.17 The local planning authority determines whether to grant approval, based on widespread consultation with interested parties, including those likely to be affected by the development in the local area, and also with other statutory consultees such as the Environment Agency or Highways Agency. An important part of the process, especially for major planning applications, can be pre-application discussions between developers and local authorities as well as local communities. Pre-application discussions can help ensure that when applications are submitted they are of a higher quality and should be able to be dealt with more quickly. About 85 per cent of planning applications are now delegated to planning officers for decision.[21] In all other instances local councillors make the relevant decision. There are now almost 700,000 planning applications made every year, around half of which are minor household developments. In 2004/05, of the 645,000 planning applications decided, 75 per cent of major and 76 per cent of minor applications were granted.[22] Chart 1.1 shows the proportions of different types of development decided within the planning system.

[20] Town and Country Planning (General Permitted Development) Order 1995.

[21] DCLG planning statistics dataset available at http://www.odpm.gov.uk/pub/811/Table7Planningdecisionspercentgranteddecidedwithin8weeksandpercentdelegated_id1164811.pdf.

[22] DCLG planning statistics dataset available at:
Table 1.4 Planning decisions by district planning authorities by speed of decision and type of development: England 2004/5.

Chart 1.1: Planning decisions by type of development 2004/05



Source: DCLG 'Planning Statistics' – Table 1.4 Planning decisions by district and type of development. NB Percentages have been rounded up.

1.18 If permission is refused, or if the local planning authority does not determine an application within a specified time, the applicant has a right to appeal to the Secretary of State and the Planning Inspectorate will handle the appeal. In 2004/05 over 23,000 appeals were made, corresponding to about 3 per cent of all planning applications, the most important of which will have gone to a public inquiry. A small number of planning applications will also be 'called-in' each year and decided by the Secretary of State for Communities and Local Government.[23] In 2005/06 some 50 call-in decisions were issued.[24] These applications are amongst the most complex and controversial and will be considered at a public inquiry. The Secretary of State will also decide each year about 100 of the most controversial appeal cases and these are also likely to go to inquiry.

Protected areas

1.19 The statutory development plan will necessarily include policies which relate to designated areas in the locality. These may include international, national, regional or locally designated sites such as, for example, World Heritage Sites, Special Protection Areas, Sites of Special Scientific Interest or Local Nature Reserves. These sites will receive different levels of protection depending on their designation, but all such designations will be material to the determination of planning applications.

[23] See Circular 07/99: The Town and Country Planning (Development Plans and Consultation) (Departures) Directions 1999 for the criteria used to call-in.

[24] A record of decisions on applications called-in under TCPA 1990 Section 77 is available at: http://www.databases.communities.gov.uk/planning/npp/call_default.asp?optr=0&optc=0&optla=0.

1.20 There is a substantial proportion of designated land in England (see Table 1.1). Sites of Special Scientific Interest (SSSIs) (8.2 per cent), Areas of Outstanding Natural Beauty (AONB) (15.6 per cent) and National Parks (7.6 per cent) make up around 28.2 per cent of the total land in England although, in practice, many SSSIs are located within Areas of Outstanding Natural Beauty and National Parks. In addition European legislation has resulted in additional designations: Special Protection Areas (SPAs) and Special Areas of Conservation (SACs). There are around 300 of these sites in all, covering 1,418,448 hectares or roughly 11 per cent of England. However, these designations often overlap with SSSIs. Further to designations to protect visual and environmental quality, an additional 12.9 per cent of England is designated as green belt land, England still has little urban land,[25] only 8.3 per cent of total land is considered urban. Table 1.1 shows the proportions of land under these designations and uses.

Table 1.1: Designations and other land uses in England

	Number of sites	Hectares	% of total land
Sites of Special Scientific Interest (SSSIs)[26]	4,110	1,072,540	8.2
Special Protection Areas (SPAs)[27]	77	609,249	4.7
Special Areas of Conservation (SACs)[28]	229	809,199	6.2
Area of Outstanding Natural Beauty[29]	35	2,040,000	15.6
Green belt[30]		1,678,200	12.9
National Parks[31]	9	994,000	7.6
Urban areas		1,100,000	8.3

Note: Some areas designated as SSSI overlap with Special Protection Areas and Special Areas of Conservation.

The following map shows the designations and land uses in England. The map is based on English Nature (2006), DEFRA (2006), ONS (2002) Countryside Agency (2006) and Environment Agency (2000) publications.

[25] For further details see DCLG, '*Urban and Rural Definitions: A user guide*' available at www.communities.gov.uk. Urban land is defined as land built on with settlements with a minimum population of a 1,000 and a minimum land area of 20 hectares. All settlements of over 10,000 are treated as urban areas.

[26] http://www.environment-agency.gov.uk/commondata/103601/i1_sssi_l5_dt_456452.xls.

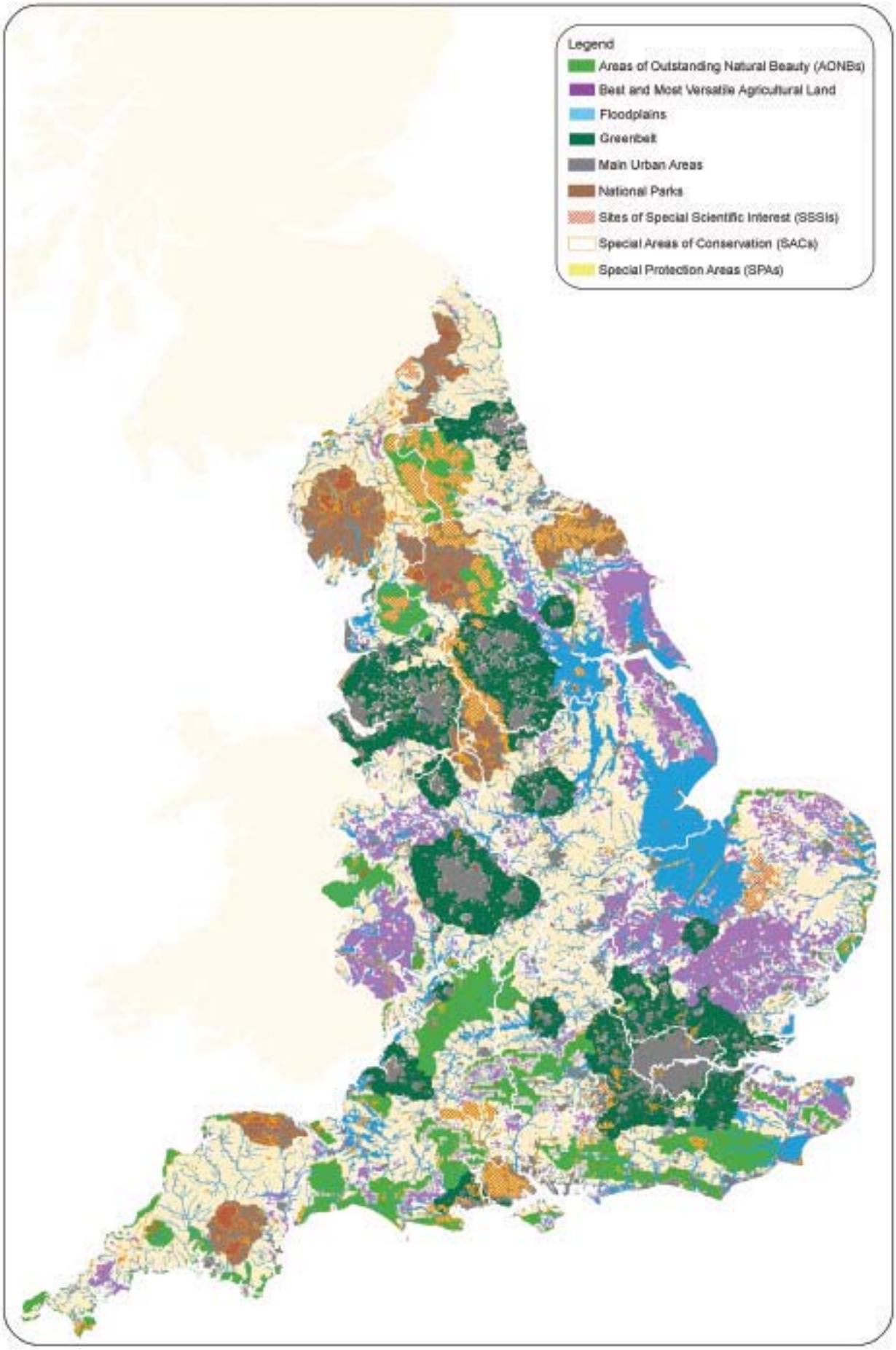
[27] http://www.jncc.gov.uk/page-1399.

[28] http://www.jncc.gov.uk/page-1456.

[29] Office for National Statistics Designated Areas, 2003 Regional Trends 38 (London, 2003).

[30] Local Planning Authority Green Belt Statistics: England 2004 figures.

[31] Office for National Statistics Designated Areas, 2003 Regional Trends 38 (London, 2003).


Legend
Areas of Outstanding Natural Beauty (AONBs)
Best and Most Versatile Agricultural Land
Floodplains
Greenbelt
Main Urban Areas
National Parks
Sites of Special Scientific Interest (SSSIs)
Special Areas of Conservation (SACs)
Special Protection Areas (SPAs)

1.21 Receipt of planning permission following the submission of a planning application or appeal does not necessarily imply that development can proceed. Many forms of development can require additional consents, such as pollution prevention control permits or consents under other legislation such as the Transport and Works Act 1992 or Electricity Act 1989. Often, these consent regimes allow for deemed planning permission to be granted. A summary of these consent regimes is provided in Annex B.

The role of the centre

1.22 As is suggested by the above, the Secretary of State has extensive powers to direct and shape planning policy at national, regional and local levels. In addition, the Secretary of State has other specific powers and duties under planning legislation:

- making regulations: the Secretary of State has powers to make statutory instruments which substantially supplement the main planning legislation. The Use Classes Order for instance excludes certain changes of use of existing buildings from the definition of development and thus from planning control.[32] The General Permitted Development Order,[33] gives general planning permission to a wide variety of developments with the result that it is not necessary in these cases to apply for planning permission;
- approval: some actions of local planning authorities, such as orders for revocation or modification of planning permission, require the approval of the Secretary of State. In addition, as noted above, she approves the preparation of Regional Spatial Strategies and has reserve powers concerning local development plans;
- appeals: local planning authority decisions that refuse planning permission, grant it conditionally, or are not determined within a given period may be appealed to the Secretary of State, who must arrange for a public local inquiry or other hearing (TCPA 1990, section 78). In practice, the decision in the vast majority of planning appeals is now taken by Planning Inspectors on behalf of the Secretary of State, although she has the power to make the decision herself in any specific instance. This will be done in cases of exceptional importance or unusual difficulty. There are also a few types of appeals where Inspectors do not have the authority to determine the appeal and it must, however minor, be referred to the Secretary of State for decision;
- powers of direction: the Secretary of State may issue directions of a general and specific nature to planning authorities. An example of a specific direction is a decision to 'call-in' an application for planning permission so that the Secretary of State may take the decision (TCPA 1990, section 77). The power is exercised sparingly, for example where a case gives rise to significant regional or national controversy; and
- advice and guidance: although not specified in legislation, this is arguably one of the Secretary of State's most important powers. As noted above, the Secretary of State regularly issues Planning Policy Guidance Notes and Planning Policy Statements,[34] as well as Minerals Planning Statements supplemented by circulars, on various aspects of planning control to planning authorities. Other statements of government policy, including those made by other departments, may also be relevant to plan-making and development control. The fact that no legislation is required enables national planning guidance to be very responsive to changing circumstances

[32] The Town and Country Planning (Use Classes) Order 1987.
[33] The Town and Country Planning (General Permitted Development) (Amendment) (England) Order 1995.
[34] Since the passing of the PCPA 2004, PPSs are progressively replacing PPGs.

Section 106 and Section 278 agreements

1.23 In certain circumstances, it may be necessary for developers to enter into agreements or undertakings with a local planning authority ('planning obligations') in order for planning permission to be granted. Planning obligations (or 's.106 agreements' made under s.106 of the Town and Country Planning Act 1990) can prescribe the nature of the development (for example the inclusion of affordable housing), require the developer to carry out works or require them to make a contribution towards the mitigation of the impacts of the development. Where local authorities seek such matters through planning obligations, the agreements must fulfil certain policy tests, such as proportionality, as set out in ODPM Circular 5/05. An estimated £1.15 billion worth of contributions was delivered through planning obligations in 2003–04.[35] Similar agreements are made with the local authority under section 278 of the Highways Act 1980. At present the government is consulting on proposals to introduce a Planning Gain Supplement aimed at ensuring that increases in land value created by planning decisions generally can be released more effectively to help finance infrastructure and that local communities better share in the benefits that growth can bring.

European law and the ECHR

1.24 Decisions on planning applications made by planning authorities or by the Secretary of State, or an Inspector acting on the Secretary of State's behalf, are legal documents and can also be subject to legal challenge through the courts. Decisions can be challenged on the following grounds: that an error of law was made; that the decision was unreasonable; that a party to the decision has been treated contrary to the principles of natural justice; if the decision violates human rights legislation or is not in line with European law. Local Development Frameworks and Regional Spatial Strategies can also be subject to judicial review where procedures have not been correctly followed. Legal action taken against planning decisions and subsequent high court rulings all have an impact on the complexity and speed of planning decisions. For instance the 'Rochdale judgment', a High Court decision, clarified the level of detail to be contained in outline planning applications (and Environmental Statements) to ensure that environmental effects can be properly considered.[36]

1.25 European legislation has had a major impact on national planning policy in the UK. A number of European Directives and the implementing legislation has contributed to the complexity of the system. Additionally, this legislation applies some restrictive considerations: for example, under the Habitats Directive and accompanying regulations, conservation science must take precedence unless there are reasons of overriding national importance. The extent of international designations is the responsibility of international groups looking at the distribution of species. Some of the most important pieces of European legislation relevant to planning matters are summarised below:

- The Environmental Impact Assessment (EIA) Directive;
- The Strategic Environmental Assessment (SEA) Directive;
- The Habitats Directive;
- The Waste Framework Directive;
- The European Convention on Human Rights (ECHR) as established by the Council of Europe, which was transposed into UK law by the Human Rights Act 1998.

[35] Sheffield University and Halcrow Group for DCLG, *Valuing Planning Obligations in England* (London, 2006)
[36] R *v* Rochdale MBC ex parte Tew (1999).

Environmental impact assessment

1.26 The EIA Directive[37] requires that, where a project is likely to have significant effects on the environment:

- an environmental statement must be prepared describing the likely effects of the development on the environment and (where relevant) any proposed mitigation measures. The statement must be publicised and consulted upon;
- the statement (and any other environmental information obtained as a result of consultation) must be taken into account before development consent is granted; and
- where development consent is granted, the decision-maker must publish their decision and the reasons on which it is based.

1.27 Schedule 1 of the directive specifies the types of projects for which an EIA will always be required; Schedule 2 specifies the types of projects that will require an EIA if they meet certain criteria or exceed specified thresholds and the decision-maker considers that the project is likely to have significant effects on the environment. The effect is that any significant project (or even a relatively minor project carried out in a sensitive area) will require an EIA.

1.28 The EIA Directive is implemented in England and Wales by the Town and Country Planning (Environmental Impact Assessment) (England and Wales) Regulations 1999, as well as by a series of regulations applying to specific sectors, such as harbour works and forestry. The effect of both the main implementing regulations and the sectoral regulations is to build environmental impact assessment into the existing processes for obtaining planning permission or other development consent. In terms of the main planning regime contained in the TCPA 1990, the EIA will be a 'material consideration' to be taken into account in reaching the decision on planning permission. The implications of the EIA may (depending on the circumstances) be such that they override other considerations, such as the policy set out in the development plan; but equally, they can be overridden by other considerations. The directive does not require that environmental considerations should prevail: only that they be taken into account.

Strategic environmental assessment

1.29 The SEA Directive requires member states to take environmental considerations into account in the preparation of certain plans and programmes which are likely to have significant environmental effects by carrying out environmental assessments. Some plans and programmes require environmental assessment automatically; others require it on the basis of a determination by member states. Environmental assessment must be carried out for plans and programmes which either are prepared for certain specified purposes (and which set the framework for the future development consent for the projects listed in the first two annexes to the EIA Directive), or which require an appropriate assessment under the Habitats Directive (see below). Only plans and programmes which are subject to preparation and/or adoption by an authority at national, regional or local level, or which are prepared by an authority for adoption through a legislative procedure by Parliament or Government and which are required by legislative, regulatory or administrative provisions, are subject to environmental assessment.

[37] Directive of the Assessment and Effects of Certain Public and Private Projects on the Environment (85/337) and Amending Directive (97/11).

1.30 Similar to the EIA Directive, the SEA Directive requires:

- the preparation of a report on the environmental implications of a proposed plan or programme;
- publicity and consultation on the report and the draft plan or programme;
- the report, and any other relevant information obtained as a result of publicity and consultation, is taken into account, in the decision whether to adopt the plan or programme; and
- in cases where a report is prepared, the publication of the decision as to the adoption of the plan or programme and the reasons for the decision.

1.31 The SEA Directive is implemented in England by the Environmental Assessment of Plans and Programmes Regulations 2004. In terms of the main planning regime under the TCPA 1990, the SEA obligations will apply to the preparation of the statutory development plan but not to the preparation of national policy statements or guidance, as these are not generally required by legislative, regulatory or administrative provisions (although this may not always be the case).

Habitats

1.32 The Habitats Directive[38] provides for the setting up of an EU-wide network of special areas of conservation, which include special protection areas designated under the earlier directive on the conservation of wild birds. Together, these sites are referred to as 'European sites'. Where a site is designated as a European site, the member state must take steps to avoid its deterioration and must ensure that an appropriate assessment is carried out of any plan or project which is likely to have a significant effect on the site.

1.33 The Habitats Directive was implemented in the UK by the Conservation (Natural Habitats etc.) Regulations 1994, which require planning authorities (including the Secretary of State) to exercise their functions under the main TCPA 1990 regime and other consent regimes so as to ensure compliance with the directive. Before a planning authority can decide whether to grant permission or consent for a project which is likely to have significant effects on a European site, the developer must carry out an 'appropriate assessment' of the implications for the site. The planning authority can grant consent only once it has ascertained that the integrity of the site will not be adversely affected. However, projects may still be permitted if there are no other alternatives and 'for imperative reasons of overriding public interest'. Recent European case law has held that the Habitats Directive applies to development plans (Regional Spatial Strategies and Local Development Documents) and therefore an appropriate assessment will be required where a development plan includes policies relating to a European site.

[38] Directive 92/43/EEC on habitats.

Waste 1.34 The Waste Framework Directive[39] as amended deals with the disposal and recovery of waste. The Directive requires national waste management plans to be drawn up relating to, amongst other matters, suitable disposal sites or installations. Planning guidance issued by the Secretary of State (DCLG) and minerals and waste LDDs produced by minerals and waste authorities will form part of the UK's national waste management plan as regards England. The enacting legislation (the Environmental Protection Act 1990 and the Waste Management Licensing Regulations 1994 (as amended)), requires that anyone who treats, keeps, deposits or disposes of waste needs a waste management licence (unless exempt or excluded), which is issued by the Environment Agency. Applications for planning permission for waste disposal are made to the waste disposal authority, which will be the county unitary council.

Human rights 1.35 The Human Rights Act 1998 incorporated provisions of the ECHR into UK law. The specific Articles of the ECHR which are most relevant to planning include Article 6 (Right to a fair and public trial), Article 8 (Right to respect for private and family life), Article 14 (Prohibition of discrimination) and Article 1 of the First Protocol (Right to peaceful enjoyment of possessions often referred to as the right to property). Human rights considerations can be a material planning consideration when determining applications for planning permission.

CONCLUSION

1.36 By addressing deficiencies in the free market for land use and development, the planning system can work towards the delivery of sustainable development objectives that maximise net welfare. It does this by integrating and where necessary balancing complex sets of competing economic, environmental or social goals. Proactive planning can support and enable a number of objectives including regeneration, delivering public goods such as transport infrastructure, promoting community involvement; and enhancing the natural environment. However, sustainable development goals are not always well defined and many are hard to measure.

1.37 While planning can address market failures there are also costs associated with government intervention. Where information is imperfect, or the incentives wrong, planning may under – or over-provide for certain non-market goods while the transaction costs of intervention may be high. There may also be unintended consequences of policy. The planning system therefore needs to ensure it tackles market failures in an efficient and effective manner.

1.38 The principal framework through which planning policies are delivered is TCPA 1990 as recently modified by PCPA 2004. Both are based on the first comprehensive planning legislation that was introduced in 1947. The TCPA 1990 contains a highly developed and centralised plan-led system of land use regulation based on the following key features:

- a hierarchichal structure of guidance and plans at national, regional and local level against which planning applications are assessed – since 2004 the plan-framework has consisted of a Regional Spatial Strategy and a Local Development Framework (LDF).
- the requirement for planning permission for any development of land, usually from the local authority. Under the plan-led system decisions are made in accordance with the LDF unless other considerations are sufficient to override the plan.

[39] EC Directive 74/442/EEC as subsequently amended by 91/156/EEC and then by Commission decision 96/350/EC.

- extensive powers for the Secretary of State (DCLG) enabling the direction and shaping of planning policy at both the national and regional level, and of determining individual planning applications through use of 'call-in' powers; and
- strong policies protecting the countryside and containing urban areas. Only 8.3 per cent of land in England is urban, as a result of a number of policies including density targets and the designation of large areas of land for the protection of biodiversity and important landscapes or to prevent urban areas coalescing. Much environmental protection derives from European legislation. The UK has around double the OECD average of protected land.

[40] OECD Environmental Data Compendium available at: http://www.oecd.ord/dataoecd/11/15/24111692.PDF.

2 The changing context of planning policy

INTRODUCTION

2.1 This chapter sets out the changing context in which the planning system operates. It:

- discusses the economic transformations occurring as a result of globalisation and technological changes;
- sets out the main challenges this presents and the potential implications these have for plan making; and
- explores other significant challenges with implications for land use: climate change and resource pressures, demographic change and increased prosperity.

THE DEVELOPMENT OF THE GLOBAL ECONOMY

Transformation of the global economy

2.2 While globalisation is not new,[1] the global economy is now in the midst of a radical transformation. Faster information flows and falling transport costs are breaking down geographical barriers to economic activity and increasing specialisation. The boundary between what can and cannot be traded is being steadily eroded, and the global market is encompassing ever greater volumes of goods and services.[2]

2.3 The rapid growth of large emerging economies, in particular China and India, is shifting the balance of global economic activity. Emerging and developing economies are forecast to increase their share of global output from 15 per cent to 31 per cent between 1980 and 2015.[3] This expansion has the potential to improve living standards and reduce poverty, under the right conditions. But it is also adding to pressure on natural resources.

2.4 Through changes to production processes and the flows of information, technological development influences the structure of firms and the location, ownership and management of productive activity among regions and countries.[4] The ease with which goods, capital and technical knowledge can be moved around the world has increasingly enabled the division of labour on a global scale, as firms allocate their operations flexibly to minimise costs. As a result, there has been a significant increase in the number of firms that locate, source and sell internationally, reflecting the new opportunities presented by the information and communication technology revolution. The transportation of physical goods and people is time-consuming, costly, and risky, but major technological advances in this field have considerably lowered the costs, increased the speed and improved the reliability of transport, extending the geographical reach of firms by making new

[1] A. Estevadeoral, A. M. Taylor and B. Frantz, *The Rise and Fall of World Trade, 1870-1939*, NBER (Cambridge, MA., 2002).

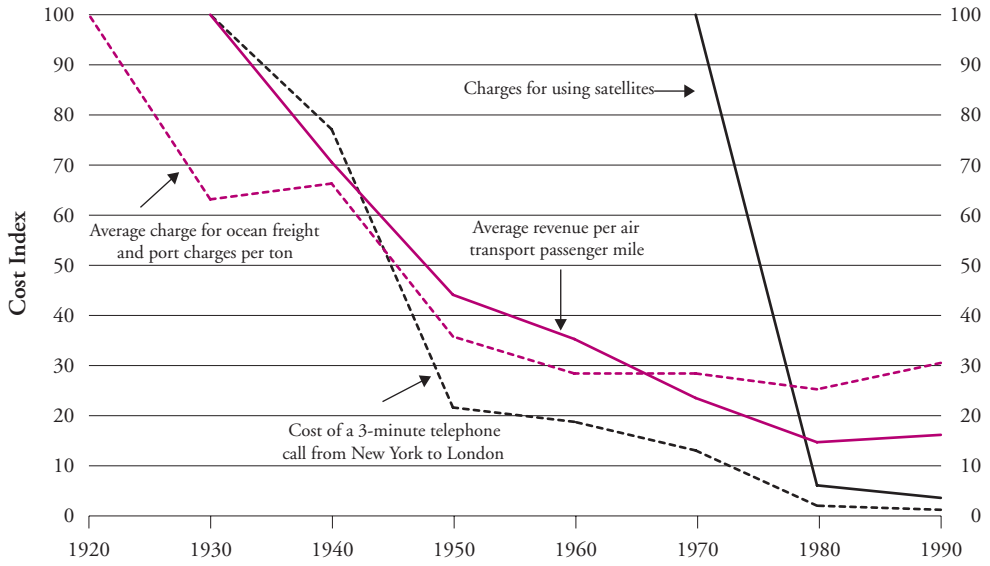
[2] B. Chiswick and T. Hatton,'International Migration and the Integration of Labour Markets' in Bordo, M., Taylor, A. and Williamson, J., *Globalisation in Historical Perspective* (Chicago, 2003).

[3] Consensus Economics Inc, *Consensus Forecasts: Long-term Forecasts* (2004); International Monetary Fund, *World Economic Outlook 2004* (Washington DC, 2004).

[4] H. Brooks and B. Guile, *Technology and Global Industry: Companies and Nations in the World Economy* (National Academy Press: 1987).

markets accessible on a cost-effective basis.[5] Chart 2.1 illustrates how technological advances have lowered communication and transport costs. However, forecasting changes in technology and production is made more difficult by this increasing pace of change and this challenge is exacerbated by path dependency, where past decisions have implications for the nature of subsequent economic development.

Chart 2.1: Costs of transport and communication



Source: UNPD, INTELSAT

The impact on the UK & England

2.5 There have already been well-known changes for the industrial structure of England partly as a result of these trends. One major change is the share of manufacturing employment. 50 years ago over 50 per cent of employment in the United Kingdom was in the extractive, manufacturing or construction industries.[6] Technological change has reduced the demand for some types of labour per unit of land. There is increased demand for land for offices, warehouses, leisure and retail.[7] The Government's analysis of productivity drivers (see Box 2.1) provides a framework for responding to these challenges.

[5] Computing speed and storage capacity progressed has progressed at an exponential rate. Between 1970 and 1999, the cost of 1 megahertz of processing power fell from $17,601 to 17 cents: L. Karoly and C. Panis 'The 21st Century at Work', RAND Labor and Population, RAND Corporation, Santa Monica, 2004. Available at http://www.rand.org).

[6] A. H. Halsey and J. Webb, *Twentieth Century British Social Trends* (London, 2000). See also *Labour Market Trends*, March 2003.

[7] For a discussion on some of the potential implications of technological change see M. Breheny (ed.), *The People: Where will they work* (London, 1999) which discusses the changing geography of employment.

Box 2.1: The five driver framework and globalisation[8]

Improved productivity will help the UK to maintain a comparative advantage in higher value-added sectors and support further growth of prosperity. The drivers identified below have important relationships with each other and together they influence long-term productivity and the way in which the UK responds to the challenges of globalisation.

- competition: competition improves productivity by creating incentives to innovate and ensures that resources are allocated to the most efficient firms. It also forces existing firms to organise work more effectively through innovations of organisational structures and technology. The threat of entry and exit of firms, with more productive firms replacing less productive firms, drives these incentives to innovate.
- innovation: innovation has positive and significant effects on growth through new technologies or ways of working. This occurs directly through expenditure on innovation and indirectly through spillovers. Spillovers can boost productivity of all firms through emulation and raise the capacity to innovate further.
- skills: the quantity and quality of skilled labour available in an economy is an important determinant of economic performance and productivity growth. Skills complement physical capital, and are needed to take advantage of investment in new technologies and organisational structures. Furthermore management skills are an important influence over how firms react to competition and employ capital.
- investment: physical capital stocks are closely correlated with productivity performance, as they directly influence how much a unit of labour can produce. Investments increase labour productivity by increasing the capital each worker can utilise. Skilled workers enhance investments, and investments in technology can improve production (for example information and communication technology). Infrastructure investments facilitate movement of goods and services, influencing the location decisions of business.
- enterprise: new enterprises compete with existing firms through new ideas and technologies, increasing competition. Entrepreneurs are able to combine factors of production and new technologies forcing existing firms to adapt or exit the market. The ability of entrepreneurs to turn ideas into production is affected by the skills available within the labour force, availability of capital and the regulations that affect competition.

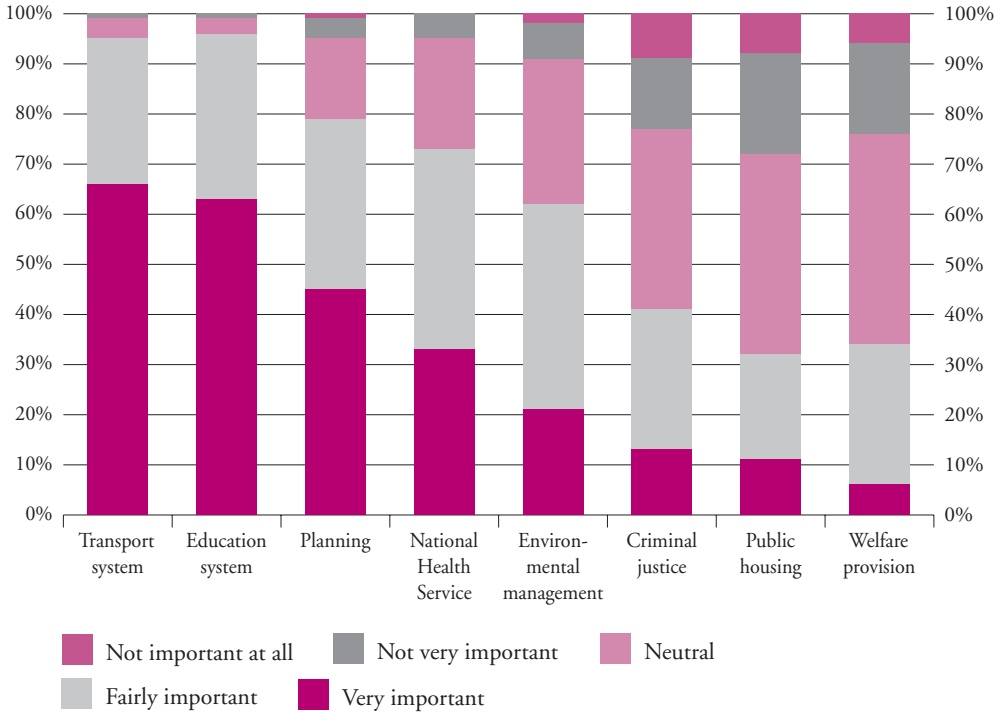
Business perceptions of planning

2.6 Through regulating one of the three factors of production, the planning system can influence economic performance. The precise nature of the link between planning and economic performance, is debated (see Box 2.2). But the business community perceives a high-quality planning system as an important component of competitiveness.

2.7 Chart 2.2 shows evidence from the 2006 CBI Public Services survey. Respondents assessed planning behind only transport and education in terms of the importance of a number of public services to competitiveness. 79 per cent of respondents believe that planning is important to the competitiveness of their business, with only 5 per cent finding it not important. This has led the CBI to argue that "improving the performance of the planning system is one of the key challenges in seeking to improve UK productivity and competitiveness".[9]

[8] HM Treasury, *Productivity in the UK 6: Progress and new evidence* (London, 2006).
[9] CBI, *Planning Brief*, December 2005.

Chart 2.2: How important are the following public services to supporting the competitiveness of your business?



Source: CBI, Public Services Survey (2006)

2.8 In this context, the Government has prioritised the need to ensure that England has a world-class planning system. *Globalisation and the UK: strength and opportunity to meet the economic challenge* published in December 2005, highlighted the role of a flexible and responsive planning system in encouraging the development of competitive and productive business and a recent report on regional performance noted that business:

> *'requires a planning system that is value for money, speedy and transparent, in order to minimise the transaction costs associated with gaining planning permission to ensure that the investment potential of new business opportunities is realised, and to provide increased certainty for investment decisions. Delays and lack of transparency not only cause microeconomic costs to individual businesses, they can also have negative macroeconomic impacts through lost positive investment spillover effects.'*[10]

[10] HM Treasury, *Devolving decision making: 3 – meeting the regional economic challenge: The importance of cities to regional growth* (London, 2006).

Box 2.2: The literature on the economic impact of planning policy

The most comprehensive treatment of the issue to date, *The Economic Consequences of Planning to the Business Sector*,[11] noted a wide variety of effects of the planning system. Alongside the benefits of tackling spillovers and providing public goods, it noted the administrative and regulatory costs as well as the capacity to raise rents and reduce productivity through restricting land and site availability. But it stressed the difficulty in estimating the nature and scale of the impact of planning on the economy. Similarly, a more recent study on regional growth by Frontier Economics concluded 'our key recommendation [on planning policy] is that greater attention should be given both to developing evidence to support policy and to developing an understanding of the impacts of policy once it has been implemented.'[12]

Other research makes stronger claims. Analysis conducted by the McKinsey Global Institute investigated the causes of the UK's low labour productivity by benchmarking UK-based companies against those of top-performing countries in a number of sectors. It argued that planning was a primary cause of low productivity in the UK. For example in software, it concluded that high-technology clusters had been 'slowed or even prevented by local planning restrictions.' In food retail it concluded that 'land-use regulations make it difficult for large-format operators to develop new sites or expand existing ones.[13]

A number of sectoral studies have also explored the economic impact of planning. A report for the DTI concluded that planning restrictions 'can be a significant barrier to cluster growth', while a subsequent report for the former DETR noted that the planning system often failed to facilitate clusters and particularly in the South, could impede their development.[14] In retail, the OECD, the Competition Commission, Templeton College and the Office of Fair Trading have all noted the potential negative impact of tighter planning restrictions on the sector.[15] More recently, one reason stated by the Economist Intelligence Unit for the UK slipping to seventh place in the Global Business Environment rankings was perceived 'tight planning restrictions'.[16]

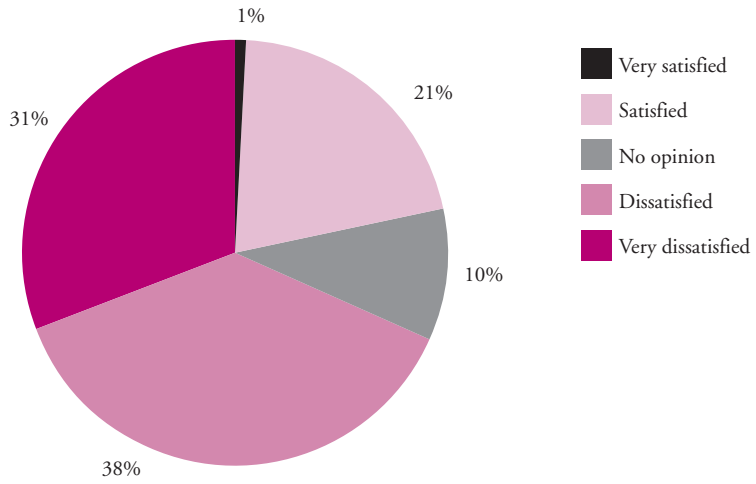
An investigation by the Housing, Planning, Local Government and Regions Select Committee reached very different conclusions. It noted the limited literature and the difficulty drawing up a balance sheet of the costs and benefits of planning to the economy, in part due to the difficulty in distinguishing the impact of planning from other factors. It concluded that 'the consensus is that land-use planning has little to do with UK productivity – the key factor in explaining the UK's low productivity is lack of skills'. It also noted that the bulk of the academic literature on productivity did not refer to planning. The report concluded, 'rather than blaming planning for the UK's low productivity, our evidence shows that businesses consider the planning system to be an essential part of doing business in the UK.'[17]

[11] DETR, *The Economic Consequences of Planning to the Business Sector* (London, 1998).
[12] Frontier Economics, *Regional Growth: a report prepared for the ODPM, HM Treasury and DTI* (London, 2004).
[13] McKinsey Global Institute, *Driving productivity and growth in the UK economy* (London, 1998) p. 14.
[14] DETR *Planning For Clusters A Research Report* (London, 2000).
[15] OECD, Economic Surveys: United Kingdom (2004) pp. 155–157; Competition Commission, Groceries Market Investigation, Statement of Issues available at http://www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm; D. Dragun, E. Howard and J. Reynolds, *Assessing the productivity of the UK Retailing Sector* (for DTI) Templeton College ("The Templeton Report") (2004); Office of Fair Trading, The grocery market: the OFT's reasons for making a reference to the Competition Commission pp. 56–67.
[16] Economist Intelligence Unit Press Release 27 March 2006 available at http://store.eiu.com/index.asp?layout=pr_story&press_id=1010001901&ref=pr_li.
[17] Housing, Planning, Local Government and the Regions Committee Fourth Report, *Planning, Competitiveness and Productivity* (London, 2003).

2.9 There have been a series of reforms to the planning system since the 1980s aimed at helping ensure it acts as a facilitator rather than impediment to economic growth. A number of government papers focused on the ability of plans to keep up to date with changing economic circumstances.[18] The Planning Green Paper asserted the potential negative impact of planning on economic growth and instigated an important set of reforms including the move towards a more spatial approach to plan-making.[19] These reforms have also included substantial additional resources to increase the speed of decision-making, and others aimed at increasing both the transparency of the system, so that it provides greater certainty to business, and the flexibility of the system.

2.10 While these reforms are beginning to have an impact, it does not mean that all the problems have been solved. Survey evidence from the CBI supports the contention that firms in the UK are dissatisfied with the impact of the planning system on their business performance: Chart 2.3 illustrates that only 22 per cent of firms are satisfied or very satisfied with the record of improvement in planning.[20] This is supported by survey data from the Institute of Directors (IoD): survey respondents ranked planning ninth out of 11 national or local government services. Only 16 per cent ranked it good or very good, lower than the 22 per cent recorded in an NOP poll conducted for the IoD in 1999.[21] Surveys of small businesses confirm that difficulties are not just experienced by larger firms: small businesses have expressed less satisfaction with planning permission processes than many comparable areas of contact.[22] Given that the 2004 reforms have not yet had their full impact, it is possible that satisfaction levels will improve over time. But concerns raised about some aspects of the reforms means that this cannot be taken for granted.

Chart 2.3: How satisfied are you with the record of local authorities on improving the planning service in the UK?



Source: CBI, Public Services Survey (2006)

[18] See for example DTI, *Burdens on business: report of a scrutiny of administrative and legislative requirements* (London, 1985); DEFRA, *Lifting the Burden: DEFRA Initial Regulatory Simplification Plan* (London, 2005).
[19] DTLR, *Planning: Delivering a Fundamental Change* (London, 2002); PCPA 2004.
[20] CBI, *Public Services Survey* (London, 2006).
[21] Institute of Directors, *Planning for Success – The Land Use Planning System* (London, 2005).
[22] Small Business Service, *Annual Survey of Small Business 2004/05* (London, 2005): Table 8.2a.

2.11 There are three consequences of more rapid globalisation that are likely to have an effect on the success of these reforms. The first is the growing pace of change. This results in reduced ability to foresee future needs, and increases the requirement to respond quickly and efficiently to unforeseen events or wider structural change such as declining industrial employment. While there is clearly a tension between certainty and flexibility, rapid economic change increases the importance of the latter. Second, the increased competitive climate in which firms operate makes an efficient planning system even more desirable. Government regulation of land use as elsewhere should minimise transaction costs and ensure they are proportionate to the public interest gain. Third, one way of judging planning outcomes is whether they support productivity growth rather than inhibit it, having taken proper account of environmental and social objectives. These issues are all explored in subsequent chapters.

OTHER CHANGES AFFECTING LAND USE AND SUSTAINABLE DEVELOPMENT

2.12 Other critical factors also influence land use, primarily climate change and associated resource pressures and demographic pressures, and increased wealth.

Climate change and resource constraints

Climate change

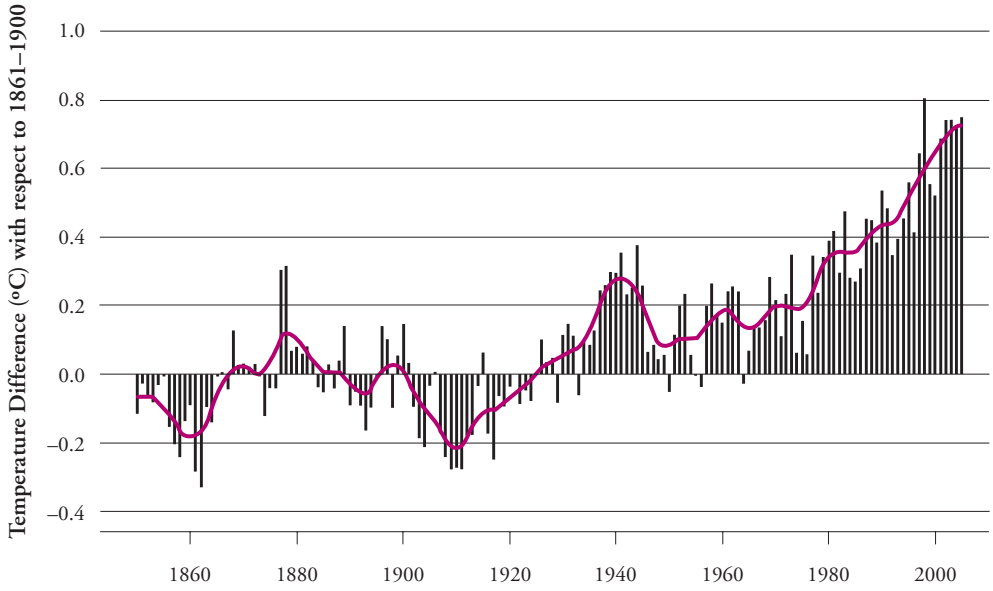
2.13 There is now a consensus that climate change is taking place and its main cause is human activity, in particular land use change and emissions of greenhouse gases such as carbon dioxide.[23] Chart 2.4 shows how the temperature of the Earth's surface has risen by 0.7°C over the last 150 years; the rate and scale of warming observed is likely to be unprecedented for at least 1,000 years.[24] Climate change is a global issue and the most severe effects will be felt in developing countries. Increasingly, the public is recognising the importance of addressing the issue. The environment and pollution were cited in a survey in 2001 as the fourth most important issue that government should be dealing with.[25]

[23] Sir David King (2002) The science of climate change: adapt, mitigate or ignore? Ninth Zuckerman Lecture, http://www.foundation.org.uk/801/311002_2.pdf Intergovernmental Panel on Climate Change, *Climate Change 2001: Synthesis Report – Summary for Policy Makers;* Available at http://www.ipcc.ch.

[24] For a full discussion of the changes to the climate in the last 1000 years see: The International ad hoc Detection and Attribution Group, 'Detecting and Attributing External Influences on the Climate System: A Review of Recent Advances' *Journal of Climate*, Vol 18 (2005) pp. 1291-1341.

[25] DEFRA, *Survey of public attitudes to quality of life and to the environment* (2001) http://www.defra.gov.uk/environment/statistics/pubatt/download/pdf/survey2001.pdf.

Chart 2.4: Global average near-surface temperatures 1850–2005



Source: Hadley Centre for Climate Protection and Research and CRU, University of East Anglia.

2.14 Climate change is a global problem which requires a co-ordinated international response.[26] For the problem to be tackled effectively all countries will have to contribute in some way. UK greenhouse gas emissions fell between 1990 and 2000, largely as a result of coal-fired power stations being replaced by new gas-fired ones. But carbon emissions are now rising as the result of a range of factors including increased transport use. UK emissions only make up 2 per cent of the global total, buty the UK can play a leadership role in combating climate change. Land use planning can clearly contribute to reducing England's carbon emissions, through encouraging less carbon intensive development. Planned development will need to consider how the design of cities and the buildings within them might affect emissions.[27] In addition to considering these issues, and other potential responses such as fiscal measures to influence demand, part of the response may involve changes to building regulations and building codes to lower emissions from domestic and commercial sources.[28]

2.15 Alongside making a contribution to lowering greenhouse gas emissions, the planning system must also help the country respond to the consequences of climate change. The risks of both increased flooding and water supply problems in the South East have been widely reported.[29] The government has issued planning guidance on how to manage the risk; agencies and policy

[26] The Stern Review of the Economics of Climate Change has been set up to understand more comprehensively the nature of the economic challenges and how they can be met in the UK and globally.

[27] See for example J. Collins, *Housing a Low Carbon Society: An ODPM leadership agenda on climate change,* Green Alliance (London, 2006).

[28] See for example ODPM Circular 03/2006 http://www.odpm.gov.uk/pub/432/ODPMCircular032006Dated15032006_id1164432.pdf.

[29] See for example UK Government Foresight Programme, *Future Flooding* (2004).

makers have each made recommendations about the appropriate response.[30] A certain amount of further climate change is inevitable because of inertia in the climatic system and in our energy systems. It will therefore be necessary for plans to take account of the likely future impacts of a changing climate, in particular with regard to water. Although there remains some uncertainty around the impact of climate change in England, it is likely that there will be hotter, drier summers (increasing the frequency and severity of droughts), and warmer, wetter winters (increasing river flooding), and rising sea levels (increasing coastal and tidal flooding).[31] Furthermore, companies note that as solutions to new development problems become more technically complex, careful and accurate preparation will be necessary to maintain standards.[32]

Resource constraints

2.16 Independently of climate change, there has also been growing interest in recent decades in environmental issues, and the need to protect our natural environment. The UK has lost over 100 species during the last century, with many more species and habitats in danger of disappearing. A survey by DEFRA in 2001 showed that about 85 per cent of respondents were either very worried or fairly worried about the loss of plants and animals and habitats in the UK.[33] Research using contingent valuation methodology suggests that households on average value biodiversity in British forests as equivalent to £10 per year, or about £245m in aggregate.[34] As the European Environment and Sustainable Development Councils has suggested:

> *'The natural environment offers critical resources and services, which can seldom be substituted by, or traded for, economic or social products of civilisation. It is our home, and the living world in all its diversity is of fundamental importance to our dignity as humans. These intrinsic aspects of nature may be termed unique values. Together with the critical values of the natural environment they constitute a heritage that a sustainable society must to be able to hand on to future generations'.*[35]

Demographic change and increased wealth

Demographic change

2.17 The population of England has grown from around 43 million in 1951 to over 50 million in 2004.[36] The country is 130,513 square kilometres, which is just over a third of the size of Germany, a quarter of the size of France and seventy times smaller than the United States.[37] There is an average of 383 people per square kilometre England – one of the highest population densities in Europe (see Chart 2.5). London now has a population density of 4,562 people per square kilometre.[38] Pressure on land will increase as the population grows further, with current projections suggesting it will grow to 56.8 million by 2031, when population density may reach 435 people per square kilometre.[39] As Chart 2.6 shows, population growth is presently projected to occur at different rates across the English regions.

[30] ODPM, Planning Policy Guidance 25, (London, 2001); South East Regional Assembly Regional Planning Committee, Infrastructure – Water (available at http://www.southeast-ra.gov.uk/meetings/planning/2006/240506/agenda_item_4-infrastructure-water_resources.pdf); House of Lords Committee Science and Technology Committee, 8th Report 2005/6, *Water Management* (available at http://www.publications.parliament.uk/pa/ld200506/ldselect/ldsctech/191/191i.pdf).

[31] Environment Agency, *The climate is changing: time to get ready* (London, 2005); Environment Agency *Water Resources for the Future* (London, 2001).

[32] Thames Water, submission to Barker Review of Land Use Planning.

[33] http://www.defra.gov.uk/environment/statistics/pubatt/download/pdf/survey2001.pdf.

[34] GHK and GFA-Race, *Revealing the Value of the Natural Environment in England: a report to Defra* (2004), p. 57.

[35] Cited in the Twenty-third Report of the Royal Commission on Environmental Pollution (2002).

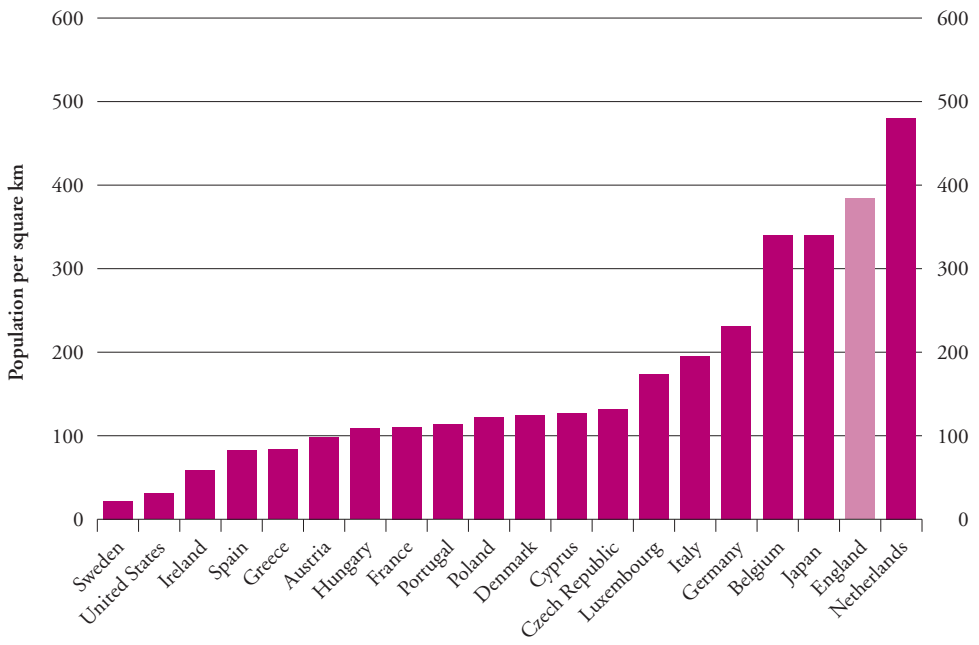
[36] Office for National Statistics, *Social Trends* 35 (London, 2005); Mid-year population estimate for 2004, ONS, House of Commons Research Paper 99/111 *A Century of Change*: *Trends in UK Statistics* (London, 1999).

[37] Eurostat; US Census; Office for National Statistics.

[38] *Neighbourhood Statistics*.

[39] Office for National Statistics, *Population Trends 123* (London, 2006).

Chart 2.5: Population density 2004[40]



Source: Eurostat; US Census; Office for National Statistics; Japanese Statistics Bureau

2.18 Between mid-1991 and mid 2003 the population grew by an annual rate of 0.3 per cent.[41] Populations predictions from 2005 projected the UK population to increase by 7.2 million between 2004 and 2031, equivalent to an annual growth rate of 0.42 per cent.[42] The population is predicted to continue growing beyond 2031 but at a lower rate, though a lower rate of growth still results in an increased population.

[40] All figures 2004 except Japan.
[41] Office for National Statistics population estimates.
[42] Office for National Statistics and Government Actuaries Department news release, October 2005.

Chart 2.6: Projected population in 2028 by English region

Source: Office for National Statistics, Sub-national Population Projections (London, 2005).

2.19 Demographic pressures are further increasing due to change in household structures. Although the population is increasing, average household size in the UK has fallen from 2.9 people in 1971 to 2.4 in 2004.[43] This change is driven in part by longer life expectancy resulting in a greater number of elderly people living alone, but also by social trends such as reduced propensity to marry or cohabit.[44] This has substantially increased demand for new housing units relative to the growth in the population. And as population expands so pressure grows not only for more housing, but also for more public services, leisure and retail opportunities and workspaces.

2.20 It should be noted that population forecasts are often difficult to quantify and are subject to a high degree of uncertainty.[45] Forecasters use a range of assumptions about fertility, mortality and migration behaviour to make their predictions and each of these is affected by other socio-economic factors.[46] One analysis notes that 'the one certainty when making population projections is that, due to the inherent unpredictability of demographic behaviour they will turn out to be wrong as a forecast of future demographic event or population structure.'[47] Future trends are not simply linear extrapolations of past developments and dramatic changes can happen over relatively short periods of time. The 2006 projections for household numbers in 2026, for example, show

[43] Office for National Statistics, *Social Trends* 35 (London, 2005).

[44] Ibid.

[45] For further discussion see HM Treasury, *Long-term public finance report: an analysis of fiscal stability* (London, 2005).

[46] For full discussion on assumptions and their reliability see, C. Shaw (*Population Trends* 77), *Accuracy and uncertainty of the national population projections for the United Kingdom* (London, 1994); Government Actuary's Department, *National Population Projections: Review of Methodology for Projecting Mortality* (London, 2001).

[47] C. Shaw (Government Actuary's Department), *2000-based national population projections for the United Kingdom and its constituent countries* (London, 2002).

substantially higher household growth than the previous 2002-based interim and 1996-based projections. In the latest projection average household growth is 209,000 per year compared with 189,000 and 153,000 in the 2002 and 1996 based projections respectively. The Government Actuary's Department variant projections show how sensitive these are to certain variables. A low estimate for life expectancy, for example, results in average annual household growth of 196,000, while a high estimate results in 221,000.[48]

Increased wealth

2.21 In addition to an increasing population and the change in the composition of households, the nation's wealth has more than trebled in the past 50 years. Household disposable income per head has increased more than 1.3 times between 1971 and 2003.[49] Changes in wealth have significant implications for land use. The richer society becomes, the more individuals will want to consume, and the goods and services they choose to consume change: this relationship has particular implications for housing as incomes rise and more housing is demanded.[50] It is not therefore demographic change alone that is creating the challenge for land use regulation, but the rate of change and the way that those changes are realised through consumption patterns. Chart 2.7 shows the change in the volume of household expenditure since 1963.[51] It shows how the proportion of expenditure on housing and transport has significantly increased. But the chart also shows how other forms of spending, such as communication and recreation, have increased significantly.

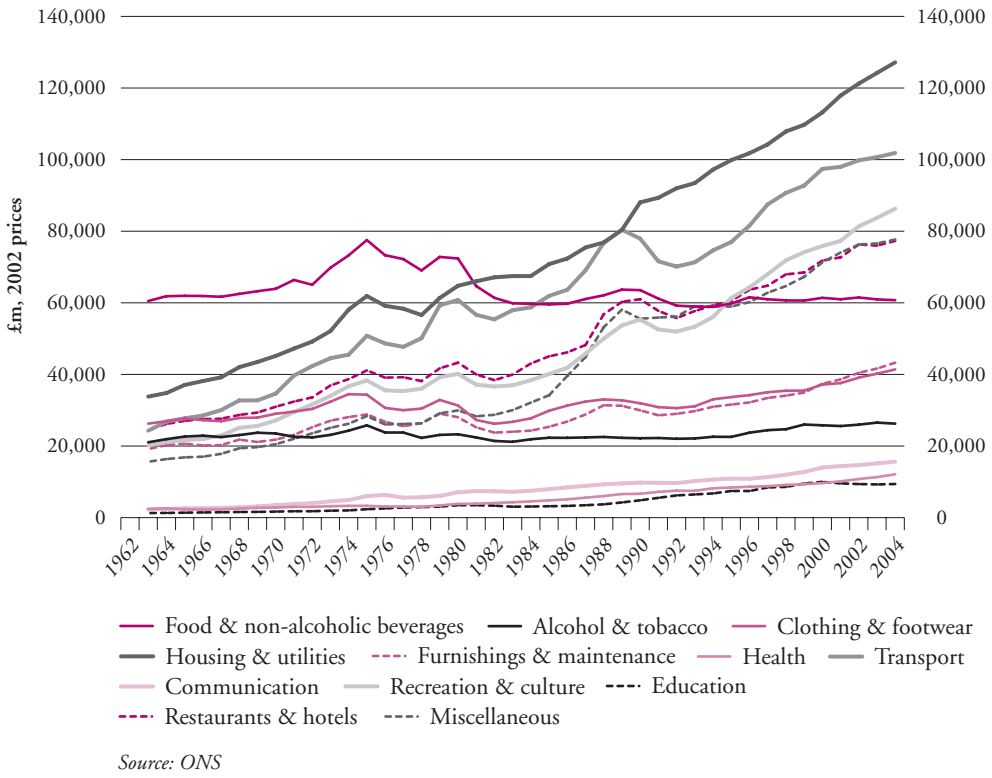
[48] http://www.odpm.gov.uk/index.asp?id=1002882&PressNoticeID=2097.

[49] Office for National Statistics, *Social Trends* 35 (London, 2005), p.2.

[50] See for example discussion on the income elasticity of demand for housing: J. Muellbauer and A. Murphy "Explaining Regional House Prices in the UK and Explaining Regional Consumption in the UK", *Joseph Rowntree Fund Housing Research 130* (1994); K. Barker, *Review of Housing Supply. Securing our Future Housing Needs. Interim Report: Analysis* (London, 2003).

[51] Office for National Statistics, time series ABJQ and its subcategories.

Chart 2.7: The components of household expenditure, 1963–2004



Source: ONS

CONCLUSION

2.22 Planning policies and decisions in England involve making difficult and complex trade-offs today, not least because of a relatively high population density of 383 per square kilometre. But the challenges facing the planning system are growing. More rapid globalisation means that businesses require a flexible, responsive, and efficient system of plan-making and development control. The growing population (estimated to rise to 56.8 million by 2031), climate change and increased levels of prosperity all suggest these trade-offs will not get easier.

2.23 All these factors are subject to considerable uncertainty. This poses particular challenges for a planning system that operates on the basis of long-term plans, which on a regional level makes estimates for housing or employment land needs over a 15 to 20 year period, though these estimates are reviewed typically every 5 years. A key question is whether the planning system provides the right balance between certainty for those making long-term decisions and responsiveness for those seeking to respond to changing circumstances. In addition, many of these trends involve increased demand for space. Ensuring that the planning system releases space horizontally (through supplying sufficient land) or vertically (through permitting upward build) while meeting environmental objectives is a major challenge. At the same time there is pressure for efficient public service delivery to minimise costs associated with uncertainty and delay and to maximise taxpayer value for money.

3 The efficiency of the planning system

INTRODUCTION

3.1 Planning policies and processes often involves making difficult decisions about complex issues where information about preferences is imperfect. So there are limits to how far processes can be speeded up. But a value for money service that is timely and transparent is needed to help stimulate investment and to allow firms to respond to business opportunities. Efficient processes also free resources to enable planners to focus on the most significant applications and help ensure that plans themselves are likely to deliver the desired outcomes.[1]

3.2 This chapter focuses on two issues:

- first, it explores the issue of planning delays, looking at what has been achieved in recent years and whether more progress is possible. This analysis centres on the development control process, and
- second, the issue of complexity, exploring the reforms put in place to help improve clarity, and the areas that may require further reform.

3.3 Issues of allocative efficiency – whether the planning system is delivering quality outcomes irrespective of its process efficiency – are discussed in subsequent chapters.

TIMELINESS

Timeliness of decision-making, and progress to date

3.4 Timely decision-making in planning brings both microeconomic and macroeconomic benefits. It helps investment as it:

- allows firms to respond to business opportunities by transferring land or building from a less to a more productive use;
- reduces the cost of capital, as the longer a planning decision takes, the greater the cost of capital tied up in loans relating to the development;
- reduces opportunity costs – if a building is standing empty in anticipation of a change of use there will be an opportunity cost associated with this; and
- promotes economic spillovers associated with new infrastructure projects that act as an anchor for wider economic activity and regeneration.

[1] In this chapter 'efficiency' is used to refer not just to value for money but also to speed and transparency. It does not cover issues such as the efficiency with which planning translates wider policy into outcomes.

3.5 It does, however, need to be recognised that making planning decisions is a necessarily complex task. As set out in Chapter 1, planning decisions in part aim to reflect non-market information in decisions about land use development rights. But getting this information is neither easy nor necessarily quickly achieved. Where a proposed development may have a substantial impact on the quality of life of people in the vicinity, it is a vital role of the planning system to gauge the nature and extent of that impact, through consultation with members of the community and other stakeholders. In this context it is critical to distinguish delay – a period of time in excess of that which would be expected under an efficient and proportionate process – from the overall time taken to make decisions. As the CBI has observed, 'clearly there will always be some element of time to determine planning application… regardless of how efficient the planning system is.'[2]

3.6 Where extra speed requires extra resources it has to be determined not just that there are benefits to a faster system, but that these benefits outweigh the extra costs in terms of staffing levels or capital expenditure. Assessing the impacts of delays also faces a number of additional difficulties, including the problem of estimating the impact of infrastructure delays on the wider economy, and of determining the 'critical path' of development – often applicants need to carry out parallel tasks, such as organising funding or getting other consents, and in these cases it is not appropriate to judge the entire period as planning delay costs.[3]

3.7 The importance of ensuring that there are no unnecessary delays to planning is, despite these caveats, relatively clear. In the energy sector, for example, the UK is moving towards increasing import dependence on gas. To manage this change, new supply infrastructure is needed to increase the UK's capacity to import and store gas, with the market planning to deliver some £10 billion of investment in gas import and storage projects by 2010.[4] The planning system will need to help deliver this new infrastructure in a timely manner in order to secure future energy supply. There have only been a few studies, and no recent ones, investigating the extent of costs associated with delay for the economy as a whole (see Box 3.1). But a recent Select Committee Report found that the majority of concerns expressed by business around the planning system related to 'day-to-day operational issues such as delays, direct costs to firms, and uncertainty.'[5]

3.8 There have been persistent criticisms that the planning system has failed to deliver timely decision-making in recent decades. A number of the reforms to the planning system in the 1980s and 1990s, including the introduction of enterprise zones and changes to the use-classes were driven at least in part by a desire to reduce delays in the planning system. Yet a comprehensive study of business attitudes to planning in the late 1990s found that speed was still the greatest source of dissatisfaction among respondents – while only 12 per cent of firms believed that the system made quick decisions, 48 per cent believed that it delayed development unnecessarily and 32 per cent claimed that their application had taken over a year to determine.[6]

[2] CBI report to the ODPM Select Committee report into Planning, Competitiveness and Productivity, 15th November 2002

[3] Evans, 1992, 'The Private and Social Cost of Planning Delay', *Urban Studies* Vol 29 No 5.

[4] Data provided by the DTI Energy Review.

[5] Select Committee on Housing, Planning, Local Government and the Regions, 4th Report, Planning, Competitiveness and Productivity, 2003

[6] DoE *Attitudes to Town and Country Planning*, HMSO 1995. Figures relate to the time taken from the respondents' point of view, not actual time taken. Respondents reporting long time scales counted the time taken for pre-application discussions.

Box 3.1: Estimating the cost of delays to the economy

There have been two main attempts to estimate the cost of delays to the economy. Cheshire and Leven attempted to ascertain the mean weighted average period of delay, the total value of all new development subject to development control and the social time preference discount rate. Using figures of 19.2 weeks, £13.4 billion and 0.5% per month respectively, this produced an central estimate of £304 million (around £700 million in 2005/06 prices).[7] An analysis by the CBI (1992) differentiated between infrastructure and commercial investment projects. With £15 billion annual investment in infrastructure and an average of a year delay, this provided a figure of infrastructure costs of £1.47 billion per annum with an assumption that the return would be 10%. For firms' projects, companies invested £49.7 billion in all fixed assets, of which they assumed £30 billion might require planning permission (the rest being plant replacement) and using survey data suggesting that planning permission formed 2 per cent of project costs – this provided a figure of around £600m. In total, delays were therefore estimated to cost £2billion (i.e. £2.7 billion in 2004/05 prices).[8] Both these studies are now dated, and in the absence of more comprehensive data about average start-finish times, updating them is problematic. The data is also an overestimate of the avoidable cost as it does not differentiate between reasonable time taken to make decisions and delays – there will always be some element of time determining applications.

3.9 These concerns led speed to rise to the top of the national agenda for planning policy. Recent steps taken to address this have included:

- over £600 million extra resources to local authorities in the form of a Planning Delivery Grant distributed largely on the speed of decisions, but which has also helped local planning authorities in terms of implementing the new Local Development Framework system;
- national targets for decision-making within local authorities, including determining 60 per cent of major applications within 13 weeks; 65 per cent of minor applications in eight weeks; and 80 per cent of other (householder) applications within eight weeks[9];
- the introduction of a statutory requirement on the Secretary of State for Communities and Local Government to publish a timetable for decisions for called-in applications or major appeals following the close of a public inquiry;
- reforms put in place to speed up major infrastructure project inquiries, including the establishment of a team of inspectors to hear concurrent sessions, and stricter timetabling. The Aviation White Paper also aimed to speed up decision-making by setting out the need for development in advance of any inquiry.

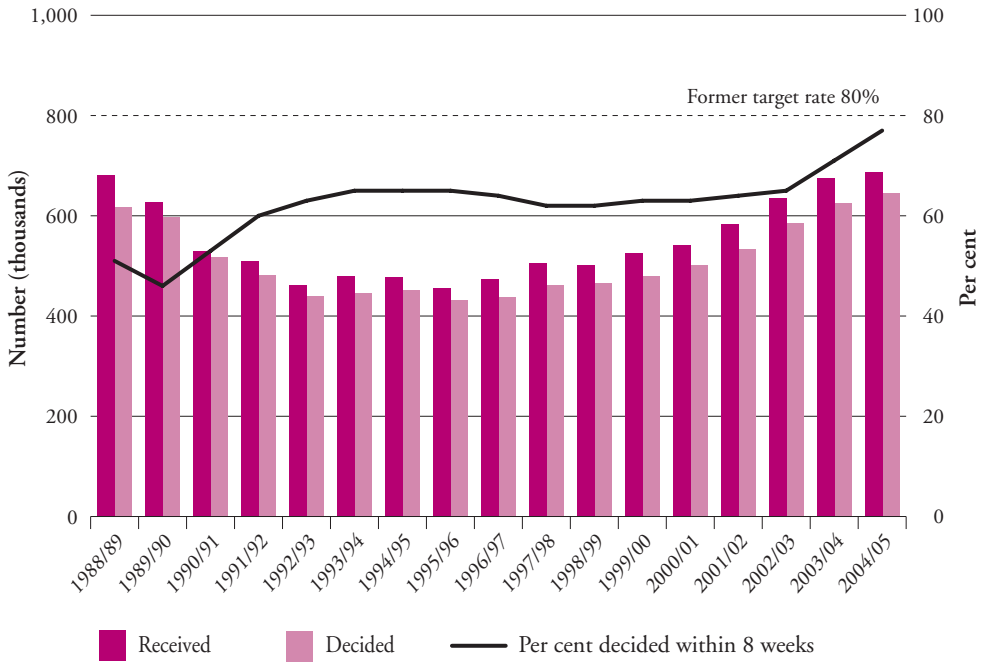
[7] Paul Cheshire and Charles Leven, *On the Costs and Economic Consequences of the British Land Use Planning System*, University of Reading, 1982., pp8-9. The social time preference discount rate refers to the tendency to value goods available now over goods available in the future.

[8] CBI *Shaping the Nation,* 1992.

[9] A major application includes developments involving ten or more new dwellings or commercial developments of 1,000 square meters or site area of one hectare or more, while minor developments are those under these figures that do not meet the criteria for change of use or householder development.

3.10 At a local level, there are many examples of best practice where authorities have responded to the need for faster decision-making by improving their internal tracking systems, increasing the levels of officer delegation so that fewer cases get held up in committee, reorganising staffing structures so that qualified planners focus on the complex cases and administrative staff bear a greater load in terms of the high volumes of householder consents, and making better use of ICT (see Box 3.2). This new management culture has enabled the best local authorities to provide high levels of service to customers through effective reform of processes, staff and resource provision.

Chart 3.1: Applications received and decided and speed of decision England: 1988/89 to 2004/05



Source: DCLG

3.11 These actions have had an effect on results[10]. In 1999/00 526,000 applications were made to local authorities and 63 per cent of these were decided in eight weeks. By 2004/05 the number of applications had risen to 688,000, but rather than this leading to a decline in performance there was an apparent rise. Of the 18,800 major developments decided in 2004/05, 57 per cent were made within 13 weeks[11], up from 49 per cent in 1999-2000. Of the 161,000 minor developments determined in 2004/05, 83 per cent were determined in 13 weeks, up from 78 per cent in 1999/2000[12]. This improvement in time-frames has been achieved at a time of increased volumes of case-work, with the result that there has been a 60 per cent increase in the number of major applications determined within 13 weeks and a 50 per cent increase in the number of minor applications determined within eight weeks. There is also evidence of increased speed at Secretary of State-level time taken to determine the small but important number of cases at this level has

[10] The major infrastructure proposals have yet to be tested.

[11] www.odpm.gov.uk/index.asp?id=1146537.

[12] A major application includes developments involving ten or more new dwellings or commercial developments of 1,000 square meters or site area of 1 hectare or more, while minor developments are those under these figures which does not meet the criteria for change of use or householder development.

fallen. 61 per cent of cases were determined in 16 weeks in 2002/03; this rose to 78 per cent in 2005/06. And 87 per cent of Inspectors' reports were delivered by the Planning Inspectorate to the former ODPM within seven weeks in 2005-06. The new provisions for major infrastructure projects have yet to be tested so it is not possible to evaluate their effect.

Box 3.2: Best practice case studies[13]

Reading is one of the principal regional and commercial centres in the Thames Valley. In 2002–03 it decided only 31 per cent of major applications in 13 weeks, against a new national target of 60 per cent. In response, the borough council: revised its section 106 legal agreement process so that work on the agreement could start as early as possible, introduced a new monitoring process; revised their delegated powers to reduce the number of applications going to committee, employed contract staff to meet variations in workload; and introduced a timetable outlining the key milestones along the application process. As a result the national target was exceeded in 2003/04; and applicant satisfaction rose from 59 per cent in 2000 to 69 per cent in 2003.

Canterbury is a historic city with over 3,000 listed buildings, 100 conservation areas and three World Heritage sites. In order to cope efficiently with a growing number of planning applications the city council introduced a developers' forum: conducted best-practice sharing with other authorities in the area; set up a customer service contact centre to reduce the amount of administration planners were engaged in; improved their pre-application discussion; and introduced new IT in the town hall, allowing plans images and photos to be put up at committee meetings reducing the number of councillor site visits.

3.12 There is also little evidence that planning decisions are systematically quicker in other countries, though survey evidence here is also not recent. A comparative study for the former Department of the Environment concluded that there was 'probably not much difference' in time taken to obtain planning permits between England and Denmark, France, West Germany and the Netherlands,[14] with case studies of the international experience of major infrastructure projects similarly failing to find that the UK was systematically slower than other countries.[15]

But there is more to achieve

3.13 Despite this progress, there are, however, a number of reasons for believing the issue of speed has not been fully addressed and that further progress is required, though as noted previously care needs to be taken to ensure that the added value processes of planning, particularly the need to engage properly with the community, are respected. According to the British Property Federation, 'the biggest deterrents to property development and investment are the indirect costs caused by delays in the planning system,'[16] while the Construction Products Association has noted that:

> *'there is a widespread view amongst many of those companies that operate on a global scale that the UK planning system is far less efficient than in other countries in which they operate… The consequence of these delays and uncertainties are that those companies…see planning as a disincentive to invest in this country'.*[17]

[14] Information derived from Planning Advisory Service case studies.
[14] Department of the Environment, *Planning Control in Western Europe* (1989).
[15] DETR *Decisions on Major Infrastructure Projects: International Experience*. See also CBI 1992.
[16] BPF, Response the *Barker Review of Land Use Planning* – call for evidence
[17] CPA, Response to the *Barker Review of Land Use Planning:* call for evidence

3.14 There are also grounds for believing that gains at local authority level on speed of decisions as measured by this target have only been achieved at a cost. There is growing evidence of the unintended or perverse consequences of the targets system. This issue has been raised in a recent Audit Commission report and by a recent study into the planning system by the CBI.[18] Reported methods include:

- 'churning' minor household applications such as an extension to a house, at the expense of cases that may have the biggest economic impact, although of course there are benefits to householders of quicker decisions;
- fewer resources and less time focused on important pre-application discussions, which are often highly valued by prospective applicants as they can add certainty as well as reduce delays at later stages of the process;
- the manipulation of the application system with non-acceptance or non-registration of applications in order to 'start the clock' at a later stage;
- weaker customer service, with the Audit Commission finding that the focus on speed 'has reduced the level of service provided by some councils'; and
- turning down applications in order to meet deadlines, meaning the applicant either has to appeal or resubmit.

3.15 However, the nature and extent of this problem is disputed. A detailed report into the Planning Delivery Grant (PDG) commissioned by the Government, concluded: 'There is no generalised evidence to suggest that PDG has resulted in any unintended consequences…Less than 20 authorities say they have used refusals and withdrawals to improve performance in the hope of securing more PDG.'[19] The report also made clear that there were a number of positive indirect effects of the PDG, with 58 per cent of councils agreeing that PDG has increased the interest in planning from the chief executive, and 73 per cent agreeing that it had encouraged a positive change in culture towards planning reform.[20] But authorities may not admit to working the system to leverage additional funding, and a previous study concluded, 'on balance there is good evidence to suggest that a requirement for faster decision-making currently often results in a higher refusal rate.'[21] The RTPI point out the potential that 'the meeting of simple process-based targets become more important than the addressing of more significant social, environmental and economic objectives'[22] while the Planning Officers Society report of resources drawn away from pre-application processes.

3.16 In addition to perverse incentives, a disaggregated analysis of the figures shows that there is substantial variation in performance of performance at local authority level. There are particular issues with major applications, where by the end of 2005, 130 local authorities were not meeting the target of 60 per cent (see Chart 3.3 for data to March 2005) even after substantial increases in resources, even though overall there has been significant and continuing improvement in performance here.

[18] CBI, 2005, 'Planning Reform – Delivering for Business', CBI, 2005; Audit Commission, *The Planning System: Matching expectations and capacity*, 2006.

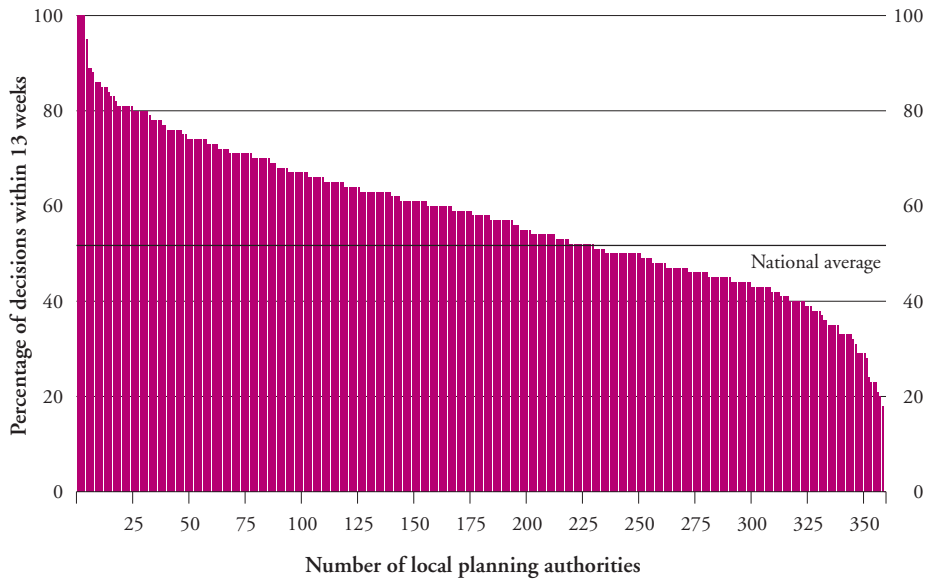
[19] Addison & Associates with Arup, ODPM, *Evaluation of the Planning Delivery Grant 2004/05* (2005) summary p. 8. Of the potential perverse effects the report suggested that 'the most likely [indirect] effects of PDG have been in terms of the refusal and withdrawal of applications. About half of all authorities thought that 'refusal was now likely' though the report also suggested that these perceptions have not been borne out by statistical evidence correlating refusal rates with PDG levels.

[20] Ibid, p. 42

[21] Arup Economics and Planning, DTLR, *Resourcing of Local Authorities* (2002) p. 12

[22] RTPI, Response to the Barker Review Call for Evidence, p. 14. POS Response to the Barker Review of Landuse Planning p. 3.

Chart 3.3: Percentage of major planning decisions within 13 weeks, by local planning authority. Year ending 31 March 2005



Source: DCLG

3.17 For the minority of complex or controversial cases (under three per cent of all planning applications are classified as major though a greater proportion are probably controversial), the start to finish of the development control process will often be many months. The time a planning application rests with the local authority in these cases may be only a small proportion of the total time taken to get permission. Pre-application discussions with local authorities can take several months, while the local authority decision is not always the end of the road. Where approval is subject to negotiation of planning obligations this can add several months to the timetable (around 45% take over six months to complete, with 11% taking over a year[23]), while cases that go to appeal or are called-in by the Secretary of State can add months or years. In exceptional cases, the application will also go to the courts, though this can only be done on the basis of a misinterpretation of law or procedural error.

The slowing of appeals

3.18 In this context, there are important issues concerning the length of the appeal process. There are three ways of having an appeal heard – written representation, oral hearing and those subject to public inquiry. Processing times for each appeal type were substantially below target in 2004-05 when only 6 per cent of written representations were handled in 16 weeks, against a target of 50 per cent; 22 per cent of oral hearings were determined in 30 weeks against a target of 50 per cent and 30 per cent of public inquiries took over 30 weeks, against a target of 50 per cent.[24]

[23] LGA Survey 2004 (quoted in CBI).

[24] These targets were themselves lowered from 80 per cent targets in 2003–04.

3.19 Not only are appeals not meeting targets, the time taken to determine cases has also grown dramatically in recent years (see table 3.1). In 2001-02 1.8 per cent of written representations took over 24 weeks; by 2005-06 this had risen to 22 per cent, while in 2001/02 per cent of hearings took over 52 weeks; by 2005-06 this had risen to 49 per cent. Public inquiry delays have also grown substantially.

3.20 There are a number of factors likely to be behind the growing delay in appeal. Part of the issue is the rise in volumes. Over the past five years appeal receipts have risen by 43 per cent, including a rise of 21 per cent in 2003-04 alone as a result of the shortening of the time-frame to appeal. There may also be instances where delay is extended by parties not being ready to bring their case[25]. The Planning Inspectorate recovered the position on written representations in 2005-06 and met the 50 per cent target by the end of the year. This inevitably had a knock on effect on hearings, though the Planning Inspectorate has so far now reduced the backlog by 58 per cent. But timeframes are still unacceptably long, particularly regarding public inquiries which can include some of the most economically significant cases determined through the planning system.

Table 3.1: Appeal processing times, 2001–06

S78 Appeals decided (England)	% over 24 weeks	% over 33 weeks	% over 45 weeks	% over 52 weeks
2001-2002				
Written Reps.	1.8	0.3	0.0	0.0
Hearings	6.1	1.3	0.5	0.3
Inquiries	42.2	13.9	7.3	5.8
2003-2004				
Written Reps.	4.6	0.4	0.0	0.02
Hearings	89.8	30.4	1.2	0.7
Inquiries	83.5	40.7	13.1	7.5
2005-2006				
Written Reps.	21.6	5.7	0.7	0.3
Hearings	89.9	82.4	67.1	49.3
Inquiries	81.2	69.4	52.8	34

Source: Planning Inspectorate

[25] According to the Planning Inspectorate, since the introduction in January 2006 of the prioritisation of housing appeals, experience has shown that in around 33% of appeals for 10 houses or more, the parties involved have been unable to agree to hold an inquiry or hearing within 20 weeks of receipt of the appeal, requesting instead later dates. Moreover, of those inquiries scheduled, 40% are subsequently postponed or cancelled by the appellant.

Sectoral analysis

3.21 As a result of all these factors, planning permission can for many large cases still take years rather than months. The data for start-finish times is poor, but sectoral analysis shows that complex or controversial cases can be subject to extensive delay. While some delay in these cases is understandable, it is important to ensure unnecessary delay is minimised:

- transport – most major transport applications, mainly processed outside the Town and Country Planning regime, take a number of years to get through the system (see Table 3.2). The M6 toll road, Manchester Airport and the London International Freight Exchange all took over three years to reach a conclusion. The classic case remains Heathrow Terminal 5. The application was lodged in 1993, the public inquiry sat for a total of 46 months, the appointed person took a year and a half to write his report, and the Government took 11 months to consider it before announcing a decision[26]. Recent reforms to inquiries should avoid a repeat of the Terminal 5 experience, though they have yet to be tested.

Table 3.2: Case studies of major transport decision timings (Months)

Scheme		Application to Inquiry	Length of Inquiry	Close of Inquiry to receipt of report	Receipt of report to decision	Total time
M6 Toll Road	1992-1997	28	16	17	4 (+20*)	65 (85)
Heathrow Terminal 5	1993-2001	27	46	21	11	86
London International Freight Exchange	1999-2002	13	7	6	15	41
Upgrade of West Coast main line	2000-2003	11	11	7	8	37
Dibden Bay Port	2000-2004	14	13	9	7	43
Camden Town tube rebuilding	2003-2005	11	5	5	6	27

*There was a legal challenge following the Government announcement that it would proceed with the relief road in July 1997. The legal ruling came in March 1999.

Source: PINS, DfT

- energy – in the energy utilities field, operating under a separate consent regime from Town and Country Planning, applications often take years rather than months to work themselves through the system. Section 36 power station applications since 1990 that have been subject to a public inquiry have averaged over 2½ years from start to finish. In one instance – the 75 km North Yorkshire power line application took an exceptional 6½ years from start to finish, though this was exceptional. Even without inquiries delays can be extensive, as with the Spalding power station that took over four years to process. The most recent energy utilities decisions about onshore windfarms at Scout Moor and Little Cheyne Court took almost two and three years respectively. Research by the British Wind Energy Associaion (BWEA) indicates that in England, between 2002 and 2005, local planning authorities took on average 10 months to determine wind farm applications including those which go to appeal, but not including the additional time for section 106 agreements that can typically take a further six months.

[26] http://www.dft.gov.uk/stellent/groups/dft_foi/documents/page/dft_foi_034762.pdf

- major housing, retail or mixed use – large developments that fail to be determined in 13 weeks can often take significantly longer. According to a major housing developer, large applications now take around 14 months to process (including 20 weeks pre-application discussion, 25 weeks from registration to approval and 20 weeks for Section 106 negotiation), compared with 12 weeks in total 25 years ago.[27] A major supermarket estimated in 2002 that it took around 80 weeks from start to finish for an application if it is called in,[28] with major retail, distribution and servicing sector applications being processed on average more slowly than other major commercial developments – 56 per cent are determined within 13 weeks against 68 per cent for offices, research and development and light industry, with only new major housing developments being processed more slowly.[29]

- other developments – despite the evident need for new waste treatment and incineration facilities, these developments often have difficulty in getting planning permission due to the strength of local opposition. Only 56 per cent of major with disposal decisions are taken within 17 weeks.[30] In one instance a planning application submitted in 1999 has still to be determined by spring 2006.[31] Equally, only around 15 per cent of permissions for aggregate quarrying come within 6 months,[32] with the British Aggregates Association suggesting that mineral planning applications can take 7-10 years.[33] It can also take many months to get applications for mobile telephone masts due to the high proportion that have to go to appeal – in 2005, mobile phone operators submitted 728 planning appeals to the Planning Inspectorate, of which 55 per cent were successful against an overall average of around a third of appeal cases being successful.[34]

3.22 These delays can affect environmental outcomes in addition to their economic cost. In terms of waste disposal, for example, the Environment Agency estimates that 2,000 new waste management facilities will be required to meet EU Landfill Targets. This will help address the environmental damage associated with landfill, which is responsible for 20 per cent of greenhouse gas methane emissions in the UK. Meeting the Government's target that by 2010 10 per cent of UK electricity should come from renewable sources will also require a streamlined and efficient planning process. Equally wind farms increase renewable energy supplies. There is currently 260MW of operational wind farm installed capacity in England with 720MW awaiting planning permission.[35]

[27] Barratts, Response to the *Barker Review of Land Use Planning:* Call for Evidence
[28] Tesco evidence to the ODPM Select Committee Report on Planning, Competitiveness and Productivity
[29] DCLG, Development Control Statistics for England 2004/05 Table 1.4
[30] DCLG, Development Control Statistics 2004/05
[31] The Belevedere plant in Bexley, London. This case ws submitted under the Electricity Act.
[32] QPA, Response to the *Barker Review of Land Use Planning:* call for Evidence
[33] BAA Response to the *Barker Review of Land Use Planning:* call for Evidence
[34] Mobile Operators Association, Response to the *Barker Review of Land Use Planning:* call for Evidence
[35] Data supplied by DTI Energy Review. The operational figures are from December 2005; the awaiting planning figures from June 2006.

Box 3.3: Case Studies of Planning Delays

The redevelopment of Kings Cross has taken over six years in the planning system, including four years of consultation, research, design and planning work prior to application. This site, which will include 486,000 sq m of business and employment space providing employment for 30,000 in addition to regenerating the area more widely, was earmarked for development in the late 1990s. As site allocations in the local plan did not facilitate the type of development desired, it was necessary to revise the Unitary Development Plan, before subsequent discussion about planning details. Even with outline permission granted, there are now further delays related to section 106 payments.

Southampton and Felixstowe container ports are nearing capacity and major shipping lines were relocating traffic to the continent on the basis of undersupply of space in UK ports. An application was therefore made for a port at Dibden Bay, which would have created 1,800 jobs. This proposal took over 3½ years for a decision to be made, including 14 months from application to inquiry, 13 months at inquiry, nine months from close of inquiry to receipt of inspectors' report and seven months from receipt of report to decision, with the absence of a national ports policy adding to delay. It was ultimately rejected on environmental grounds.

A leading UK university has a world-class biochemistry centre. It conducts pioneering research in metabolism, immunology, protein structure and cell biology. To compete for funding, staff and research with institutions with world-class facilities, it submitted an application for a state-of-the-art academic and laboratory building accommodation in 2004. While the planning authority was supportive, severe delays were caused when a local pressure group applied for spot listing of two buildings. The two-tier system of committees also introduced some delay, as did a petition to save a large copper beech.

A major supermarket had an application for an extension to one of their stores in south London delayed for over three years. During the life of the application to date they have had five different case officers – each of whom had their own ideas about the best design approach to take and the relative weight of the planning issues involved. This has resulted in several re-designs, the need for reconsultation, considerable delay and increased costs. Investment and job opportunities arising out of the improvements to the store have been deferred as a result. *As with elsewhere in the report these case studies are indicative of the issues that applicants perceive with the planning system. They often represent only the economic perspective.*

Factors likely to influence delay

3.23 Delays may be felt most acutely with the major cases (see box 3.3), but they can also be incurred for more modest developments. Over 27,000 minor developments took over 13 weeks to process in 2004/05.[36] And even with more complex cases it can reasonably be questioned whether the time taken is all added value. Where delays are caused by factors such as too many small householder consents in the system, increased risk-aversion among applicants and decision-makers, committee cycles that are too infrequent, or lack of clear national policy, poor tracking systems, hold-ups over minor issues, slow responses or late engagement from statutory consultees such as the Highways Agency, or high turnover of staff there is the potential for speedier decision-making that does not compromise quality.[37] As previously discussed, there are many examples of good practice, which could be more widely shared. Addressing the volume and resources devoted to householder consents may be particularly important in the light of the fact that they constitute

[36] ODPM Development Control Statistics for England 2004/05 Table 1.4.

[37] With local planning authorities subject to internal scrutiny; planning appeals; the Audit Commission, the Ombudsman; judicial review such factors as: and the electorate; this risk-aversion may be understandable.

around 50% of all planning applications. None of this is to imply that the private sector must not also play its role – delays can also be caused by poor quality or incomplete applications from developers.

3.24 There may also be structural issues at play here – local planning authorities are monopoly providers, so poor service cannot result in customers taking their applications elsewhere. Incentives to improve efficiency and customer service are therefore often weak. At a national level, with the exception of DCLG, there is no requirement for Secretaries of State to publish similar timetables for related applications such as those made under the Gas or Electricity Acts. Equally, there is the question of whether all local authorities are of sufficient size to find large applications, or fluctuations in the number of applications are easy to handle efficiently. In terms of shorter-term factors, the benefits of additional funding provided by mechanisms such as the Planning Delivery Grant may not prove durable if finance departments factor in the likely extra funding from this source when determining internal budgets.[38]

3.25 For many businesses, the lack of certainty about how long the application is going to take can cause as many problems as the actual time delay. In many instances, if there were greater understanding of the likely speed then related activities could be planned around this. There is no zero sum game here – the aim should be for both a defined and reasonable time-frame for decision-making, so that certainty and speed can improve together. Work being undertaken by the Government with the support of both the CBI and the Audit Commission has commissioned the Planning Advisory Service to coordinate a pilot programme to test the role of planning delivery agreements – voluntary agreements which can be signed between local authorities and developers on project plans for handling large applications. These agreements should help to provide this extra certainty and might provide best-practice examples that could be used more widely.

COMPLEXITY

3.26 Much complexity within the planning system is inevitable. Planning policies often address difficult issues with competing interests, while processes designed to ensure quality plan-making and development control decisions may not be simple when a variety of different interests need to be taken into account and the negative consequences of making bad decisions may be high. But unnecessary levels of complexity result in the misallocation of scarce resources and also the increased uncertainty that lack of transparency brings.

This issue has begun to be addressed

3.27 The importance of improving the efficiency of the planning system through reducing unnecessary complexity in policy, plan-making and development control has been recognised in a number of reforms in recent years. These have included:

[38] According to Addison Associates with Arup (2005) though additionality levels are currently very high 'there were some concerns raised as to the additionality of PDG in future years in terms of planning service budgets. Several authorities reported in the interviews that their central finance departments were making assumptions about PDG in 2005/06 and adjusting budgets accordingly.'

- simplifying the national policy framework, via the introduction of shorter planning policy statements in response to the Government's recognition that 'the sheer amount of guidance imposes a considerable burden on the planning system and reduces its effectiveness as a means of communicating national policy priorities;[39]'
- the simplification of the plan-making process, including the removal of one of the three tiers of plans (the county level), in the context of it routinely taking local authorities 5–7 years to update their plans. They were often out of date or inconsistent with national guidance. By 2001, ten years after the plan-led system was put into place 13 per cent of local authorities still had to put their first plan in place and 214 (63 per cent) current plans were out of date. Local plans also frequently ran to several hundred pages;[40] and
- reforms to the planning application process, such as increased use of e-planning to aid simplicity and transparency for firms making planning applications to reduce bureaucratic burdens. There are also moves to reduce the amount of resource going to process several hundred thousand minor householder consents, in part through exploring the potential for certain types of cases to be removed from the system.

3.28 These are beginning to have an effect. Nine planning policy statements have been produced, covering important policy issues including providing an overarching vision for planning, while there has been a swift adoption of e-planning services among local planning authorities. The new plan-making process is still bedding down, but the move from three to two tiers of plans should help remove some of the uncertainty that resulted from multiple plans, particularly when those plans were often out of date.

3.29 The reforms to plan-making are particularly critical. Prior to the move towards a plan-led system in 1991, plans were just one of a number of pieces of information planners used to determine planning applications. Subsequently, decisions had to be made in accordance with the plan, unless 'material considerations' indicated otherwise. One of the primary aims of this was to instil greater certainty in land use regulation, so that businesses and developers had a sense of the conditions that need to be fulfilled in order to get permission to develop. But the length, complexity and out-of-date nature of these plans, compromised these objectives. The Planning and Compulsory Purchase Act 2004 should ensure these plans are more up to date.

But national policy remains complex

3.30 Despite attempts to increase transparency in national policy making, the longer-term shift has been towards greater levels of complexity and regulation at the national level. The number of statutory instruments available to land use planners increased from 98 to 386 between 1958 and 1979 – an increase of 290%.[41] Despite modest simplification measures in the 1980s, such as reforms to the Use-Classes Order, there was no substantial deregulation in this period. Since 1990, regulation has continued to grow, with major new policies in areas such as transport and out-of-town centre development, as the planning system is often used as the means to give practical effect to a wide range of policy objectives (see Table 3.3).

[39] DTLR *Planning – delivering a fundamental change* (2001) p. 27
[40] *Planning – delivering a fundamental change* (DTLR, 2001)
[41] Peacock, A.T. (ed.) *The Regulation Game*, (Oxford: Blackwell, 1984)

3.31 The legislation itself is also often very complex, with the 1990 Town and Country Planning Act being one of the longest on the statute book. Some Planning Policy Statements are accompanied by lengthy best-practice guidance notes, and there are still thousands of pages of national policy and guidance, including circulars and good practice guides, though where detail removes ambiguity this can be desirable. There can also be uncertainty at local level about the status of these different documents. It has taken over two years to update just nine of the 25 national policy guidance notes – completing the task could take another five years. Many planners find it difficult coping with this volume of material, which it is important for them to keep abreast of in order that they provide high quality and up-to-date advice to applicants and councillors. In this context it can be questioned whether we have overburdened our planning system, and are asking it to deliver too much.

3.32 Alongside the issue of the complexity of national policy, there may also be issues relating to the level at which policy is best determined. As was noted in Chapter 1, England has a very centralised system of land use planning. There are clearly areas where spillover effects support a strong role for the centre – as for example with major infrastructure projects – and arguably here the lead role in decision-making should be at a national level. It is in this context that calls for greater spatial specificity of national development are being made. This could also reduce delays – arguably the Dibden Bay case would have been resolved more quickly had there been a national ports policy. But equally, there are legitimate questions about the nature and extent of national policy needed on issues of planning detail such as car-parking spaces, and on whether national targets can be applicable in all areas. Though there has been some growth of flexibility – as with recent proposals for density targets, for example, to come in bands – the discretion to vary policy according to local, sub-regional and regional circumstances may at times be unduly limited and rarely used when the flexibility is there. One approach to this issue would be to think about national policy being limited to issues of real priority, and to ensuring a certain amount of consistency. At the other end of the scale, local discretion would need to be constrained by spillovers beyond authority boundaries. As the British Chamber of Commerce have noted:

> *'The one respect in which businesses do believe there needs to be a major change to the planning system is making it more responsive to local economic needs and permitting greater flexibility… there is still a high degree of centralisation in the planning process, which can limit room for manoeuvre at a local or indeed a regional level*[42]*'*

[42] British Chambers of Commerce, Response to the *Barker Review of Land Use Planning:* call for evidence

Table 3.3: Areas where local planning authorities have been given additional or more complex responsibilities since the Town and Country Planning Act 1990

Issue	Source[43]
Access for disabled people	PPG1:1992, Circular 11/95, PPG1: 1997
Affordable housing	PPG3:1992, Circular 11/95
Air quality	PPG23:1994, Circular 15/97
Archeological protection	PPG16:1990
Contaminated land	PPG23:1994, Circulars 02/00; PPS23: 2004
Crime prevention	Circular 5/94
Design of buildings	PPG1: 1997
Environmental Impact Assessment	Regulations 1998
Gambling	Gambling Act 2005
Gypsy and traveller sites	Circular 18/94 [update]
Housing in multiple occupation	Circular 12/93
Licensing	PPG6:1996, Licensing Act 2003
Nature conservation	PPG9: 1994, PPS9:2005
Noise	PPG24, Circular 11/95
Planning obligations	Circular 1/97
Pollution controls	Environment Protection Act 1990; PPG23:1994
Retail	PPS6: 1996
Sustainable development	PPG1: 1992; PPS1: 2005
Telecommunications	PPG8: 1992
Transport	PPG13; 2001
Waste	PPG23: 1994, PPG10:1999, PPS10:2006

3.33 The complexity driven from national level can also be exacerbated by the range of central government interests. There are six main Government departments with an interest in planning – DCLG, DfT, DCMS, DTI, HM Treasury, and DEFRA – and there is the danger of a lack of integration between the objectives advanced by each respective department. Equally, there is a confusing array of primary legislation relating to planning. The most significant pieces, the Town and Country Planning Acts and the Planning and Compulsory Purchase Act – are the responsibility of the DCLG. But significant other elements relate to other departments – DEFRA controls statutory designations, DfT has responsibility for the Transport and General Works Act, DCMS controls heritage issues and the DTI has responsibilities for energy under the Electricity and Gas Acts. It is not always clear that these roles are co-ordinated effectively.

Plan-making also remains complex

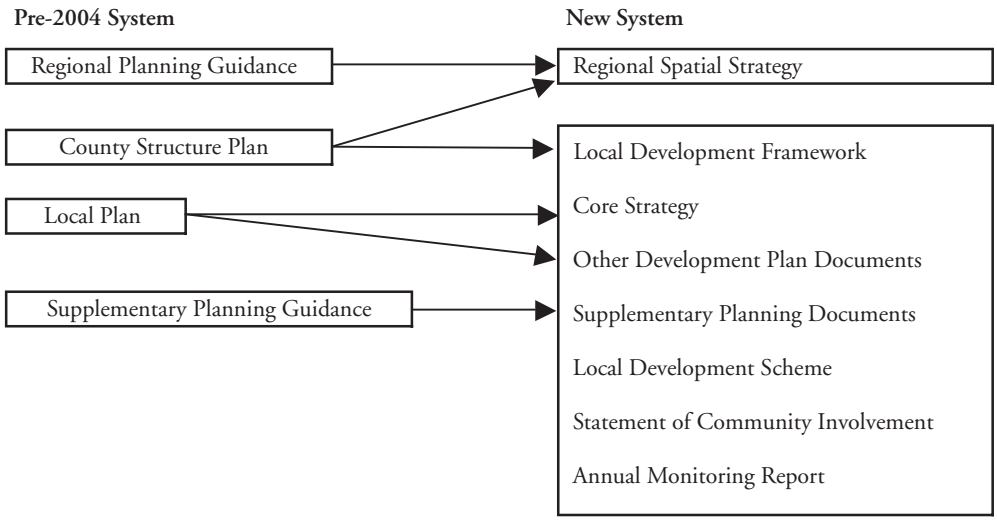
3.34 There are a number of welcome elements in the reforms that were introduced into the plan-making system as a result of the Planning and Compulsory Purchase Act. These include the important move to a more holistic, spatial approach to planning which, if effectively managed, could result in higher quality decision-making. The new local development framework approach – which requires a suite of documents rather than a single plan – should result in documents being

[43] Some of the origins of these requirements are essentially non-discretionary – air quality, environmental impact, nature conservation, waste and pollution controls, for example derive from European Community Directives, while others derive from primarily legislation such as the Disability Discrimination Act 1995 or the Licensing Act 2003. Some of this policy also predated 1990 in some form.

quicker and easier to update than previously and so provide more flexibility. It may also deliver some of the Government's wider objectives, as set out in Planning Policy Statement 12, including strengthening community involvement, front-loading to avoid late changes, introducing more efficient programme management, and strengthening the evidence-base of documents.[44]

3.35 To a degree it is, however, too early to say whether these reforms will deliver on their declared aim of providing greater simplicity, with some scepticism expressed in the responses to the call for evidence. However, as a number of responses also noted, new systems often need time to bed-down and it may be that once this has occurred it will prove less complex than it currently appears.

Chart 3.4: The Planning Framework in England



3.36 At present, concerns are still being expressed about the length and complexity of plans and plan-making. At regional level, for example, Planning Policy Statement 11 on Regional Spatial Strategies runs to 108 pages. At local level there are concerns about the complexities still embedded within the new Local Development Framework system (Chart 3.4), though it is hoped that the new plans will only take three years to produce rather than the 5-7 that was common prior to 2004. It requires processing many different documents and the new system to many appears slow (scheduled to take three years to complete), overly prescriptive about consultation, and process-driven. There is the need to ensure that plans are scoped effectively so that only value added information gathering occurs. The Planning Officers Society, for example, note that the 2004 review started out with admirable objectives, such as simplicity and predictability but believe 'the new system has been hamstrung with over-elaborate procedures that fatally undermine the achievement of these objectives.'[45] The requirement for a statutory statement of community involvement and the processes involved in the development of supplementary planning documents, for example, have been identified as concerns by a number of organisations, though

[44] See *Planning Policy Statement* 12 para 1.3
[45] Planning Officers Society Response to the *Barker Review of Land Use Planning:* call for evidence

the latter is intended to increase efficiency and effectiveness of the delivery of policy.[46] This may affect outcomes. As Manchester City Council have observed:

> "*Under the new system, for example, it is difficult to imagine how we could have brought forward the Supplementary Planning Guidance (SPG) for the Bomb Damaged Area in a timely fashion to underpin the successful renewal of the city centre or the SPG for East Manchester which helped deliver the major infrastructure projects required for the Commonwealth Games and the wider regeneration of that area.*[47]"

3.37 However, some of the problems experienced by the current system may amount to teething difficulties, and these difficulties must be counterbalanced by the potential gains of, for example, more flexibility when it comes to revising the plan. A final evaluation of the new plan-making reforms must wait until the new 'suite' of plans are in place and their impact analysed. Among other issues, this will allow consideration of how well regional economic objectives have been translated in spatial terms. There is certainly little appetite for substantive structural reform to the plan-making process at this stage among planners or other bodies, including among many in the business community. Further large-scale structural reforms in this area are unlikely to be desirable at this stage. But there may be scope for improvements that could enable the more effective functioning of the new spatial plan-making system.

And the planning application process can be cumbersome

3.38 The broad structure of the planning application process for most developments is fairly simple. But in practice a number of complications result in the planning procedure appearing less transparent and more complex than it might otherwise be, with the result that both applicants and others affected by a proposed development often find it hard to understand the basis on which decisions are taken. This is an area that has received less attention in terms of reform. Foremost among these are:

- *extent of supporting evidence*. The extent of written documentation needed to support an application appears to be rising, partly as local planning authorities and developers increasingly take a 'precautionary' approach to development control (see Box 3.4). These reports are often produced by specialist consultants to a high technical standard and can add to costs – environmental statements can cost hundreds of thousands of pounds (though most are tens of thousands) – with the number of applications requiring them under the Town and Country Planning Act rising from around 215 in 1991 to around 460 in 2005, in part due to stricter controls.[48] Assuming an average cost of £70,000, these statements alone could cost over £32m per annum.[49] They can provide vital information for processing cases, but deliver questionable value unless planning officers have the time and the expertise to assess these complex documents.

[46] Complexity may also harm community engagement. According to the Wildlife Trust the complexity of plan-making arrangements is a 'serious deterrent to the Trust's engagement'- Response to the *Barker Review of Land Use Planning:* call for evidence

[47] Manchester City Council, Response to the *Barker Review of Land Use Planning:* call for evidence

[48] Data provided by ODPM. With 18,800 major developments in 2004/05 this still represents only 2.6% of all major developments.

[49] This figure is indicative – there is a very wide range of cost associated with Environmental Statements and no formal study has been conducted.

- *range of players involved*. It is a common complaint of business that the planning system is unpredictable due to the range of views that need to be taken into account – there is a lot of potential for an unforeseen problem to arise. An officer in a pre-application discussion on a major application may give one opinion on a case, while a second officer judging the case may have different views – this results in extra delays and uncertainty for business. Similarly, local councillors may go against the advice of their officers when taking decisions on more complex or controversial cases (while this may be fully justifiable it adds to uncertainty). At the national level, there is often uncertainty about whether an application will be called-in for determination by the Secretary of State or an appeal recovered. Complexity is compounded by the large range of statutory consultees, local groups and other stakeholders who are engaged in the decision-making process.

- *extent of conditions*. There appears to be a growing use of conditions in planning applications (generally reflecting legitimate objectives), which can take many months to negotiate. By the mid-1990s, conditions were more common than not – with two-thirds of planning applications granted including non-standard conditions[50] and some of the responses to our call for evidence suggests they have been continuing to grow in recent years.

- *number of consent regimes*. Within the Town and Country Act legislation there are over 12 different regimes, including general planning, listed building consent, conservation area consent, advertisement regulations consent, tree prevention order consents and protected hedgerows. There are also different regimes that apply to major infrastructure project, such as applications made under the Transport and Works Act 1992, or under the Harbours Act 1964. An applicant for a port, for example, might have to make one application to the Secretary of State for Transport and another under the Town and Country Planning Act. Many proposals will also require different types of consent in addition to planning permission. An example would be a development which will involve discharges of chemicals into air or waste into landfill which would require a separate application to the Environment Agency for a Pollution Prevention Control permit. Since the Environment Agency was established, 1,700 of these permits have been issued[51].

[50] Prism Research and UWE, *Attitudes to Town and Country Planning* (HMSO, 1995)
[51] Data provided by DCLG

Box 3.4: Types of supporting documentation for planning applications

There has been no comprehensive study of reporting burdens on planning applications, but it appears that there is a large and growing body of evidence that can be required for the 18,000 large applications determined each year, including:

- Environmental statements
- Needs tests
- Impact tests
- Transport assessments
- Energy conservation reports
- Landscape design strategies
- Air quality assessment
- Contamination reports
- Statement of lighting proposals
- Verified views
- Natural resource impact assessment
- Flood risk assessment
- Green travel plan
- Waste audit
- Acoustic report
- Archaeological report

3.39 There is also the issue about whether regulation is impact-based and proportionate in terms of development control. Given the range of types of cases that planning permissions cover, from house extensions to major development, an efficient system would ensure that the level of regulation was proportionate to the risk involved in making a wrong decision, a principle articulated fully in the recent Hampton Review. But it is not clear that this is currently the case, with the Government currently exploring this issue in relation to householder consents. Progress here would be very welcome, and would reduce the pressure on planning departments.

With a resultant growth of costs for firms

3.40 The main impact on firms of this level of complexity is likely to be the uncertainty it generates; for example, it may be difficult for a firm to know whether a planning application is likely to be successful. But complexity also impacts on firms directly through the extra resources it requires. There has been no comprehensive study of the direct costs to business from the planning application in recent years. But in addition to the opportunity cost of management and other staff time involved with planning (estimated at around £100-£150 million in 1996[52]), costs include:

- *planning fee and related costs* – these were introduced in 1981 is now ranged from £55 to £5520. The top rate of planning application fee is now £50,000, and the total annual cost to business is now over £200 million a year, with the most recent rise following research which suggested that fees needed to rise to better reflect costs.[53] In

[52] Berkeley Hanover Consulting in association with Bone Wells Associates, *The Economic Consequences of Planning for the Business Sector* (DETR 1998)

[53] The Planning Service: Costs and Fees, Arup Economics and Planning, With The Bailey Consultancy, November 2003 (ODPM)

addition, local authorities spend around £700m a year on planning. With business rates accounting for 22% of local authority income, this suggests an additional cost to business of around £150 million per year.

- *consultant costs* – firms are paying increasing amounts to consultants for advice in areas such as planning procedure or promoting planning applications. They range in size from sole practitioners or small partnerships, through to large, international, multi-professional practices including architects, economists, engineers, surveyors and other specialists. It was estimated that the business cost of professional advice (including legal advice) was in the magnitude of £100 million–150 million per annum in 1996.[54] But by 2003-04 the fee income of the top 25 planning consultancies alone had risen to £196 million, and over two-thirds of these companies experienced double-digit growth in 2005) though income will come from public as well as private sources[55]. A proportion of the costs associated with planning will be incurred regardless of whether an application is submitted, such as an assessment of land contamination issues. It would therefore not be accurate to attribute all these costs to the planning system alone.

- *legal fees* – The number of planning solicitors stood at 1,906 as of August 2005, larger than a wide category of other types of law, including media and entertainment law, libel and defamation, common law and agricultural law. It has also experienced significant growth in recent years[56]. With an average salary of around £50,000 per solicitor, and with fees up to 5 times salary, this suggests solicitors fees alone of around £350-500 million. In addition to the solicitors, there are around 300 members of the Planning and Environmental Bar Association who specialise in planning law.

3.41 The sum of these direct and indirect costs mean that very large applications such as strategic waste applications or quarrying can regularly cost over £200,000 – and two or three times that if the case is appealed.[57] Large mixed use schemes can now cost well over £1 million, and major infrastructure developments can be many times even this figure: the recent Dibden Bay Port application, for example, cost £45 million. These cases are only the minority – for example, there are only 1,000 minerals applications a year. And the cost of planning in terms of overall development costs remains relatively low. But they are by no means negligible. In total they suggest costs of over £750 million per annum (not including s106 payments which are not related to complexity).[58] The administrative cost of planning is currently being calculated by PricewaterhouseCoopers as part of a wider Government initiative. This will provide further analysis of this issue.

[54] Berkeley Hanover Consulting in association with Bone Wells Associates, *The Economic Consequences of Planning for the Business Sector* (DETR, 1998)

[55] Data from *Planning*, 2005

[56] Source Law Society REGIS database; http://www.lawsociety.org.uk/aboutlawsociety/whatwedo/researchandtrends/factsheets.law

[57] Biffa, Response to the call for evidence of the Barker Review of Land Use Planning

[58] According to one major retailer 'the costs involved in making and progressing an application for a major scheme such as one of our stores are now significantly higher in England than for any of the other countries in which we operate' – IKEA, *Response to the Barker Review of Land Use Planning:* call for evidence.

And added resource pressures on local authorities

3.42 The apparent growing levels of resource within local authority planning departments over the longer term helps give an additional measure of the cost of growing complexity of regulatory controls. Accounting processes and structural changes to local authorities make it difficult to provide time-series data on planning expenditure. Research suggests that the percentage of revenue expenditure accounted for by planning more than doubled between 1962/3 and 1990/91, while the overall budget also grew substantially. Planning therefore accounted for a greater share of an expanding pie. In total, spending on planning increased in real terms by over 600 per cent from 1962-1991 while applications grew by only 28.6 per cent, with only social services showing a more rapid growth. At one point in 1980/81 planners were actually processing fewer applications than in the early 1960s, even though spending had increased by over 500%.[59] Costs are also incurred more widely in the public sector – such as regional planning bodies or statutory consultees. The Environment Agency alone now processes over 50,000 planning applications a year, while the running costs of the Planning Inspectorate increased by 37 per cent to £47.6 million from 1999/2000-2004/05.[60] All this has contributed to a growth in the number of planners – there are now over 14,000 members of the Royal Town Planning Institute, up from under 5,000 in 1972 – a growth of more than 300 per cent growth in the past 30 years, though not all work in the UK and other service professions have experienced similar growth in recent decades.

3.43 More recent data suggests that despite increasing revenue expenditure – given current processes – there may not be enough planners at regional and local level to cope with the increasing number of applications, regulatory burdens, and the complexity of plan making and development control. A study in 2002 also suggested that from 1996 a larger application workload was not fully matched by a commensurate rise in resources. The number of applications rose by 20 per cent while spending per 1,000 of the population rose by 8 per cent[61]. Since then, extra resources have been provided via the Planning Delivery Grant and a large rise in fees.

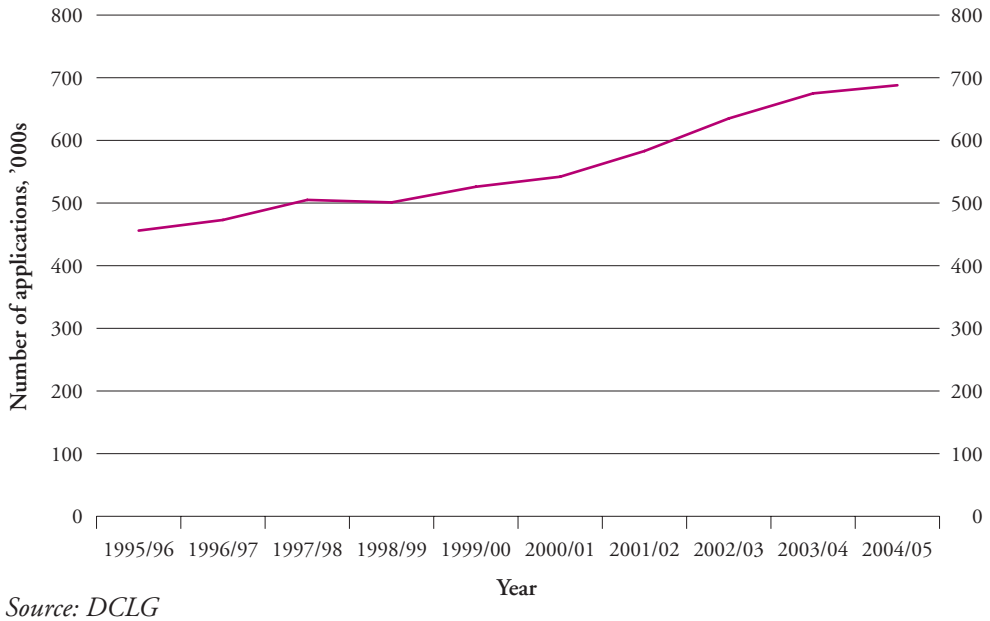
3.44 In terms of personnel and skills, the same report suggested that between 1996/97 and 2000/01 average staff levels in district and unitary authorities fell from 38.1 to 33.9, while a comprehensive survey in 2004 suggested widespread recruitment and retention issues[62]. While efforts are under way to help address this, the recent report by the Audit Commission said that planners were in short supply and also highlighted issues the difficulties faced by councils in recruiting and retaining qualified staff[63]. The CBI has noted issues relating to vacancy rates, training budgets and agency staff, while suggesting that the increased level of fees needs to be matched by a better quality service[64]. Issues about the skills of planners (including regarding technical issues such as negotiating complex section 106 agreements) and the capacity of lcoal authorities given current demands were also widely raised among the responses to the review's call for evidence.

[61] Arup Economics & Planning DTLR, *Resourcing of Local Authorities* (2002) p. 12.
[62] ALG, ALBPO and RTPL. *Retention and Recruitment of Planners* (London 2004). See also the RTPI *The Supply and Demand for Qualified Town Planners*, Sixth Report. London 2004 which also raises the spatial issues relating to recruitment in rural areas or high cost areas.
[63] Audit Commission – *The Planning System: Matching expectations and capacity* (2006)
[64] CBI, Planning Brief 2005. p. 9.

3.45 The factors that research has suggested explain the shortage of planners and high rates of turnover include:[65]

- the number of planning applications – in 1995/96 councils received 456,000 applications and by 2004/05 this had risen to 688,000 applications (see Chart 3.7)
- the image of planning – research from Oxford Brookes University concluded that: 'the planning system in local government has suffered from many years of being the problem rather than the solution'[66] while the status of planning in local authority departments may often be falling;
- concerns that the process has become more important than the product;
- the private sector is seen as offering more interesting jobs with higher salary levels;

Chart 3.6: Total Applications Received (000s)



Source: DCLG

- inadequate use of human resource management practices such as releasing trained planners to deal with complex cases;
- the number of students entering planning was falling until 2000/01 and it will take some time for planning graduates to be sufficiently experienced to deal with complex planning work; and
- planning is now about much more than development control and planners have to interact with a wide range of stakeholders to enable them to plan spatially. There are not enough planners with the range of skills needed.

[65] B Durning and J Glasson, *Skills Base in the Planning System – A Literature Review*, Local Government Association 2004

[66] See *Planning and the Political Market,* M Pennington, 2000

3.46 The nature of planning as a profession is also changing. Planning is not just about land-use but a broader spatial approach with wide stakeholder and community engagement. And many local authorities now regularly use the private sector or non-planning staff to help in plan-making and in determining planning applications. The Audit Commission noted that, although the use of planning consultants to undertake planning work was a relatively recent phenomenon, it was now well established.

3.47 Much of the increase in complexity is probably inevitable. Long-term trends exist such as the necessary shift in focus towards greater environmental protection, or the growing litigious nature of society meaning that developers and other parties become more risk-averse. And in some respects it is legitimate to argue that the world has simply become a more complex place, so that elements have to be added to the system while few can be subtracted.

3.48 However, there are aspects where the benefits appear unlikely to justify the cost. Part of the cause for this may be that complexity can work in the interests of certain groups who can use their knowledge of the system to work it to their advantage. The ability of pressure groups to overcome the collective action problem of participation means that they have a special ability to influence the planning system – a complex system increases this advantage. Equally, governments can lack the incentives entrepreneurs have to improve performance. And as monopoly suppliers of goods and services, there is a relative absence of competitive forces which would have revealed more efficient production processes. Similarly, if an authority issues complex and lengthy guidance, for example, they do not bear these costs themselves and to that extent do not have the incentive to reduce them.

CONCLUSION

3.49 Planning policies and decisions involve making complex trade-offs in areas where there is often no clear right answer. Gauging individual and community preferences to factor non-market values into decisions inevitably takes time and resource. But one of the consequences of globalisation is that the window of opportunity for commercial success is rapidly shrinking. Firms therefore require a value of for money service that is timely and transparent.

3.50 The planning system has experienced substantial reform in recent years. These include introduction of the Planning and Compulsory Purchase Act of 2004, which aimed to create a simple, transparent, efficient and effective system of plan-making the introduction of £600 million of Planning Delivery Grant aimed mainly at increasing speed of decision-making and capacity, and reforms to national policy, including the introduction of Planning Policy Statements.

3.51 There has been some significant progress. Almost 80 per cent of all planning applications are now decided in eight weeks and of the 18,800 applications for major developments in 2004-05 57 per cent were made in 13 weeks, up from 49 per cent in 1999-2000. As volumes have also risen, there has been a more than 60 per cent increase in the number of applications determined within the 13-week target for major applications and a 50 per cent increase in the number of applications determined within the eight week target.

3.52 But there is more to achieve. The appeal system has got substantially slower in recent years – only 6 per cent of inquiries took over a year to determine in 2001-02; by 2005-06 this had risen to 34 per cent. In terms of local authority applications, over 20,000 minor applications take more than 13 weeks to process. There is some evidence of perverse outcomes from the local authority targets such late registration of applications. Reliable data for start end times for larger applications is limited but, according to a major housing developer, large applications now take around 14 months to process, compared to 12 weeks 25 years ago. Major infrastructure delays are also still common, and can take several years to determine. In this context it has been argued that a clearer articulation of national policy could help reduce infrastructure timings, while process reform could increase efficiency elsewhere.

3.53 The planning system also still has substantial levels of complexity. There are thousands of pages of national policy and guidance, including circulars. There are some concerns that plan-making at the local level is jargon-laden, over-elaborate in its procedures and process-driven; and the planning application process is also very complex. This adds to costs for developers. Planning fees, for example, now cost over £200 million per annum, while there are high addition costs in terms of consultants and lawyers fees. Large applications can cost millions of pounds – the recent Dibden Bay application, for example cost £45 million. Complexity and the need to handle growing numbers of householder consents also adds to resource pressures at the local authority level.

4 The impact of planning on domestic and foreign investment

INTRODUCTION

4.1 There are many factors influencing levels of domestic and foreign investment in England, and the great majority are unrelated to the planning system. But where planning policies and processes are effective and positive they promote investment in the UK, and encourage inflows of foreign capital. The key mechanisms here are: providing greater legitimacy and certainty of land use, providing suitable employment land, encouraging a more efficient use of infrastructure, and driving place-shaping and regeneration. However, there can also be adverse outcomes. This can result in investment opportunities being missed, with businesses operating in substandard premises, in poor locations and unable to respond rapidly to changing economic circumstances.

4.2 This chapter focuses on the impact of planning on investment in the UK, beyond the issues of delay and complexity that were addressed in the previous chapter. It covers both domestic and foreign direct investment. It is in three parts:

- first, it explores some of the ways in which positive planning can help to enhance levels of investment in all regions;
- second, it sets out some of the ways in which planning can harm levels of investment by lowering returns to capital[1]; and
- third, it analyses how the delivery of positive planning might be aided.

POSITIVE PLANNING BRINGS MANY BENEFITS

Employment land

4.3 Spatial planning should allow for a sufficient quantity of employment land in a location that suits firms' needs, such as proximity to a pool of labour, the accessibility of transport links or the benefits derived from locating near to other firms or suppliers. As the CBI comments, 'An effective planning system, by sanctioning the use of land in a timely and appropriate manner, can support business in meeting the needs of its customers.'[2] Planning Policy Guidance 4 makes clear:

> *'Policies should provide for choice, flexibility and competition. In allocating land for industry and commerce, planning authorities should be realistic in their assessment of the needs of business. They should aim to ensure that there is sufficient land available which is readily capable of development and well served by infrastructure. They should also ensure that there is a variety of sites available to meet differing needs. A choice of suitable sites will facilitate competition between developers; this will benefit end-users and stimulate economic activity.'*[3]

[1] The focus on this chapter is on microeconomic effects. There may in addition be macroeconomic effects where large upward- swings in house prices due to supply restrictions feed through into inflationary pressures by increasing consumer spending, causing interest rates to be maintained at a higher level than would otherwise be the case. House prices may also have some bearing on savings rates. This issue was explored fully in the *Barker Review of Housing Supply*.

[2] CBI, 'Planning, Competitiveness and Productivity: submission to the ODPM Select Committee', July 2002 http://www.cbi.org.uk/ndbs/PositionDoc.nsf/1f08ec61711f29768025672a0055f7a8/980380c1e41478c680256e61003f660e/$FILE/planOffice_for_the_Deputy_Prime_Minister151102.pdf

[3] Department for Communities and Local Government, *Planning Policy Guidance Note 4*, p. 1

4.4 Government policy can act to facilitate this. In the late 1980s the business use class (class B1) was introduced via the Town and Country Planning (Use Classes) Order 1987, which allowed greater flexibility to change between light industrial, office and research and development uses. This provided the opportunity for development plans to provide positively for enterprise and investment, whilst affording effective environmental protection, in the context of structural changes as a result of globalisation lowering the demand for industrial use-classes.

Certainty of land use

4.5 Spatial plans can provide firms with greater certainty about future property values and investment returns. Businesses have the benefit of greater certainty that there will be a limitation on undesirable impacts from neighbouring development. Pollution, traffic congestion, noise and deterioration of the neighbourhood are all issues that might negatively affect the value of a business-siting a haulage company next to a hotel, for example, might result in a loss of custom. Planning can help minimise these impacts, particularly regarding uses outside of the agreed area plan.

Box 4.1: Positive planning and investment

Brindley Place has formed the central point of Birmingham city centre's ongoing regeneration. It consists of a privately-funded 17-acre mixed-use site, backing onto the Grand Union canal. Development first started in 1993 and planning tools such as compulsory purchase orders have been described as 'vital' in securing the area's success.[4] The use of a strong masterplan has enabled the area to integrate efficiently into existing infrastructure.[5]

Telford and Wrekin has integrated its transport, land-use planning and economic development functions into a single 'Environment and Economy' department. The authority co-ordinates land-use and transport planning in creating new routes and infrastructure, and ensuring new developments are presented with realistic access choices by public transport, cycling, and walking. A new footpath/cycleway through the northern part of Telford is being promoted, linking deprived areas with employment and education opportunities.[6]

Swaffham in Norfolk is a medium-size market town that now hosts two of the UK's largest wind turbines. Although there is high public support for wind-power,[7] local opinion can often be opposed to particular schemes.[8] By engaging with the local community, and working with the planning process, Ecotech was able to win public support for the construction of both its generators in Swaffham. Over 60,000 people have visited the viewing platform at Swaffham turbine one since its construction in 1999.[9]

4.6 Equally, the planning system can help provide firms with certainty about the use to which land will be put in the future in the area: where a new road will be located, or where new housing development will proceed. Better information may help a firm plan and reduce the risks associated

[4] Housing, Planning, Local Government and the Regions Committee, Report of visit to Birmingham, Stoke, and Sheffield, 24-26 November 2002 at http://www.publications.parliament.uk/pa/cm200203/cmselect/cmOffice for the Deputy Prime Minister/76/7609.htm

[5] Department for the Environment, Food and Rural Affairs, 'Waterways for tomorrow national conference report' (June 2001). Report from Syndicate 2 at http://www.defra.gov.uk/Environment/water/iw/conference/05.htm

[6] Office for the Deputy Prime Minister and Social Exclusion Unit, *Making the Connections: final report on transport and social exclusion* (2003), p. 86.

[7] ICM research, August 2004, cited by Renewable Energy Systems, 'Frequently Asked Questions' at http://www.res-ltd.com/wind-power/faqs.htm

[8] Open University, Energy and Environment Research Unit, Report from 'Getting the Wind Up' Conference, Newcastle-Upon-Tyne, 21 September 2003 at http://eeru.open.ac.uk/natta/renewonline/rol45/10.htm

[9] Sustainable Development Commission, *Wind Power in the UK* (2003) at http://www.sd-commission.org.uk/publications/downloads/Wind_Energy-NovRev2005.pdf

with investment. Spatial planning, by indicating the forms and quantities of expected development within a locality, can help overcome the difficulties for a potential developer in understanding how an area may change. Up-to-date local and regional plans can provide a 'signal' to potential developers about the type of new construction to expect in an area, though the complexity of the current system may limit the extent to which this benefit is realised.

4.7 Democratic participation can also help investment where important, long-term decisions need to be made about the future of an area. The planning system can provide an opportunity for otherwise irreconcilable interests to meet, discuss, and collectively formulate appropriate decisions. Where successful, it can provide the forum in which public understanding and acceptance can be won for potentially controversial economic development such as a major quarry which helps provide the basic raw material for concrete, tarmac, building mortar, engineering fill and road-sub base. The planning process itself can provide legitimacy to projects, by acting as a useful form of alternative dispute resolution (ADR) method to the courts.[10]

More efficient use of infrastructure

4.8 The planning system can ensure more efficient use of infrastructure. Where economies of scale or economies of proximity can be derived from certain urban forms and from more efficient use of infrastructure such as car parking, there may be indirect benefits to business in the form of lower taxation.[11] Without the integrated planning of development around existing and expected infrastructure, there is the possibility of development occurring in places that would also add undue strain to local transport networks. Planning also helps in the delivery of infrastructure and public goods more directly, either through helping ensure that new road networks, for example, are developed in areas of economic need, or through using section 106 agreements to provide infrastructure that a privately-motivated firm might under-supply, including roads, and utilities infrastructure.

PLANNING CAN ALSO CONTRIBUTE TO EFFECTIVE PLACE-SHAPING AND REGENERATION

4.9 'Place-shaping' can be thought of as the manner through which a community comes to define itself spatially. The Lyons Review of Local Government defines 'place-shaping' as the separate processes of:[12]

- building and shaping local identity;
- representing the community;
- regulating harmful and disruptive behaviours;
- maintaining the cohesiveness of the community;
- helping to resolve disagreements;
- working to make the local economy more successful;

[10] On planning and legitimation more generally, see, for example, J. Habermas, *Legitimation Crisis* (1975), especially Chapter 6.

[11] Conran Roche & Davis Langdon Everest, 1989, quoted in DETR, *The Economic Consequences of Planning to the Business Sector* (London, 1998), p. 53.

[12] M. Lyons, *National Prosperity, Local Choice, and Civic Engagement* (May 2006).

- understanding local needs and preferences and making sure that the right services are provided to local people; and
- working with other bodies to respond to complex challenges.

Box 4.2: Planning and regeneration

Grainger Town, in the historic heart of Newcastle-upon-Tyne, was suffering from symptoms of urban decay and economic and social decline. This led to an ambitious heritage-led regeneration programme, supported by English Heritage, English Partnerships/One North East and Newcastle City Council. Of its 640 buildings, 244 are listed as being of special architectural and historic interest and of those 12 per cent are listed grade 1 or grade 2*. A regeneration strategy was put in place designed to complement the architectural and historic character and significance of the area. It brought a total of about £45million public funding and £194million private sector investment into the area. It has generated over 1900 new jobs and assisted the start up of over 300 new businesses.

The decline of the traditional port industry in Gravesend left the town suffering from dereliction, empty commercial buildings and a growing crime and disorder problem. A regeneration programme, produced with funding from English Partnerships and the SRB, has enabled the restoration of historic buildings; the reintroduction of riverside housing; and the pedestrianisation of shopping streets. Key to the process was the ability to match specific regeneration funding with section 106 payments, overseen by the local council. Among other outcomes, by renovating previously abandoned areas, natural surveillance has increased, contributing to a fall in shop theft of 19 per cent from 1999 to 2001.[13]

4.10 The planning system clearly has a potential role in all of these features. By understanding the spatial needs of sustainable neighbourhoods through place-shaping, it can provide the means through which a sense of identity and place is provided to support local communities.[14] The creation of focal points within a district, around which renewed urban centres can be designed, has been critical to regeneration in Newcastle-Upon-Tyne[15] and Manchester, as well as other less well-known examples (see box 4.2). Such 'place-centred' regeneration can be achieved only where the tools in the planning system are credibly operated to provide a clear spatial focus. Thoughtful urban design can also improve the 'natural surveillance' of an area, reducing crime.[16] As the English Regions Network report has noted:

> *'long term spatial planning policies can contribute to the competitiveness of the North, Midlands and parts of the South West through making its cities and conurbations increasingly attractive places to live and work.'* [17]

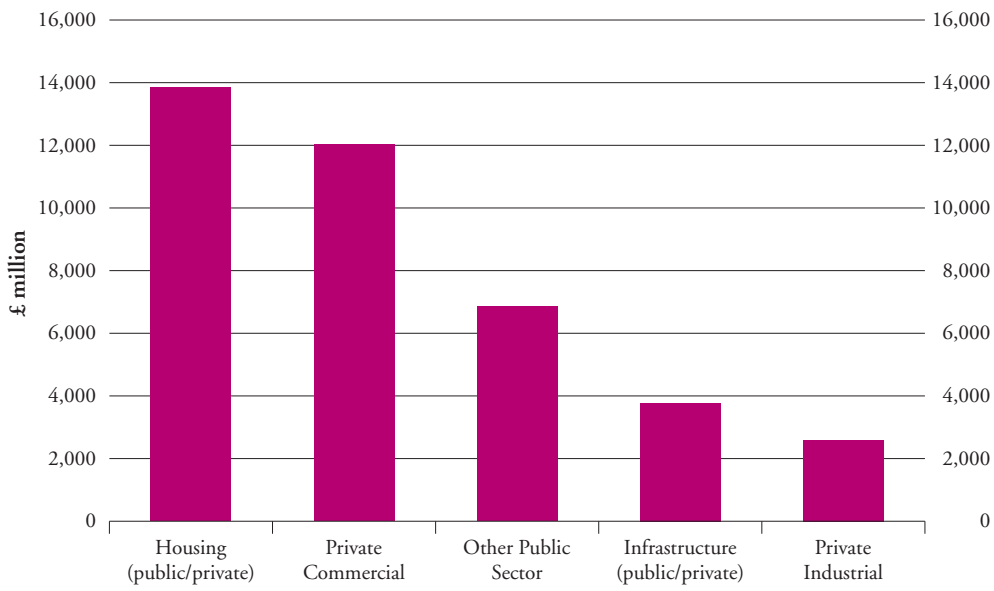
[13] Office for the Deputy Prime Minister and Home Office, *Safer Places: the planning system and crime prevention* (2004), pp.66-67.
[14] On place and identity, see, for example, Richard Sennett, *Respect: the formation of character in an age of inequality* (2006).
[15] Time Magazine, 'From coal to culture', 22 August 2004.
[16] CABE and Department of the Environment, Transport and the Regions, *The Value of Urban Design* (2001).
[17] English Regions Network, RDA Planning Leads Group, Office of the Deputy Prime Minister, Department for Transport, Regional Futures: England's Regions in 2030, Final Report, English Regions Network, January 2005.

4.11 Successful regeneration is likely to require a number of other factors beyond positive planning in order to deliver vital economic and social objectives. The delivery of infrastructure is often vital – the review of infrasatructure requirements being conducted ahead of the Comprehensive Spending Review 2007 will need to consider how this sits with spatial plans. A number of partners from both the private and public sector often need to work together through a variety of mechanisms in order to bring about change. In some instances fiscal levers, such as changes to VAT regulations can further stimulate economic development in deprived areas. But a facilitating planning system often has an important role to play – it is a necessary if not sufficient condition of change.

THE PLANNING SYSTEM ALSO ENABLES SUBSTANTIAL LEVELS OF INVESTMENT IN FIXED CAPITAL

4.12 The chief mechanism by which the planning system influences investment in the UK is through regulating, by granting planning permission, the nature and extent of permitted changes to existing property and to the development of new property. It is clear that the planning system allows a substantial degree of investment in land and buildings to occur. Over 300,000 business applications are processed each year,[18] and around 75 per cent were successful in 2004/05[19]. These permissions help support an active property development sector. Chart 4.1 provides the general breakdown of new orders received by contractors in 2004. They are dominated by housing and private commercial orders, which totalled £14 billion and £12 billion respectively.

Chart 4.1: New Orders Received by Contractors, 2004, £ million



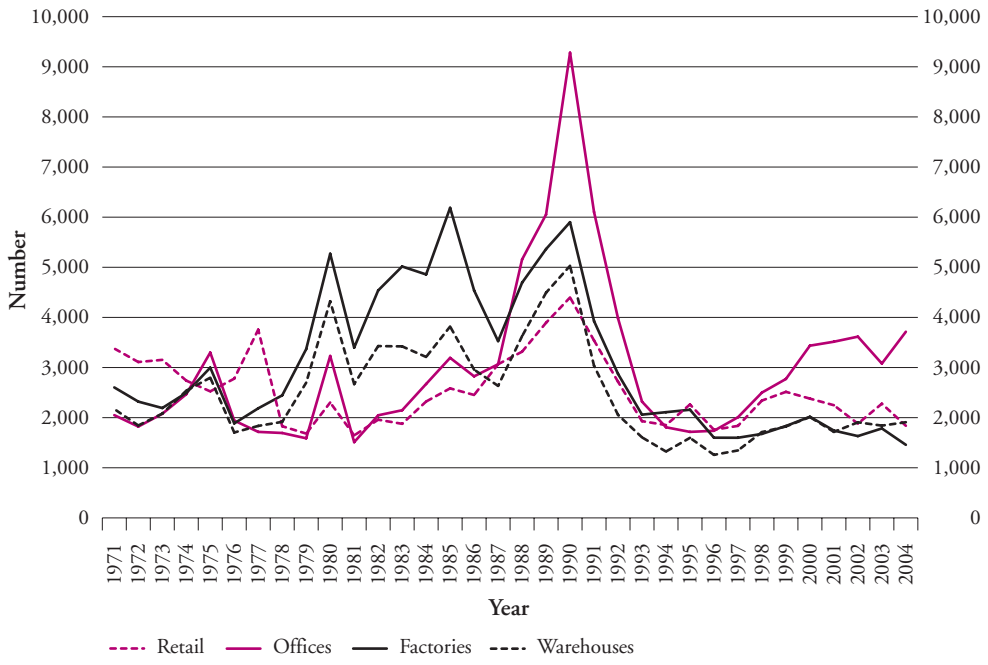
Source: DTI, Construction Statistics Annual 2005

[18] This includes all non-householder applications of the major categories. 75 per cent of major development was approved, 76 per cent of minor development and 78 per cent of change of use in 2004/05. Department for Communities and Local Government, *Development Control Statistics 2004/05*.

[19] This includes major developments, minor developments, and change of use.

4.13 This value of new build results in large numbers of new buildings. The number of new buildings (or hereditaments) built each year since 1971 shows a fluctuating supply of the four main commercial property types, rising with the economic upturn in the late 1980s, and falling substantially in the wake of the subsequent recession (Chart 4.2). Retail development has tended to fluctuate between 2,000 and 4,000 new properties a year, with a general downward trend. Office development has ranged between 2,000 and 3,500 with a large spike of over 9,000 in 1990. Factory space has proved more volatile, ranging from around 2,000-6,000. Warehouses have averaged around 2,000-4,000 a year.

Chart 4.2: Number of Hereditaments by Year Built, 1971–2004, England and Wales 2005 Data



Source: DCLG[20]

4.14 The number of hereditaments, however, tell only part of the story. Where there are economies of scale, it is likely that firms will seek to develop smaller numbers of larger properties. The data for total floor-space built since 1971 suggests this is indeed the case. In particular, with the exception in the fall-off of factory floorspace since the late 1990s (which may be connected to new production methods), new investment in factory and warehouse floorspace appears more substantial. The trend towards larger-scale retail formats also appears clearly from the data, with the trend-line since 1991 being around 50 per cent higher than the trend-line between 1971-1984, whereas the number of hereditaments changed little. Between 1998-2004 there were over 18 million square metres of new warehouse development, 11 million square metres of new office space, 9 million square metres of new retail development. A number of very large-scale developments are presently under way (see Table 4.1). There has also been substantial infrastructure development.

[20] Valuation Office Agency and Department for Communities and Local Government, *Commercial and Industrial Floorspace and Rateable Value Statistics, 2005*. These completion figures are estimated from an annual sample of ages of buildings. They do not take account of demolitions, or changes in use-class, and hence estimate the completion figure with error. However, they are not systematically biased and give a good indication of trends in the underlying data.

In energy, for example, in addition to a number of new power stations there have been over 11,800 applications for overhead power line consents since 1990, of which only two have been refused.[21]

Table 4.1: Leading commercial property developments in England

Company	Project	Type	Cost, £M
Argent	Kings Cross, London	Mixed	2,000
Westfield Group	White City, London	Retail	1,500
Grosvenor Estates	Paradise, Liverpool	Retail	900
Minerva	Minerva Building, City	Office	500
British Land	122 Leadenhall, City	Office	500
Land Securities	Broadmead, Bristol	Retail	500
Hammerson	Shires, Leicester	Retail	350

BUT INVESTMENT CAN BE HINDERED

4.15 It could be concluded from these figures that there is little negative impact of planning on investment. As there are no restrictions on the nature of planning applications that can be made, it might be argued that all potentially profit-making developments requring planning permissions would lead to applications. As the majority of these are accepted then this might of itself constitute adequate investment, particularly given the need to set the desirability of new commercial applications alongside environmental considerations, or the interests of existing investors.

Refusing applications

4.16 There are, however, reasons to be cautious about this assessment. The first is that even a relatively low refusal rate itself suggests a significant loss of investment, with around 60,000 business investment opportunities turned down each year. Compounded over several years this incremental effect will be more significant still in terms of capital stock. In this context, the recent rise in the proportion of refusals may be a cause of concern. The proportion of refusals for major applications has risen substantially from around 13 per cent in 1998-99 to 25 per cent in 2004-05, while the refusal rates for minor ones has risen from 15 per cent to 24 per cent (see Chart 4.3). In terms of majors, this growth is mainly due to a rising proportion of refusals for housing development. Major non-residential commercial application refusal rates in 2004-05 are comparable to 1995-96, though they have risen from nine per cent to 13 per cent over the last five years, while non-residential minor results have risen from 10 per cent to 14 per cent. Total applications withdrawn or turned away have also grown from 22,000 in 1995-96 to 48,000 2004-05. There is particular concern in London, with local authorities approving only 75 per cent of total applications. A number of boroughs have even lower figures – Lambeth, for example, only approved 68 per cent of cases in 2004-05.[22]

4.17 It is difficult to quantify the impact on investment of these increases. Much investment will not give rise to a planning application and when an application is rejected the investment will not all be lost – it will move to the second-best option. In addition, some cases will go to appeal and be successful (though this only represents around one per cent of total applications). But this still constitutes a substantial net loss to the economy. A refused application often essentially represents an infinite delay and a recent study found that a 10 per cent decrease in the proportion of decisions that are approvals results in a decrease in local economic activity of 1.55 per cent.[23]

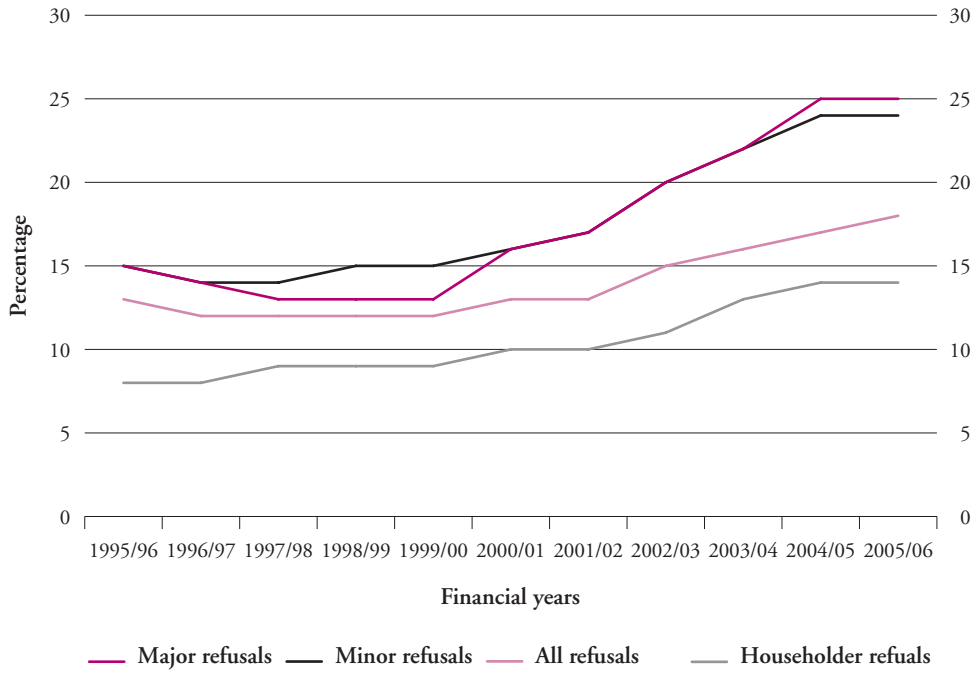
[21] Department of Trade and Industry figures provided for the Review.

[22] Department for Communities and Local Government, *Development Control Statistics*.

[23] J. Henneberry, T. McGough and F. Mouzakis, 'The Impact of Planning on Local Business Rents', *Urban Studies*, 42/3 (2005), pp. 471-502.

Unfortunately, the evidence base around the reasons for the growth in refusals is limited. It is also unclear what proportion of cases turned down prevented disinvestment by others (as, for example, with bad neighbour development) or are resubmitted.

Chart 4.3: Refusal percentages for major, minor, householder and all decisions



Source: DCLG Development Control Statistics

4.18 Over a longer time period there also appears to have been a fall in both the number and volume of new commercial development, despite a growing economy and growing population. Overall, there was a 38 per cent drop in the number of commercial properties built 1991-2001 compared to 1980-1990. In total, there has also been a 20 per cent drop in commercial property floorspace built between 1991-2001 compared to 1980-1990. This is less than the drop in hereditaments, but still substantial, and does not appear to be accounted for simply by the recession of the early 1990s as the post-recession trend-rate is lower. The reasons for this may include factors other than planning, for example more efficient use of space.

Discouraging applications

4.19 More fundamentally, the number of planning applications does not represent a proxy for the number of potentially profitable developments. Rather it represents the number of potentially profitable developments that businesses feel have a strong enough chance of getting through the planning system. Seeking a planning permission is not a cost-free business for the applicant, and application fees, related professional fees and cost of managerial time will only be expended where there is a reasonable prospect of success. Where a local plan makes clear that a certain kind of proposal is unlikely to gain planning permission, or where a firm operates in a protected area, it is reasonable to suppose that firms will often not make an application or even enter into a pre-application discussion, despite the cost that this may impose on their operations. This is most clearly illustrated by the high proportion of cases that are accepted in National Parks, despite very strict controls against development. In 2004-05 Northumberland National Park, for example, had a 97 per cent acceptance rate. But there were fewer than 100 applications.[24] There have been no estimates

[24] Department for Communities and Local Government, Development Control Statistics 2004/05.

of the extent to which planning applications are not coming forward due to their perceived small chances of success, so the scale of this impact is very difficult to estimate empirically.

Box 4.3: Planning and Foreign Direct Investment (FDI)

Land use regulations have the ability to affect inward investment as well as domestic private and public investment patterns. FDI plays an important role in generating economic growth in a global economy, with considerable evidence that multinational firms are more productive than domestically owned firms.[25] The UK's record here is strong – in 2005 the UK received $165 billion in FDI.

Many factors influence FDI other than land use regulation, including levels of taxation and the potential to access the single European market. But according to UK Trade and Investment (UKTI), planning is consistently one of the top six concerns facing companies investing into the UK, with 40 planning issues raised by inward investors in the six months from July-December 2005.[26] The length of the delays, lack of communication during planning processes and too many situations ending up appealed or called-in were reported as being areas of concern, alongside reference to local planning authorities giving more weight to environmental issues or to transport and access issues over economic development benefits. To the extent that planning is responsible for the high price of occupation costs by limiting employment land supply this will affect investment. Conversely, to the extent that planning is partly responsible for creating pleasant urban environments, this will also help attract foreign investment, as will the increase in certainty brought about by robust plans.

Conditions and alterations

4.20 A third relevant factor is that planning applications often come with associated conditions or may be accepted only after substantial revision to the size, format or proposed location of the development following pre-application discussions. Conditions are attached to permissions to allow development to proceed that would otherwise have met with refusal. But they can have an impact. Simply because an application is granted approval this does not mean that levels of investment will not be affected. Where conditions are substantial enough to make the development unprofitable this will be felt directly – where it results in less resource being available for other profitable investment or a lower rate of return (as with, for example, opening hours) it will be indirect. Similarly, applications that are approved may be very different from the one that the firm originally hoped for – the approval may therefore have compromises embedded within it that bear investment costs.

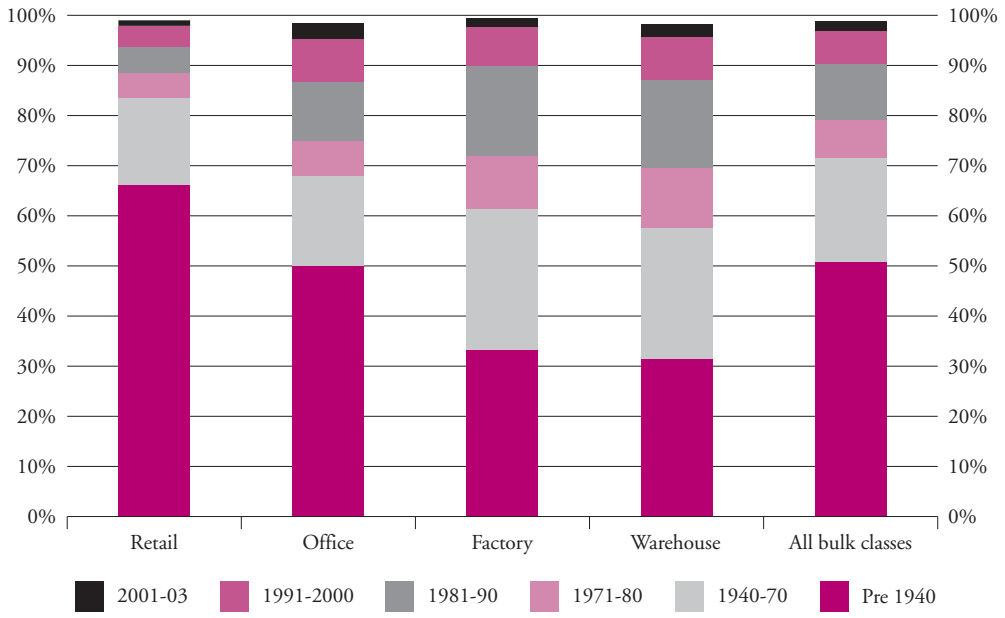
4.21 There has been no national study of the nature and extent of planning conditions that are imposed by planning. But in the late 1990s, conditions were more common than not – according to one survey of the 75 per cent planning applications granted, around two-thirds included non-standard conditions relating to issues such as materials, lighting, traffic and hours of operation.[27] And there is a widespread perception that conditions are becoming more common. It is perhaps unclear that the benefits of conditions always outweigh the costs, though evidence on this issue is limited.

[25] R. Griffith, S. Redding and H. Simpson, 'Foreign Ownership and Productivity, New Evidence from the Service Sector and the R&D lab', Institute for Fiscal Studies, Working Paper 04/22 (2004).

[26] Response to the *Barker Review of Land Use Planning:* Call for Evidence. 629 issues were raised in total in this period, with labour and skills issues being the most common concerns (95 and 91 respectively) 18 transport issues were raised.

[27] Attitudes to Town and Country Planning, 1996.

Chart 4.4: Age profile of hereditaments by bulk class



Source: DCLG

4.22 These conditions can have a tangible affect on business performance. Where firms are unable to offer their workers car parking spaces due to restrictions on the ratio of workers to spaces, or are unable to expand on-site, or are prevented from reaping ICT gains by building a distribution centre in an optimal location, or cannot enter the UK market due to lack of available site sites in plans, there are tangible economic costs. In individual cases this can be significant. For example, IKEA argue that their attempts to invest £1 billion in the UK have been impeded by the town centre first policy discussed in Chapter 5 (see box 4.4).[28]

4.23 One potential measure of this effect – though a very imperfect one – is the age of stock which in certain circumstances can be used as a proxy for quality, though of course premises can be refurbished (see Chart 4.4). Just over half of all commercial properties were built before 1940 with only approximately 1 per cent per year replaced. Retail stock is older than other bulk classes, with over 65 per cent being pre-1940.[29] In the leisure sector, while some hotels can capitalise on their age, others are not in this position, and may find modernisation too costly. Sector specific research has suggested the impact that this can have hotels in terms of working practices, although this has been challenged partly on the grounds that it failed to consider wider hypotheses:

> *'It is often difficult for a UK hotel operator to obtain permission to build on the sites that offer the best prospects of high occupancy. Not surprisingly, the rate of new hotel openings and refurbishments is relatively low, leaving the country with a large stock of old hotels that are less*

[28] The benefits of encouraging the firm into town centres are uncertain – the bulky goods nature of the firm's stock mean few are likely to choose to access by public transport, so private transport flows may increase congestion within towns.

[29] Valuation Office Agency, Department for the Communities and Local Government, Commercial and Industrial Floorspace Statistics, 2005.

able to support efficient working practices…. As a result, the UK hotel industry remains for the most part locally run, with limited inward investment into what amounts to an economically unattractive market.'[30]

4.24 There is some evidence that planning impedes efficient use of property more than other factors. GVA Grimley and the CBI surveyed property occupiers and asked them to rate the factors that prevented them from utilising their property most effectively, on a scale of 1 (unimportant) to 5 (very important). Planning constraints were considered the most important barrier, scoring 3.5. Regulation and compliance scored a slightly lower 3.3, whilst 'landlord and property industry' scored 3.2. Property taxes scored 3.0, whilst transport and internal business barriers were the least important constraints, scoring 2.8 and 2.6 respectively.[31]

Box 4.4: Investment Case Studies

The Cumberland Pencil Company, based in Keswick, manufactures and distributes high quality art materials. 65 per cent of their output is exported to 74 countries around the world. Production is based in a Victorian three-storey mill building and a separate single storey unit on the six-acre site. The company is seeking a modern single-storey manufacturing unit to house the production functions in order to reduce costs and improve efficiency and competitiveness. In 1999 the Company drew up plans to redevelop the site costing £5 million and expanding the numbers employed on the site from 100 to 140, safeguarding the future of the company in Keswick. This scheme was refused planning permission partly on the basis of introduction of retail to an industrial estate. As a result of this refusal, the company was forced to transfer 25 per cent of its production to Indonesia and China in order to reduce costs, losing 25 per cent of the jobs at Keswick.

In 2000, IKEA was looking for a major expansion in the UK. They aimed to invest £1 billion over 10 years in 20 new stores to complement the 12 they already owned, which were attracting 2 million visits per year each. With an average 750 staff per store, this would have increased employment and driven competition in the sector. It also had the potential to lower long-distance drive times: over 30 per cent of customers drove more than 2 hours due to the lack of local stores. Strict national planning restrictions and lack of available sites meant that only one store was delivered by late 2005, despite some local authorities wanting to attract the company to their area. IKEA has now changed its business model, but this may lead to higher construction and operating costs and potentially lower capital returns, while planning permission has only been secured on one new site to date in Coventry.

[30] McKinsey Global Institute, *Driving Productivity and Growth in the UK Economy* (Washington, 1998). For the challenge see Roger Tym, *Planning Competitiveness and Productivity, Research Commissioned from Roger Tym and Partners*, Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions Committee, HC114-III.

[31] GVA Grimley and CBI, *Survey of Property Trends. Commercial Property – Meeting the Needs of Business* (Winter 2005/06), p. 2.

Box 4.4: Investment Case Studies *(continued)*

Tetrosyl Limited is a privately owned medium sized manufacturing company in the North of England, which exports to more than 75 countries worldwide. To continue to grow, the firm needs to invest several million in new manufacturing machinery. Its Head Office site includes a partly empty mill building using aged machinery and outdated conditions and three semi-redundant warehouses. The firm sought to redevelop part of the land for housing, with the enhanced land value funding needed investment – the HQ would have remained on site. While the firm could have borrowed to meet its financial needs this would increase costs and make competition with other domestic and foreign manufacturers more difficult. Planning permission for the change of use was refused, and this decision was upheld on appeal, mainly on the grounds that there was need for employment land in the area. The firm has considered a mixed-use scheme on the site, but planning officers have informed them this would also be turned down, for reasons given earlier and the housing moratorium.

Please note that these case studies represent only business perceptions – they are not intended as judgements on particular cases.

4.25 In some areas, the government has acted to ensure investment is not unduly constrained. A number of welcome reforms are in process to improve the functioning of the heritage system, for example.[32] This is an important issue. There are 372,038 listed buildings, 19,717 Scheduled Monuments, 9,374 conservation areas and numerous 'protected views', such as those relating to St Paul's which cover wide areas of central London. This means that some 30 per cent of all planning applications have heritage implications, with regard to alteration or demolition of buildings, use of land or archaeological importance, developing within conservation areas, or developing sites containing scheduled ancient monuments.[33] Efforts to limit disproportionate regulation may take time to have full effect, as some culture change; may be needed at local level.[34]

Regional variations

4.26 These impacts may not be felt in all parts of the country (see Box 4.5). In addition:

- a report by the English regions network, for example, noted that 'current [spatial planning] policies are restricting the growth potential of the South' and that 'continuing restraint is likely to exert an increasingly damaging effect on national economic growth potential', in particular relating to transport investment and policies against greenfield housing development.[35]
- a recent report has found that superstore operators have found it easier to develop large stores in the North, where employment and regeneration considerations have carried more weight. Conversely, northern-based retailers like Asda and Morrisons have been unable to expand as quickly as they would like in the South, where Tesco, Sainsbury's and Safeway are already well established.[36]

[32] Department for Culture, Media and Sport, *Review of Heritage Protection: the way forward* (June 2004).
[33] Department for Culture, Media and Sport: *Protecting our Historic Environment: Making the System Work Better (July 2003),* p. 32.
[34] Department for Culture, Media and Sport, *Review of Heritage Protection: the way forward* (June 2004).
[35] English Regions Network, RDA Planning Leads Group, Office of the Deputy Prime Minister, Department for Transport, Regional Futures: England's Regions in 2030, Final Report, English Regions Network, January 2005.
[36] Cardiff University and CB Hillier Parker, 'Policy Evaluation of the Effectiveness of PPG6', A Report for the Office of the Deputy Prime Minister (January 2004), p. 82.

4.27 The issue of transport infrastructure is important – the confidence with which infrastructure will be provided in a timely and co-ordinated way is often likely to impact on investment decisions. A new regional airport, for example, may have a significant impact on the commercial return to commercial development over a wide catchment area; uncertainty about delivery of these types of development can therefore have profound consequences.

Box 4.5: A North-South Planning Divide?

It is sometimes perceived that the more developed areas in the south have less positive attitudes to new development, while areas in need of inward investment, often in the north, may use planning more positively to encourage new development.

An analysis of the proportion of cases that are approved varies by region support this, with 90 per cent approval in the North East in 2004-05 and 92 per cent in the North West against a national average of 83 per cent, though there is no indication that applications are processed substantially quicker. Time-series data supports this further, with a study finding an average 92.3 per cent approval 1991-96 in northern regions against 87.2 per cent in southern regions, concluding that 'for all three sectors [offices, industrials and retail] planning regimes are less restrictive in the north of the UK than in the south'.[37]

	Number granted	per cent	per cent decided within 13 weeks
North East	24,000	90	90
North West	62,000	86	92
Yorkshire and Humber	50,000	85	88
East Midlands	45,000	86	91
West Midlands	45,000	83	89
East of England	62,000	82	89
London	57,000	75	89
South East	97,000	82	90
South West	71,000	83	89
England	514,000	83	90

Source: DCLG[38]

A study by Jackson and Watkins (2005) investigated restrictiveness of retail policy. While there were towns in the north and south represented at both ends of the spectrum, Northern towns appeared more liberal in general. The top 5 markets in terms of pro-market policy stance, for example, were Leeds, Northampton, Sheffield, Stoke, and Macclesfield, while the bottom five were Tunbridge, Southend, Chichester, Bedford and Eastbourne.[39] Similarly, in an in-depth study of relative planning restrictiveness, Oxford, Reading and Norwich were selected as likely to exhibit planning restrictiveness, with Darlington, Preston, Hull and Doncaster as permissive, with the study concluding that Darlington was the most permissive and Reading the most restrictive.[40] Land value data also suggests employment land is also more plentiful outside the south.

[37] Henneberry et al., 'The Impact of Planning on Local Business Rents' (2005), p. 484.

[38] http://www.communities.gov.uk/pub/551/Table13PlanningapplicationsreceivedanddecidedPDF69Kb_id1146551.pdf. Figures are given here for all types of development, not just commercial.

[39] C. Jackson and C. Watkins, 'Planning Policy and Retail Property Markets: Measuring the Dimensions of Planning Intervention', Urban Studies, 42/8 (2005), pp. 1453-1469.

[40] P. Cheshire and S. Sheppard, 'British Planning Policy and Access to Housing: Some Empirical Estimates', *Urban Studies* (1989), vol. 26, pp. 469-485.

Box 4.5: A North-South Planning Divide? *(continued)*

The true picture is likely to be more nuanced: attitudes to growth sometimes depend as much on the make-up of the council as on geographical issues. Variations within regions can be bigger than those between them. In London, for example, there was a 99 per cent approval rate in the City and only a 67 per cent approval in Croydon in 2004-05. Equally, where there are large areas of protected land in the South, there is also much in the North, with over 260,000 hectares of green belt in the North West and 18 per cent of the area National Park. And the extent of national policy means that there are limits to the extent that regions and localities can choose to apply more or less restrictive planning policies to suit their particular circumstances.

A NUMBER OF FACTORS IMPEDE POSITIVE PLANNING

4.28 The planning system will rightly have a negative impact on investment in some circumstances due to its need to consider economic, environmental and social objectives. Turning down applications that will have a net cost to society is an important function of the planning system. An application likely to damage the local environment, or impose a poor quality of design on a community, may often be correctly refused. Increased environmental regulations are also likely to play a role with a number of high-profile cases hindered by European protection legislation.[41] It is clear that the level of investment may be held back by these regulations, but less clear that this results in negative economic consequences which are disproportionate to the benefits for the environment, or for neighbours of the proposed development.

4.29 There are a number of factors at play which may result in undue negative effects. Tighter national policy controls which limit the potential for regional and local discretion are likely to be a factor – the centralisation of the English planning system can make it difficult for regional and local circumstances to be taken into account. And the practice in some local authorities of turning down applications so that the decision could be said to be made within the target time-frame may also be having an impact on investment.

4.30 In addition to these factors there are a number of longer-term structural issues at play here:

- there is currently *little financial incentive* in many parts of the country for spatial planning to favour economic growth and development. With the exception of section 106 payments, whereby developers pay local authorities for costs related to the development, and relatively small schemes such as the Local Authority Business Growth Initiative, the method of local government finance provides little incentive to adopt a growth agenda. This is in stark contrast to countries such as Germany, where a combination of local taxation and per capita grants provides a strong incentive for local authorities to favour growth.

[41] According to Surrey County Council, the Habitats Directive is a particular concern facing the country and adjoining counties and districts, 'effectively preventing development across huge areas of the region'.

- related to this, there may at times be not enough weight given to *wider interest who benefit from development.* While there are many benefits to community involvement, the plan-making and development control process can favour smaller and more locally-concentrated special interest groups at the expense of more diffuse interests, and these groups are becoming more vocal and better organised.[42] If a development will, for example, lower prices, it will do so for a wide group who each gain marginally, but may affect a small group who may feel increased costs of higher congestion in the area. The sum of the diffuse benefits may exceed the sum of the concentrated costs, but it is the latter that will gain influence in the decision-making process. Evidence suggests that 60 per cent of planning changes brought about by the process of public participation result in a reduction in the amount of development proposed as against 13 per cent where development targets are increased.[43] These special interest groups can be business-related as well as from the voluntary sector or residents' groups, particularly when development may increase competition.[44] But business groups in favour of development may often not make their voice heard[45]. While it is also the case that community groups too often feel dissatisfied with the outcome of an application, they are at least often able to make their views known.

- similarly, *the nature of political pressures and time-horizons* means that there is a bias against developments that could have long-run gain and short-term costs: development may, for example, result in short term local disruption to traffic or negatively affect access (particularly with major infrastructure projects such as airports) even though the benefits it supports directly or indirectly may be felt over many years to come.

- in a similar manner there are often *inadequate incentives* for wider groups to be fully informed about the nature of a number of specialised policy processes, of which planning is one. This is what economists call the 'principal-agent' problem. Because the costs of obtaining information are greatly outweighed by the influence that a voter is likely to have on influencing the policy, it may be rational for voters to remain uninformed.[46] Voters appear to be, for example, uninformed about the degree to which the UK is urbanised. Even twenty years ago around two-thirds of the population were reported to believe that 65 per cent or more of the UK surface area is developed, when the real figure for urban England alone is 8.3 per cent.[47]

- the *nature of the plan-led system* may also be causing a suboptimal supply of development, partly as plans may reflect some of the structural problems identified above, and in part because investment opportunities that arise after the plan has been agreed may have more difficulty gaining approval if not in accordance with the plan. This is another area where better evidence would be helpful. It has been suggested that

[42] Tunnell *et al. ibid.*

[43] D. Adams, *Urban Planning and The Development Process* (London, 1994).

[44] For a general treatment of this issue, see G. Stigler, *The Citizen and the State* (1975).

[45] According to the Hampshire Planning Officers Society 'local economic development organisations are often not well organised and are usually poorly resourced. They rarely make representations to Planning appeal or local Plan inquiries so Inspectors are unaware of their views or aspirations'. Response to the *Barker Review of Land Use Planning* Call for Evidence.

[46] G. Tullock, *The Economics of Special Privilege and Rent Seeking* (Boston, MA, 1989); G. Tullock, *Rent Seeking* (Aldershot, 1993).

[47] J. B. Cullingworth, *Town and Country Planning in Britain* (London, 1988), p. 184.

this is why 'while the number of dwellings built each year increased in the 1980s as house prices increased, and fell in the early 1990s as prices fell, the number of dwellings built each year remained largely static for the next ten years, and supply failed to respond to increasing prices as it has ten or twelve years earlier'.[48] The analysis above, suggesting a decline in commercial property new builds in this period, raises the possibility that an unintended consequence of the plan-led system could be a reduction in the ability of the system to respond to economic and social requirements[49];

- finally, the administrative *boundaries* for planning authorities can exacerbate some of these tendencies. While incentives for development may be weak in any event, they are even weaker when the interests of those who potentially benefit from the development fall outside the administrative boundary of those determining the case. If an office development for high-skilled employment is proposed in a borough where unemployment is high but low-skilled and the labour is likely to commute in from surrounding boroughs, this boundary issue will affect decision making. Similarly, if a major retail development has a wide catchment area, the benefits this will bring to these consumers in other parts of the country or region are often likely to be of less interest to decision-makers than the costs to local voters, though this can also work in reverse. Developments at the urban-rural boundary can be particularly problematic due to diverging interests.

Table 4.2: Public attitudes towards hypothetical developments being proposed in their area

	Strongly oppose or oppose	Somewhat oppose	Somewhat support	Strongly support or support	Net opposition
Waste collection/land fill site	80	6	3	9	–73
Power plant or utility	77	6	5	8	–70
Quarry	75	7	5	7	–70
Office	53	14	11	17	–39
Retail park	54	7	9	27	–24
Department store	50	8	9	29	–19
Supermarket	50	7	10	31	–16
Social residential- flats	39	13	15	27	–10
New road project	36	8	15	36	7
Govt office, church, non-profit	33	7	20	34	13
Private residential- housing	24	9	23	38	28
School	10	8	15	61	54

Source: Saint Index March 2006 (base: 1005 respondents, percentages may not add to 100 due to rounding).

[48] A. Evans and O. M. Hartwich, *Better Homes, Greener Cities* (London, 2006), p. 26.

[49] A recent example is provided in housing, where the Government has revised its forecasts for the numbers of new houses to be built from the 190,000 per year it reported in 2002 to 209,000 in March 2006. This 10 per cent increase was announced in the same month as the South East of England Regional Assembly finalised its Regional Spatial Strategy for the south-east region, with the difference between the two estimates amounting to 148,000 new homes over the 20-year period.

4.31 The issue of concentrated interests against development should not be underestimated. While it might be anticipated that local communities only object to certain types of perceived 'bad neighbour' developments such as casinos or late night bars and clubs, a recent survey suggests that the majority of the public appear to be against almost every type of private development in their area, with the exception of new roads (see Table 4.2). The strongest opposition is likely to be towards waste collection or power plants, which serve a much broader area than the local community. But there is also net opposition to developments such as offices. Only public sector developments have clear net approval. Equally, while 19 per cent of people report that someone in their family has opposed a new development project, only 6 per cent report a family member actively promoting one.[50] Many structural issues in the current planning system may therefore tend to work against an impartial assessment of costs and benefits of development, which may in many cases result in a potential bias against growth, though of course planning decisions often involve difficult judgements about trade-offs. This is a real issue given the pressures outlined in Chapter 1.

4.32 It is also the case that not all of the processes work against development: the lack of third party rights to appeal can work to favour economic growth, for example, as applicants can appeal a rejected decision while opponents of development are not able to appeal a successful application. The extent to which applicants have the opportunity to forge relationships with decision-makers over a period of several months could improve their chances of success, as may the financial resources available to large firms who can, for example, hire leading QCs at appeal. Importantly, where the environmental benefits are long-term but the economic gain short-term, there may be undue pressures within the system to favour the latter over the former.

CONCLUSION

4.33 The planning system can help stimulate investment through providing greater certainty of land use, encouraging a more efficient use of infrastructure, providing for infrastrucure and public goods, and aiding place-shaping and regeneration that can improve the fabric of our towns and cities. But planning can also reduce investment flows. In addition to the costs of delays and uncertainty, planning can reject or discourage development or changes of use, which can result in firms being based in suboptimal locations, or operating in substandard premises, or being unable to move their assets from less to more productive uses. The rise in the proportion of refusals, which in terms of major applications has grown from around 13 per cent in 1998/99 to 25 per cent in 2004/05 is a potential cause of concern. There was a 36 per cent drop in the number of commercial properties built 1991-2001 compared to 1981-1991 and a 20 per cent drop in new floorspace in the same period. The question of whether the planning system has played a role in this needs to be considered. In terms of FDI, according to UK Trade and Investment, planning is consistently one of the top six concerns of companies looking to invest in the UK.

[50] The Saint Index, March 2006

4.34 While it may impose economic costs, it is right that the planning system turns down inapproporiate proposals or imposes necessary conditions. Investment objectives need to be balanced against other objectives. But with increasing mobility of capital, it is important to minimise the potential investment costs of planning and maximise their benefits, in a manner consistent with the delivery of other sustainable development goals. While there may be some aspects of the planning system that favour developers with substantial resources to devote to applications, others may result in undue negative impacts on investment. In particular, there is currently little financial incentive for plans and decisions to promote economic development, and the interests of those who benefit from development may be less concentrated than those who lose and so are less able to influence decision-making. This issue appears to be a broad one – a recent survey suggests 67 per cent of the public would be against even an office development being proposal for their area, with only 28 per cent supporting. Similarly, the nature of political pressures and time-horizons means that there can be a bias against develoments that could have long-run gain and short-term costs.

5 Planning, enterprise and competition

INTRODUCTION

5.1 This chapter explores the relationship between land use planning and competition and enterprise, examining in turn:

- the importance of competition and enterprise for productivity growth;
- how land use regulation may impact on competition and enterprise across the economy; and
- how it impacts on two case study sectors – leisure and retail (for the latter, the focus is on the 'town centres first' policy).

THE IMPORTANCE OF COMPETITION AND ENTERPRISE

5.2 Competitive markets can help drive efficiency in firms and deliver greater choice, higher quality and cheaper goods and services for consumers. Greater competition – with more players in a market – leads to falling prices to the benefit of consumers. In addition, dynamic competition can have significant economic effects on the economy, and free entry and exit is crucial to this.

5.3 Dynamic competition pushes firms to speed up adoption of new techniques and innovations in pursuit of 'escaping' competition and earning higher profits. This benefits consumers and drives productivity growth in that the speed of technical progress is increased and new products are brought to market.[1] In such markets temporary market power may be inevitable, and so it is important that free entry into the 'race' to deliver new innovations is kept open.

5.4 Empirical studies confirm the link between competition in product markets and productivity performance so that the UK productivity gap has narrowed since the 1970s.[2]

5.5 The related productivity driver of enterprise is also important for economic success, though the lack of robust measures for enterprise limits the research field.[3] A US longitudinal study suggests that new firms have higher labour productivity than existing firms.[4] New firms and new products increase competitive pressure on incumbent firms. Enterprise therefore sustains total factor productivity growth over the long term as entry by innovative entrepreneurs drives out less

[1] See J. Sutton, *Sunk Costs and Market Structure* (Cambridge, 1991); P. Aghion, N. Bloom, R. Blundell, R. Griffith and P. Howitt, 'Competition and Innovation: An Inverted-U Relationship', *Quarterly Journal of Economics*, 120/2 (2005), pp. 701–728.

[2] Organization for Economic Cooperation and Development, *Micro-polices for Growth and Productivity: Final Report* (Paris, 2005), p. 16.

[3] N. Fawcett and G. Cameron, 'The Five Drivers: An Empirical Review', University of Oxford, Department of Economics Discussion Paper 252 (December 2005).

[4] L. Foster, J. Haltiwanger and C. J. Krizan, 'The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade', NBER Working Paper w9120 (August 2002); also 'Aggregate Productivity Growth: Lessons from Microeconomic Evidence', NBER Working Paper w6803 (November 1998).

productive companies.[5] Studies have shown that measures of enterprise and entrepreneurship, such as the rate at which individuals take pure investment stakes in start-up companies, are correlated with growth.[6]

PLANNING CAN HELP PROMOTE COMPETITION

5.6 There are a number of ways in which planning can directly or indirectly help promote competition and enterprise.

Tackling monopolies

5.7 The planning system can help counter market power, primarily via the use of Compulsory Purchase Orders where landowners may be in a position to hinder the progression of valued development such as public infrastructure. Where there is no alternative land supply for a certain development, owners are essentially in a monopoly position, which can increase costs and delay new development and regeneration, particularly where a site is divided between several owners with differing tenure patterns. The associated search, negotiation and enforcement costs are likely to be extremely high and hinder regeneration and growth. While compulsory purchase powers are used infrequently, research has noted that 'its importance lies in its persuasive influence as a reserve power, as much as in its application'.[7]

Box 5.1: Compulsory Purchase Orders

Compulsory Purchase Orders (CPOs) can be an important tool for assembling land needed to deliver economic and social change, where a compelling case can be made that it is in the public interest. Although often associated with major infrastructure projects, they can be used more broadly than this. The leading global retail development company Westfield, for example, entered the UK market in 2000, now currently with a £6 billion investment programme, comprising major mixed-use developments in town centres including Guildford, Derby Bradford, Nottingham, Stratford and Shepherd's Bush. Besides other benefits from investing in the UK, such as the strong legal and planning framework and its proximity to Europe, the company's expansion has been aided by the certainty provided by the use of compulsory purchase powers – powers rarely paralleled abroad – on three of their sites. This has enabled complex development to proceed at a faster pace ensuring a quicker return on investment and more rapid development of the town centres.

Public good provision

5.8 The planning system can also be used to provide wider public or club goods, such as busy and attractive high streets, which benefit local businesses. Stores receive numerous benefits from locating in high-street environments, even if they are in competition with other, similar shops. Because consumers know that the high street contains many different stores, they are more likely to shop there, saving on travel time, rather than at isolated shops.[8] Thus the presence of other stores on the same street creates a bigger potential market. However, because each retailer finds it difficult to take account of other firms' location decisions, there may be a bias towards the under-provision of optimal high-street shopping environments. There is therefore a role for the planning system in supporting such economically beneficial locations through zoning and infrastructure policy.

[5] P. Aghion and P. Howitt, 'A Model of Growth Through Creative Destruction', *Econometrica*, 60/2 (1992), pp. 323–352.
[6] London Business School, *Global Entrepreneurship Monitor 1999: UK Executive Report* (London, 1999).
[7] Department for Transport, Environment and the Regions, *The Economic Consequences of Planning to the Business Sector* (London, 1998), p. 35.
[8] i.e. a 'thick market externality'. In retail terms, footfall is generated by co-ordination of retail location or presence of an anchor store.

A recent study suggests that a 'proactive [planning] policy environment, with a strong emphasis on town centre management and improvements to the shopping environment, will exert a significant influence on retail capital values and yields'.[9]

5.9 Similarly, studies of pedestrianisation schemes have found they can produce significant benefits to city centres. One survey found 49 per cent of schemes had a positive impact, reducing shop vacancies, compared to 2 per cent negative.[10] The quality of the shopping environment was more important to visitors than the ability to visit by car. A study of ten European traffic-calming schemes found that shops in pedestrianised areas experienced higher footfall than those outside, that a wider range of beneficial street activities were encouraged, and that this in turn drove a desire for city-centre living.[11]

Employment land

5.10 Planning can also help promote competition and enterprise indirectly by ensuring that there is sufficient employment land available to support a variety of different firms. If a small company has a choice of a range of potential sites for location this will increase the prospects of finding the right office, retail, factory or warehouse space to suit the business. Equally, in areas of high demand, land use regulation permitting tall buildings will increase space availability and lower rents.

BUT PLANNING REGULATIONS CAN ALSO HARM COMPETITION

5.11 However, the effects of planning policies and processes on competition and enterprise are not always beneficial. There are growing references in the economic and regulatory literature to the link between land use regulation and competition, and productivity more broadly.[12] While many barriers to entry that impede competition and enterprise are unrelated to land and development issues, others have direct or indirect impacts (see Box 5.2).

[9] C. Jackson and C. Watkins, 'Supply-side policies and retail property market performance', *Environment and Planning* (forthcoming, 2006), p. 1 (mimeo version).

[10] Environ (Leicester Environment City Trust), *Paved with Gold? A Study of the Economic Impact of Pedestrianisation and its Relevance to Leicester* (Leicester, 1992).

[11] J. Roberts, 'Quality Streets – How Traditional Urban Centres Benefit from Traffic Calming', Transport and Environmental Studies, Technical Report 75 (London, 1988).

[12] M. Bertrand and F. Kramatz, 'Does Entry Regulation Hinder Job Creation? Evidence from French Retail Industry', *The Quarterly Journal of Economics*, 117/4 (2002), pp. 1369–1413; O. Boylaud and G. Nicoletti, 'Regulatory Reform in Retail distribution', OECD Economic Studies, Working Paper no. 32 (Paris, 2001); M. Maher and M. Wise, 'Product Market Competition and Economic Performance in the UK', OECD Economics Department, Working Paper no. 433 (Paris, 2005); Office of Fair Trading, *Grocery Market: Proposed Decision to Make a Market Investigation Reference* (London, 2006); Office of Fair Trading, *The Grocery Market: The OFT's Reasons for Making a Reference to the Competition Commission* (London, 2006); McKinsey Global Institute, *Driving Productivity and Growth in the UK Economy* (Washington DC, 1998); R. H. McGuckin, M. Spiegelman and B. van Ark, *The Retail Revolution: Can Europe Match US Productivity Performance?* The Conference Board (Groningen, 2005); Competition Commission, *Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom* (London, 2000).

Box 5.2: Entry barriers and planning regulations

The following are usually cited as the most common type of entry barrier:

- economies of scale;[13]
- brand identity;
- switching costs;
- capital requirements;
- access to distribution;
- absolute cost advantages by incumbents;
- proprietary learning curve;
- access to necessary inputs;
- government policy;
- expected retaliation.[14]

A number of these are unrelated to land use planning policy. However, planning policy may affect economies of scale, capital requirements, access to distribution, absolute cost advantages by incumbents, access to necessary inputs (land), government policy and expected retaliation.

5.12 Barriers to entry limit the numbers of players in a market and may lower quality and raise price. They can be strategic, resulting from the voluntary actions of insiders to exploit the system to their advantage, or structural, resulting from a forced response due to the nature of the regulations.

5.13 Costs associated with applying for planning permission include those accruing from the following:

- the complexity of the planning system: a complex system may create barriers to entry by allowing those who have knowledge of that system to work it to their advantage. Firms who have more regular contact with planning departments can be at an advantage. Larger firms are also more likely to employ designated specialists in planning;

- the associated direct costs of the system may impose further costs of entry with larger firms able to pay for high quality consultants and legal fees at an advantage over those that cannot. As the Office of Fair Trading has noted, 'the need to gain planning permission inherently creates additional sunk costs of entry and thus raises barriers to entry'.[15] These factors are most likely to be at play when investors in a strong financial position are able to take decisions to appeal or to the High Court.

[13] There is some debate in the economic literature about what constitutes a barrier to entry. Most simply, there is a distinction between economic and anti-trust barriers to entry. The former is a cost that must be incurred by a new entrant and that incumbents do not have or have not had to incur. The latter is a cost that delays entry and thereby reduces social welfare relative to immediate but equally costly entry. See R. P. McAfee, H. M. Mialon and M. A. Williams, 'What is a Barrier to Entry?', *American Economic Association Papers and Proceedings*, 94/2, (2004), pp. 461–465, p. 463.

[14] M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York, 1980).

[15] OFT, *The Grocery Market: The OFT's reasons for making a reference to the Competition Commission* (May 2006), pp. 56–57.

- delay can affect the intensity of competition. This may occur directly, as when new firms take years rather than months to break into a market or to get a permission that will enable more productive processes, with the result that others are shielded from competition for a longer period. A slow planning process also gives incumbent firms time to react and to adjust behaviour – for example, by cutting prices – to deter the entrant. To the extent that planning is delaying the development of wider infrastructure, this will also impact on competition in an area – better transport links open up locations for firms, which may fuel competition in local markets.

- the planning system provides opportunities for 'corporate NIMBYism' whereby incumbent firms exploit the democratic mandate of the system to lobby decision-makers against developments that may harm them. The plan-led system also enables incumbent firms with the strongest lobbying powers to influence the location and availability of sites for development. If a firm does not yet exist, or enters from outside the area, it may find itself subject to a development plan that it did not have the opportunity to influence. A recent study confirmed this: 'planning departments are placing greater emphasis on supporting indigenous firms, for example by giving preference to local firms at particular sites'.[16] The system may also advantage larger firms, with Small and Medium-Sized Enterprises (SMEs) less able to devote the resources to engaging in plan-making at either the regional or local level, in part due to competing pressures and shorter time horizons;

- the tendency of some local authorities to release large rather than small plots of land, for example, has the effect that only the bigger developers are able to compete effectively for the resulting business.[17] Lizieri et al. have noted that in terms of commercial property prices in London 'there may be embedded market inefficiencies due to indivisibility and large lot size (limiting the possible buyers and sellers at any point in time, resulting in short-run, quasi-monopolistic markets)'.[18]

5.14 As well as the impacts on competition and enterprise from planning processes, there are also likely to be effects via the impacts in terms of outcome:

- restrictions to land supply which cause high land values and high property prices raise the cost of entry to the market and limit the number of firms in a market;[19]

- restrictions to land supply also provide increased potential for creation of strategic barriers to entry to foreclose markets by closing off access to land, for example by purchasing land options, although these options can also be very useful in helping firms respond flexibly to changes in demand;

- firms wishing to expand their operations and derive firm-level economies of scale, where suitable property is in extremely short supply, may find it difficult to grow organically rather than by merger;

[16] Planning Research, *Planning for Economic Development*, Report for the Department of Communities and Local Government (2004), p. 9.

[17] Some local authorities seek to address this by dividing plot into smaller sizes when selling their own land, such as Suffolk in the 1980s.

[18] C. Lizieri, A. Baum and P. Scott, 'Ownership, Occupation and Risk: A View of the City of London Office Market', *Urban Studies*, 37/7, pp. 1109-1129, p. 1110.

[19] For a fuller discussion of these issues see Chapter 8.

- restrictions on opening hours, on the geographical area within which companies may operate, (as in the waste industry), on commercial space, so that it is constructed below an optimal size, shape, condition or in a sub-optimal location) may all lead to higher cost structures or lower revenue flows for a particular firm and lower its capacity to compete effectively with other firms not subject to such conditions, either in the UK or abroad.

5.15 The development industry is likely to be particularly affected by planning, and there are a number of ways whereby planning can harm competition. The financing structure of planning applications, whereby developers for multiple sites pay a lower marginal cost for the planning process, may also impact negatively on smaller developers – with a capped fee of £50,000, an application for 500 units is not 10 times the cost of one for 50.

5.16 These considerations are supported by industry views. Small business representatives do not tend to view the planning system as responsive to the needs of SMEs. According to the Small Business Service,

> *'SMEs who experience the planning system believe that they have little or no influence over planning decisions and come a poor third to residents and large developers/retailers. The process is seen as slow and cumbersome, costly and complicated whilst placing SMEs at a disadvantage. Consequently, there is little incentive for most SMEs to engage.'*[20]

5.17 Survey evidence also suggests small businesses are less satisfied with their contact with planning departments than with other areas of government contact, with 37 per cent dissatisfied or very dissatisfied with the way their planning department handled contact, a substantially higher figure than any of the other nine categories of contact surveyed, based on a sample of 7,505 small businesses.[21] It is also clear that some SMEs see finding suitable premises as an obstacle to their success, with the rise in land values for housing of concern in areas where land for business use is already limited (see Box 5.3).

Box 5.3: Case study: Keeler Ltd

Keeler was originally a family company founded in 1917, but bought by a UK group 20 years ago. They make ophthalmoscopes – tools for opticians to examine the eyes – exporting much of their production to 100 countries and having a 40 per cent market share in their niche product line. They still design and manufacture all their products in Windsor, on a 1.2 hectare site.

When the Keeler family sold, the family house went to a separate buyer, who immediately replaced it with dense housing, some upmarket and some social, which surrounds the factory today. There is a workforce of 130, a number of whom walk to work, and who have developed specialist skills.

The factory is a single-storey building dating from 1930. To build on their recent sales and profit success, the firm would like to invest in a more modern format factory and R&D facility on the same site (which has plenty of space). This is not possible since its bulk would have an impact on the surrounding houses. As a fall-back, they would like to move somewhere close enough to retain the existing workforce. A new building could be financed by selling the current site to a housing developer – being in keeping with the surrounding houses.

[20] Small Business Service, *Annual Survey of Small Businesses: UK 2004/05*.
[21] Ibid., p. 144.

Box 5.3: Case study: Keeler Ltd *(continued)*

There is no obvious site, and the local authority (although supportive of the basic plan) have not been practically helpful in finding one. A perfect derelict factory site about a mile away has been identified. However, the owner believes that if he leaves it vacant long enough it will eventually be re-zoned for housing and so will not sell. The council views this site as unsuitable for housing. Keeler has no prospect of a new site locally, which would free up much-needed land for housing, and no way of developing their current site economically.

5.18 The issues relating to the release of land for development, complexity of the planning system and effects of a slow process are considered in detail elsewhere in this report, due to their interaction with other productivity drivers. The rest of this chapter therefore focuses on the impact on competition in two particular sectors of the economy – the hotel and grocery retail sectors – where there is an active debate about the impact of land use regulations. It will consider the evidence for the existence of a productivity gap in these sectors, the competing hypotheses for this gap, and the evidence for whether wider sustainable development considerations are likely to justify any economic cost that is found.

5.19 A significant part of the literature has tended to focus the impact of planning policies in two key sectors – the leisure sector and the retail sector – in part due to the fact that certain important restrictions may have a particular impact on these sectors. Planning restrictions may affect productivity in hotels and grocery retail in two ways: by limiting the size of hotels or stores, and by creating barriers to entry – both structural (so that there are 'too few firms' and 'too few hotels/stores') and behavioural.

LAND USE REGULATION AND THE HOTEL INDUSTRY

5.20 Tourism is one of the world's fastest growing industries, with 4 per cent annual average growth in travellers over 1970–2000. The sector covers hospitality, culture/heritage, sport and leisure, and arts and entertainment, with most employment in the entertainment sector. The UK is in the top ten countries in terms of tourism receipts, with tourism the third largest export earner after oil and vehicles. The industry has an annual turnover of £76 billion, equivalent to 4.4 per cent of GDP, and employs 2.1 million people, some 7 per cent of the workforce. In certain areas of the country it is a major employer, including some deprived areas of Yorkshire and the North West. It is London's second largest industry after financial services.

5.21 Despite its importance to the UK economy, there is evidence of a productivity problem in the sector. It has the lowest labour productivity level of all 51 sectors reported in a major survey, perhaps not surprisingly; and while there was productivity growth across all sectors of 2.1 per cent in 1995–2001 there was a decline of 2.8 per cent in hotels and catering.[22] There are a number of factors that may contribute to this shortfall, including the labour-intensive nature of the sector, its relatively low skills base and its domination by small 'lifestyle' firms.

5.22 A Better Regulation Task Force investigation into the growing levels of regulation in the hotel and restaurant sector included an analysis of planning issues.[23] While it noted some examples of good practice among local authorities, it highlighted a number of planning concern, including:

[22] M. O'Mahony and B. van Ark, Industry Labour Productivity Database, 2003, CD-ROM.

[23] Better Regulation Task Force, *Tackling the Impact of Increasing Regulation – A Case Study of Hotels and Restaurants* (London, 2000).

- the length of time local authorities have historically taken to create their plans means they are often out of date with market conditions;
- local authorities interpreting classes of use within the Town and County Planning (Use Classes) Order 1987 differently, with some not allowing hotels or restaurants in areas classified for business use, while the lack of flexibility in the order prevents, for example, theatres becoming cinemas and vice versa without applying for planning permission;
- the length of time the planning approvals process takes, while 'obtaining planning permission is the first and generally most time consuming hurdle in the development of new premises';[24]
- the requirement for multiple permissions for a single development, with, for example, additional applications required for signage; and
- difficulties and costs of appeals for small businesses, with smaller firms reluctant to bear the costs and risks involved.

Box 5.4: Planning in the leisure industry

Effective planning can support leisure and tourism, in part through protecting the countryside valued by many tourists. But planning can harm investment and competition. Examples include:

- a restaurant unable to replace windows to provide better light on the basis that this will harm the character of the street;
- a hotel unable to extend a juice bar on its premises into an adjacent newsagents it also owned;
- a hotel unable to operate a restaurant in an internal courtyard in poor weather due to listed building issues;
- a hotel chain unable to expand in a major new tourist site in the South West as local hoteliers argued there was no 'need' for further provision;
- a three-star hotel in need of a multi-million pound redevelopment being refused permission to part-fund this through converting one of the floors to top-end apartments.

With these case studies, as with others in the report, the aim is to show the nature of the economic impact of planning rather than to comment on whether correct decisions have been made taking all factors into consideration.

Source: British Hospitality Association.

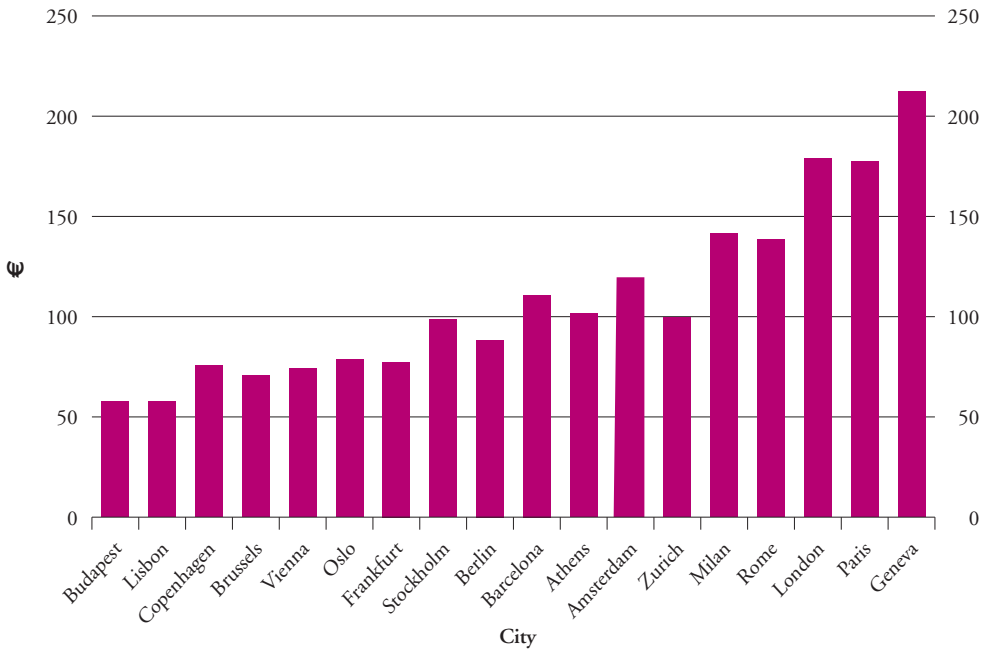
5.23 The Better Regulation Task Force made recommendations to improve the speed, responsiveness, transparency and consistency of decision-making, while retaining democratic accountability, including reform of the Use Classes Order, and recommended reviewing the effectiveness of the statutory consultee arrangements and improving the speed of the appeals process.[25]

[24] Better Regulation Task Force, *Tackling the Impact of Increasing Regulation*, p. 24.

[25] Its recommendations were accepted by the Government as part of the 'Modernising Planning' programme, which continued to encourage the speeding-up of the plan-making process. It also launched the Planning Users Concordat in 2001, which aimed to align business and voluntary sector needs more closely with those of local government. For further information, see the Government Response at the Department for Culture, Media and Sport website at http://www.culture.gov.uk/tourism/QuickLinks/publications/?properties=archive%5F2001%2C%2C.

5.24 The McKinsey study of 1998 suggested that the UK had ageing capital stock and less productive capital stock than its international competitors. It concluded that the UK had older hotels, fewer internationally owned hotels, and fewer chains, attributing tight planning and building regulations to many of these problems.[26]

Chart 5.1: Room yield (revenue per available room), selected European Cities, 2002



Source: PKF City Survey 2003

5.25 A report by PriceWaterhouseCoopers for the London Development Agency also found that developers and operators in London considered there was too much planning red tape (particularly the length of time taken to process applications and the number of different bodies involved), an overzealous and inconsistent application of section 106 requirements and that borough expectations were often out-of-line with developers' views on what the market would bear.[27] For example, borough councils might seek an upmarket hotel where developers felt the market could only sustain a budget hotel. It noted that while 'developers and operators are skilled at identifying suitable sites that meet their criteria … some boroughs offer the same sites each year without understanding the set criteria to which most developers and operators adhere'.

5.26 Hotel revenue may be very site-specific. If local authorities are hindering the development of the hotels that the market can support in areas of high demand, this is likely to have an impact on the industry. These factors may therefore contribute to the UK having both relatively high occupancy rates compared to other European countries and high average room yields, which indicates that there is high demand in the market relative to supply.

[26] McKinsey Global Institute, *Driving Productivity and Growth in the UK Economy* (Washington DC, 1998), p. 15.

[27] PriceWaterhouseCoopers, 'Encouraging the Supply of Visitor Accommodation Across London', Final Report to the London Development Agency (July 2004), p. 32.

RETAIL AND THE 'TOWN CENTRES FIRST' POLICY

5.27 While there are a wide variety of planning policies that impact on the retail sector, one of the most significant is the 'town centre first' policy, which seeks to address:

- the vitality and vibrancy of town centres;
- the desirability of increasing accessibility of retail via public transport, to reduce the need to use a car and improve retail access for those without private transport.

Evolution of policy

5.28 Planning for town centres has a long history, but in this context, dates back to 1977 with a Government Circular on Planning for New Stores. In the 1970s, retail decentralisation had apparently little impact on town centres, with DIY retailers, garden centres and bulky goods retailers beginning to move to sites away from the high street.[28] In the 1980s, the 1977 guidance – that the existing spatial distribution of retail centres should be protected – was relaxed. With the growth of consumer spending, growing preference for the car and more attractive shopping environment offered by out-of-town retailers, there was pressure for retailers to locate out-of-town. Notable examples included Merry Hill, the MetroCentre and Meadowhall.[29]

5.29 However, the emergence of Merry Hill shopping centre, for example, led to a loss of 'market share' of alternative retail locations in its catchment area: Dudley, Stourbridge, Halesowen, Kidderminster and West Bromwich. For Dudley as a retail location, its 1993 'market share' was less than one-third of the 1989 level.[30] Anchor tenants left Dudley to take space in Merry Hill, so that vacant floorspace increased by 97,300 square metres between 1989 and 1992.[31] In total, 46 applications were made to develop regional shopping centres between 1988 and 1992.[32]

[28] C. Guy, 'High Street Retailing in off-centre retail parks: A review of the effectiveness of land-use policies', *Town Planning Review*, 69, pp. 291–313.

[29] The planning process for the Trafford Centre and Bluewater, opening in 1998 and 1999 respectively, also began in the 1980s. Planning permission was sought for the Trafford Centre in 1986 and approval finally upheld by the House of Lords in 1995. Bluewater received permission in 1989 but the project was delayed by the recession of the early 1990s.

[30] Of course, individual firms would not interpret their 'market share' in this location-specific way: if a retailer changes location and thereby increases turnover it may be increasing its own market share.

[31] Roger Tym and Partners, *Merry Hill Impact Study: Final Report for the Department of the Environment* (London, 1993).

[32] C. Jackson and C. Watkins, 'Exploring Dimensions of Local Retail Planning Policy', Real Estate Finance and Investment Group Working Paper Series, REFIG-WP 2004-09, Cass Business School, p. 8.

5.30 As a result of these concerns, in 1993 Planning Policy Guidance 6 sought to establish some protection for town centres. In 1996, this was revised and strengthened, with guidance issued that:

- Retail development should be plan-led rather than market-led, to prevent oversupply of space and vacancies in the town centre. This would involve identification of retail capacity needed by the local authority and a sequential approach to site selection.
- A retailer applying to develop a site out-of-town had to demonstrate the 'need' for the development (known as the 'needs test'). This would involve demonstration that extra floorspace capacity was required, drawing on forecasts of population levels, forecasts of retail expenditure and increases in sale density.[33] Alternatively they had to demonstrate that they met a 'qualitative' deficiency in provision in terms of accessibility and distribution of retail centres;
- Having demonstrated that a need exists, a sequential test should be undertaken in relation to site selection: out-of-town centre locations should only be considered if other town centre or edge-of-centre locations had been ruled out. This was to promote sustainability given that town centres – or clustered development – can be served by public transport and facilitate 'linked trips';
- Applicants were also to provide evidence on the site's accessibility by a choice of means of transport, as demonstrated by a transport assessment, and the conside the impact on the vitality and viability of nearby centres via a Retail Impact Assessment.
- Town centre management, mixed-use development and car parking provision were recommended to local authorities as further tools for improving town centre vitality.[34]

Impact on vitality of town centres

5.31 In terms of its impact on town centres, the 'town centre first' policy appears to have had success, as Chart 5.2 shows, with an increase in town centre and edge-of-centre development from a low point in the mid-1990s of under 25 per cent to about 40 per cent in 2003/04. A recent study noted that the policy had brought the introduction of new regional shopping centres to an end, and concluded that:

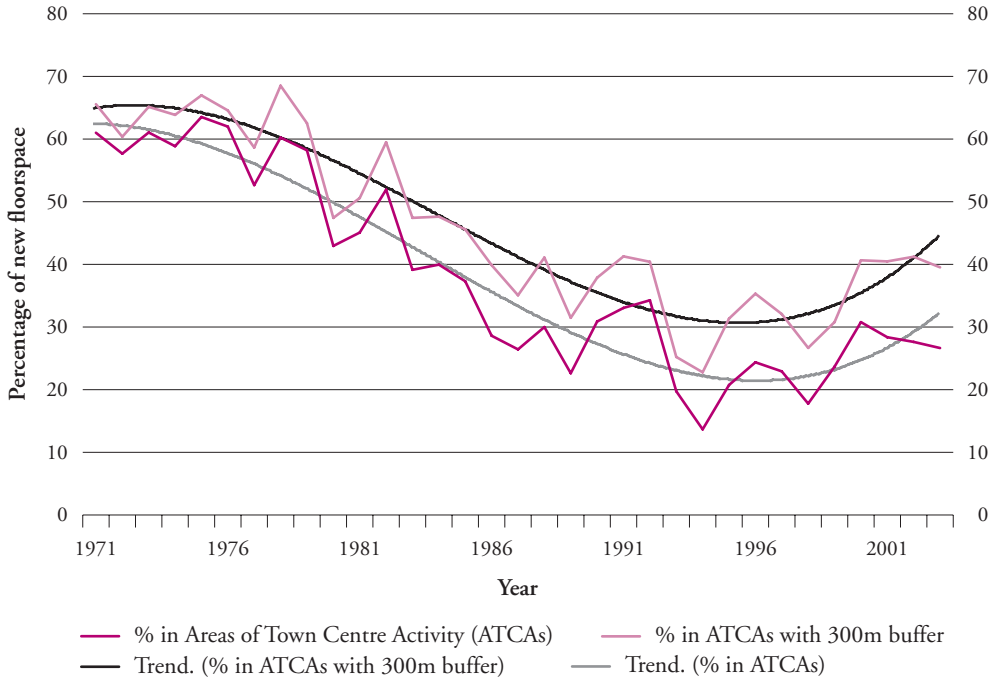
> "*there is clear evidence that PPG6 has changed retailers', developers' and investors' perceptions. It has brought about a modest shift in activity towards established town centres, and has facilitated and encouraged innovation by retailers and developers, within town centres. In the retail sector, the policy has proved effective within its inherent limitations, the most obvious being the scale of existing and committed out-of-centre floorspace pre-1996.*"[35]

[33] The 'Caborn statement' of 1999, issued by Richard Caborn, Minister of Regions, Regneration and Planning, stated that 'need' did not have to be assessed for town centre applications.

[34] Department of the Environment, Planning Policy Guidance 6: Town Centres and Retail Development (London, 1996).

[35] Cardiff University and CB Hillier Parker, *Policy Evaluation of the Effectiveness of PPG6*, A Report for the Office of the Deputy Prime Minister (January 2004).

Chart 5.2: Percentage of new floorspace constructed in town centre areas, 1971–2003



Source: Valuation Office data for England, April 2004

5.32 In Walsall, retailers suffered 60 per cent retail expenditure leakage and decline in investor confidence after the opening of the Merry Hill shopping centre 8 miles from the town. However, active in-centre investment and resistance of pressure for new out-of-centre retail is turning the town centre around. Similarly, Scunthorpe experienced rapid decline in the 1990s, with over 50 per cent expenditure leakage to other areas. However, resisting new out-of-centre development and heavy investment in the town centre led to 25,000 square metres of new retail space and has attracted an additional 50,000 town centre shoppers each week.[36] As the *State of the English Cities* report noted:

> *'It was forcefully expressed that the major investment in Sheffield City Centre would not have happened if the local authority had not been able to reassure the key potential developer that there would be no expansion of the existing out of town retail park, Meadowhall, which had impacted upon city centre retail badly during the previous decade.'*[37]

[36] British Council of Shopping Centres, *The Smaller Towns Report – Delivering Retail-Led Renaissance in Towns and Smaller Cities* (London, 2004).

[37] M. Parkinson et al., *State of the English Cities: A Research Report*, vol. 2 (2006), pp. 106.

5.33 The relationship between town centres and retail location is, however, complex. As a number of studies have shown, the causes of decline in towns and cities are often unrelated to retail, including recession, wealthy people moving away from the urban core and the lack of effective transport infrastructure.[38] And with total demand rising, there is not a zero-sum game between out-of-town and town centre space – between 1993–2003, high street retailers lost only 2 per cent of sales (53 per cent to 51 per cent), despite the growth of new out of centre space.[39] Where demand is falling due to the inherently greater attractiveness of other locations, local authorities must often work to manage this, rather than being able to pre-empt or prevent beneficial developments elsewhere. Where supply of floorspace out of the town centre is limited, this will also drive up rents in the centre and predominantly the larger chains will remain in the centre of the town. The Regulatory Impact Assessment for Draft PPS6 found that 'there is a risk of higher rents in town centres and possibly displacement of smaller independent retail outlets from primary shipping areas.'[40] This may exacerbate the 'clone town' effect by removing the potential for niche and local players to compete.[41] According to the British Retail Consortium:

> *'For small independent retailers who are rarely in a strong position when negotiating with a property owner over the terms of a new lease, the cost of securing a foothold on the high street is often prohibitive. While [it is] a competitive market, the limited supply of accessible retail property (principally a product of the planning system) has driven up rents in prime locations.'*[42]

The effect of the 'town centres first' policy on transport and social inclusion

5.34 The impact of the 'town centre first' policy on transport is also complex. Out-of-town retail, leisure and office centres tend not to be accessible by public transport and therefore are thought to increase traffic flows, leading to increased congestion and generating carbon emissions. Furthermore, they are difficult to access by those without a car, which has raised concern over 'social exclusion'. While the great majority of households have access to a car there may be many within those households (including young people) who are still unable to use private transport.

5.35 But customers may visit out-of-town retail stores less frequently than in-town stores, using out-of-town stores for the 'weekly shop' together with smaller convenience stores along the journey from work, making the net effect on transport unclear. Furthermore, most traffic is unrelated to shopping – on average people travel 6,760 miles per person per year in Britain, and only 818 of these (12 per cent) relate to shopping, with 2,700 being leisure-related and 1,950 related to commuting or business (see Table 5.1).

[38] Relevant studies include M. Parkinson et al., *State of the English Cities 2* (2006); Rogers of Riverside, *Towards an Urban Renaissance: Final Report of the Urban Task Force* (London, 2000); Department of the Environment, Transport and the Regions, *Our town and Cities: The Future, Delivering an Urban Renaissance,* (2000).

[39] Experian, submitted to the PPS6 Consultation (2004), p. 31, cited by Accessible Retail in its response to the Barker Review Call for Evidence.

[40] Office for the Deputy Prime Minister, *Final Regulatory Impact Assessment, Draft PPS6: Planning For Town Centres* (2005), p.3.

[41] The New Economics Foundation recently attempted to assess lack of retail diversity using a specially devised method. Taking a sample of 50 shops from the high street area, scores were allocated for each town by counting types of retailer, numbers of independent retailers and numbers of chain stores, weighting the categories. A low score indicated a 'clone town' – where the high street was replaced by a monochrome strip of global and national chains. It found that 41 per cent of towns surveyed conformed to this characterisation, rising to 48 per cent in London. It suggested rental values contributed to the effect. See New Economics Foundation, *Clone Town Britain* (London, 2005).

[42] British Retail Consortium, submission to the Barker Review, 2006.

Table 5.1: Trip distance per person per year by main purpose, 2004.

Purpose of journey	Journey miles
Commuting/business	1,950
Education/escort education	315
Shopping	818
Other escort	472
Personal business	454
Leisure	2,709
Other	45
All Purposes	6,763

Source: Department for Transport, Transport Statistics Great Britain 2005, p. 16

5.36 For the minority of car miles that are shopping-related, a recent report noted the difficulty of changing transport patterns by land use policy, given the size of the existing retail property stock, well-established shopping patterns and customer preference for the use of the car and for out-of-town locations.[43] The fact that locations can be accessed by public transport does not ensure that customers will in fact use it, and so the 'town centres first' policy may increase congestion.[44] This is a clear risk given that over 83 per cent of distances travelled for shopping purposes are by car.[45] However, it may reduce travel to the extent that one trip fulfils several purposes.

5.37 In addition to consumer behaviour, large-format stores have larger storage facilities and therefore require fewer road haulage miles to service the store. Multi-store firms can minimise journeys through use of a central distribution system. A report for DEFRA found that pollution and congestion spillovers due to heavy goods vehicles have fallen due to decreasing mileages, achieved by increasing vehicle size and higher load factors.[46] Smaller retailers located in town, conversely, may require a larger number of delivery journeys.

5.38 In terms of social inclusion, while city-centre and town-centre sites may be accessible by public transport:

- deprived communities are not always located in central urban areas and shops closer to where they live may be more easily and cheaply accessed than those in the town centre;
- encouraging retailers to invest in areas traditionally perceived as 'no-go' due to high crime, low incomes and expenditure, can benefit regeneration. Initiatives in Harlem, New York, showed that retail-led investment can act as a regeneration catalyst, encouraging other firms to follow into the area. Research for the underserved markets project in England found that brand retailers can create employment opportunities for the long-term unemployed and provide access to goods and services for deprived communities such as Castle Vale in Birmingham. But there can be a potential conflict between prioritising town centres and these wider regeneration goals; and
- where prices are higher as a result of firms passing on the cost of higher rents and smaller economies of scale in the town centre this will also disproportionately impact on lower income groups who on average spend a higher proportion of their income on consumption goods.

[43] Cardiff University and CB Hillier Parker, 'Policy Evaluation of the Effectiveness of PPG6', p. 11.

[44] Office for the Deputy Prime Minister, *Final Regulatory Impact Assessment, Draft PPS6: Planning For Town Centres* (2005), p. 3: 'There is also a risk of increased congestion in centres where additional floor space in town centre uses is developed before public transport and infrastructure improvements have been made.'

[45] Department for Transport, *Transport Statistics Great Britain 2005*, p. 16.

[46] A. Barnes and A. McVittie, Land Economy Research Group, 'Food Chain Productivity Incorporating External Impacts', A Report for the Department of Environment, Food and Rural Affairs (2005), p. xi.

5.39 All this suggests that town centre policies are a blunt tool with which to try to control traffic flows and promote social inclusion, although there is some evidence that they have been successful in reversing or avoiding declines of some centres themselves and the consequent costs. In addition, there may be benefits in terms of using up less open land – the land issue is discussed further in Chapter 8.

Box 5.4: International retail land use regulation

Many countries regulate retail via planning policy, but England appears to regulate more heavily than many others. One study of comparative performance of retail in the US and Europe observed that 'by far, the strictest [land use] regulation occurs in the United Kingdom'.[47] Planning restrictions apply in France to stores above 300 m^2, 1,200 m^2 in Germany, and all sizes in the UK and Netherlands. Restrictions on out-of-town stores also apply in France, Germany, Japan and the Netherlands, but in general these have moved from a lower base to one that is still less restrictive than in England. In Germany, while the Federal Government has attempted to limit out-of-town development, the prescriptions in the building code weigh less heavily than in English national policy statements. In the Netherlands there is a two-tier system, with some locations allowing large-scale retail concentration; other peripheral retail locations are reserved for DIY, furniture, kitchen appliances and cars. The results of these differing regimes included: extensive hypermarket development in France before the Raffarin law of 1996; the success of small discount stores in Germany; very few rural hypermarkets in the UK and heavy promotion of town centres in policy; and large-scale retail centres in the Netherlands. Japan has recently moved to increase regulation of retail developments along major access roads and towards the town centre. Floorspace restrictions are also applicable in Ireland and Denmark, with demonstration of 'need' required for larger stores in the latter.

The US has a largely decentralised, market-driven approach to retail development, although certain communities are beginning to regulate retail space and format type – for example, the City of Los Angeles and City of San Francisco, and several small towns such as Bennington, Vermont, Homer, Alaska and Carbondale, Colorado, among others. However, these regulations are enacted at the municipal level, and appear to involve store size caps, prohibition of 'formula business', and the enaction of neighbourhood serving zones. A study by Hausman and Leibtag notably found that prevention of entry by Wal-Mart due to zoning regulations and pressure group tactics was likely to have the effect of preventing consumers from reducing their food expenditure by some 25 per cent.[48]

Productivity and town centres

5.40 In terms of choice and competition, interest in the impact of town centre policies derives from concerns around poor retail productivity in the UK. There is evidence that the UK retail sector is less productive than those of our main comparator countries, although the precise nature and scale of this gap is less clear. Research suggests that labour productivity in the US and France is around 60 per cent higher than in the UK, with Germany around 28 per cent higher. In terms of total factor productivity, the US level is over 40 per cent above that of the UK.[49] Further studies

[47] McGuckin et al., *The Retail Revolution*, p. 35.

[48] J. A. Hausman and E. Leibtag, 'Consumer Benefits from Increased Competition in Shopping Outlets: Measuring the Effect of Wal-Mart', Institute for Fiscal Studies, Centre for Microdata Methods and Practice Working Paper CWP06/06.

[49] Groningen Growth and Development Centre, 60-Industry Database, October 2005, http://www.ggdc.net.

confirm that productivity weaknesses in the retail sector account for a higher proportion of the US–UK total labour productivity gap than any other sector, namely almost 20 per cent of the gap.[50] There is also evidence that this gap is growing.[51]

5.41 The Institute for Fiscal Studies' *Green Budget 2006* noted that land scarcity in the UK may account for some of this labour productivity gap:

> *"since land is relatively scarce, it will be optimal for companies to use less land and more of other inputs, relative to countries such as the USA, France and Germany, where land is more abundant … For a country where land is in relatively short supply to use less land and more labour seems hardly surprising, and may simply be the optimal response of companies to different factor endowments."*[52]

5.42 Furthermore, the Templeton Study raised the issue of whether UK consumers preferred higher levels of service which, being difficult to measure, may also make the sector appear less productive.[53] Nevertheless, the productivity gap and ICT lag compared with the US continue to raise concern.[54]

5.43 A number of other factors might be contributing to these low levels of productivity: low skills in the retail sector and poor management skills that impede the implementation of ICT investments sufficiently quickly and effectively; restrictions on deliveries which means that efficient distribution timetables are impeded and freight being carried on the road network during the day which increases congestion; and parking and unloading restrictions and short delivery windows which increase staffing and fleet costs.

5.44 Various commentators have argued that land use regulation may also be a factor:

- the McKinsey Report of 1998 argued that the format of UK stores was suboptimal: *'The UK has a lower productivity format mix than the US or France, as there is a greater proportion of UK employment in relatively inefficient corner shops and specialist shops; and secondly, modern large-format retail outlets are smaller in the UK than in the US or France, denying food retailers the full labour productivity benefits of scale. By raising the cost of land, these policies may also have encouraged the industry to focus on more on space than on labour productivity';*[55]

[50] R. Griffith, R. Harrison, J. Haskel and M. Sako, 'The Productivity Gap and the Importance of the Service Sector', Advanced Institute of Management Briefing Note December (2003), p. 5.

[51] S. Basu, J. G. Fernald, N. Oulton and S. Srinivasan, 'The Case of the Missing Productivity Growth: or, Does Information Technology Explain Why Productivity Accelerated in the United States But Not The United Kingdom?' Working Paper Series WP-03-08, Federal Reserve Bank of Chicago, (2003). Cited in Oxford Institute of Retail Management, Templeton College, *Assessing the Productivity of the Retail Sector*, (April 2004), p. 30. It should be noted that measures of total factor productivity (TFP) are extremely difficult to derive. Given the greater shortage of land in the UK, it is to be expected that land is used more efficiently, and the TFP of UK retailers is therefore higher relative to other countries. The McKinsey report of 1998, using its own estimates, found that the UK and France were global leaders. However, the UK has not matched the US surge in TFP growth in retailing from the mid-1990s. This growth in the US has mostly been due to ICT investments which are most valuable at a certain level of firm size and store size.

[52] Institute for Fiscal Studies, *Green Budget 2006*, pp. 160, 163.

[53] Oxford Institute of Retail Management, Templeton College, *Assessing the Productivity of the Retail Sector*, (April 2004).

[54] M. O'Mahony and B. Van Ark, 'Assessing the Productivity of the UK Retail Trade Sector: The Role of ICT', *International Review of Retail, Distribution and Consumer Research*, 15/3 (2005), pp. 297–303.

[55] McKinsey Global Institute, *Driving Productivity and Growth in the UK: Food Retailing* (1998), pp. 1–2.

- Griffith and Harmgart show that productivity increases are driven by increased organic competition, driving out poorly performing stores, or the adoption of new technologies – easiest when building a new store. Planning policy may be 'stifling entry, or affecting the type of entry, and thus depressing competition and slowing the use and adoption of information and communication technologies (ICT).'[56]

- the OECD also ascribes low retail productivity to the planning system, noting that land use regulation limited economies of scale, raised the cost of land, and contributed to a lower productivity format mix: 'as regards to entry to the sector, the government's recent approach to planning has made new large-scale entry very difficult. Competition in the market is therefore impeded both by inhibiting entry and by preventing firms from growing in size to achieve their full potential.'[57]

5.45 Retail stores may benefit from more flexible land use regulation to lower barriers to entry and enable economies of scale:

- the Competition Commission found in 2000 that economies of scale in staffing were available in stores up to 3,000 square metres but were modest above that. However, the average store size in the UK is less than 500 square metres;[58]

- the expansion of product offer increases sales volumes per store in a non-linear fashion as customers take advantage of one-stop-shopping to purchase non-essential items. This drives competition within general merchandising;

- larger stores can devote a greater amount of floorspace to storage, making supply more flexible. Larger stock pallets also limit the amount and frequency of goods being transported to the store;

- large store sizes enable more flexible labour and delivery scheduling;

- taller buildings are more expensive to construct – construction costs can be over 10 per cent higher to construct the same floorspace over two storeys rather than one so planning policies that force developers to go 'up' not 'out' come with costs;

- operating costs (which can form around 70 per cent of the costs for new development) can be higher for taller stores – electricity costs for stores with more than one floor can be significantly higher (up to 15–20 per cent) due to the cost of vertical elevation of goods, staff and customers – a single set of lifts for a town-centre store on two storeys can cost upwards of £200,000.

[56] R. Griffith and H. Harmgart, 'Retail Productivity', *International Review of Retail, Distribution and Consumer Research*, 15/3 (2005), pp. 281–290, p. 288.

[57] OECD, *Economic Survey – United Kingdom 2004: Product Market Competition and Economic Performance* (Paris, 2004).

[58] Oxford Institute of Retail Management, Templeton College, *Assessing the Productivity of the Retail Sector*, (April 2004), p. 87. Note that the Competition Commission, although finding that the more restricted availability of sites brought about by changed planning guidelines in the 1990s had made entry into and expansion at out-of-town locations more difficult, did not recommend changes to the planning regime. It did recommend that the Director-General of Fair Trading's approval be required for major operators to acquire or develop new stores. The OFT found the former, but not the latter, to be feasible. For example, new sites for retail development are often brought forward by a developer rather than by a retailer.

Box 5.5: Case study: assessing need

'There isn't currently a proper supermarket [in the area] leaving local residents to choose between poor choice and high prices in local shops or lengthy journeys to supermarkets elsewhere. We have been arguing, with very strong support from local residents, and definite interest from [a major supermarket] for making a site in the local centre available for supermarket development … However, we have been having an ongoing debate with planners at every turn who want to restrict the size of the supermarket to reduce its competitive impact on supermarkets in adjoining areas! Among the arguments were that it would be 'wrong' to permit a scale of development which would attract people from outside the area; and that the Plan has determined the 'right' number of supermarkets for the south side of [the area] and this development would mean there are 'too many'. At stages in the discussion, I did wonder whether I was in Britain in 2004/05 or East Germany c.1975!'

Former local authority Chief Executive

5.46 There is currently some concern over major supermarket operators adapting their format to the convenience store format, and also possible loss of retail diversity. At present, planning permission to operate a retail store applies to the land or the building, rather than being specific to the operator. Planning policy does not have the tools to counter loss of diversity, and therefore other measures would have to be considered to support small independent operators, if this were thought to be desirable.

Reform of policy

5.47 With the revision of the national policy framework, PPG6 underwent reform. Regard was paid to the impact of the 'town centres first' policy on choice and competition, to practical concerns regarding uncertainty over the definition of edge-of-centre and district centre sites, and to concern over dogmatic applications of the sequential approach. As a result, a revised policy statement, Planning Policy Statement 6 (PPS6), was introduced in March 2005, which included some potentially important refinements to the policy. This aimed to provide:

- strengthened emphasis on the need to plan for growth and for positive and proactive planning by local planning authorities to provide a range of suitable sites for development in consultation with stakeholders, including retailers;
- a clear objective for local planning authorities to support efficient, competitive and innovative retail development – taking account of improving productivity;
- recognition that planning for growth may involve the expansion of centres, particularly to accommodate large developments;
- explicit recognition that larger stores may deliver benefits for consumers and that local planning authorities need to make provision where appropriate;
- a requirement on the part of local planning authorities for flexibility and realism when identifying sites for development; and
- recognition that in areas of significant growth or where deficiencies are identified new centres may need to be designated.

5.48 It is too early to assess the impact of PPS6 both on the allocation of sites in the local plan and at the development control stage. PPS6 may deliver some welcome flexibility required to aid competition and choice, though the central regulations of impact, need and sequential tests remain in place (see Box 5.5). There are also concerns about whether planning policy is the right tool to deliver transport policy, and whether, acting alone, it can prevent the development of 'clone towns' without protecting the inefficient. Similarly, in an economy with growing incomes it is likely that the economy will be able to absorb increased retail capacity in a number of locations. The intention of the policy is that local authorities should plan for growth in an appropriate manner so that spillovers are internalised but that development is not unduly restricted. Some local authorities are taking the opportunity to expand their town centres as defined in their Local Development Framework. The ability to implement this policy depends on the capacity of local authorities to manage complex competing priorities and confidence to tailor the framework to their specific circumstances.

5.49 Since the introduction of the policy, the Office of Fair Trading has referred the grocery market to the Competition Commission, citing the impact of the planning system as a major factor: 'the planning system can reasonably be suspected of restricting or distorting competition'.[59] It drew attention to issues of land banking and the high concentration of certain operators in particular areas. The Competition Commission's statement of issues identifies planning and land use as an area the inquiry will examine, including the needs test and the sequential approach, the complexity of the planning process for site development, and other barriers to entry relating to land ownership.[60] Conclusions await the outcome of the Competition Commission inquiry.

Conclusion

5.50 There are a number of ways in which planning can help promote competition and enterprise. Compulsory Purchase Orders can be used to overcome barriers to new development. The planning system can also be used to provide wider public goods such as vibrant high streets that put retailers in competition with one another. But there may also be adverse effects:

- the complexity of the planning system provides insider-power, as incumbent firms are able to exploit their knowledge of the system. Similarly the plan-led system may enable incumbent firms with the strongest lobbying powers to influence the location and availability of development sites. Large firms are more able to pay for quality consultants and legal fees; while delays provide rival firms with time to react to the threat of entry;
- planning requirements may lead to development to being constructed below an economically optimal size, shape, condition or in a sub-optimal location, leading to higher cost structures and/or lower revenue flows. Similarly other restrictions to the use and development of property, can preclude the efficient use of capital and lower competitive intensity, though they may be justified by other goals; and
- restrictions to land supply raise land values and property prices, which raises the cost of entry to the market. Equally, regulations such as the targets for development of previously developed land may mean that only larger developers able to handle complex issues, such as site decontamination, tend to be able to enter some markets.

[59] OFT, *The Grocery Market – The OFT's Reasons for Making a Reference to the Competition Commission* (2006), p. 2.
[60] Competition Commission, *Groceries Market Investigation: Statement of Issues,* 15 June 2006, p. 7.

> Land supply restrictions also increase the potential for strategic barriers to entry to foreclose markets by closing off access to land – for example by purchasing land options. A recent report also found that local authorities often appear to favour the interests of firms indigenous to the area to potential inward investors.[61]

5.51 The impact on competition and choice may affect some sectors more than others. There is evidence that the hotel and leisure sector experiences difficulties with planning and that for the former this might in part account for the age of stock which influences the ability to adopt modern working practices. A number of studies have also concluded that the plannning system is lowering retail productivity by raising barriers to entry and inhibiting the ability of more efficient firms to benefit from economies of scale. For example, economies in staffing may be available up to 3,000 square metres, but the average UK store size is less than 500 square metres. Recent reforms to planning policy regarding town centres should go some way towards addressing these issues and any costs associated with the impact need to be assessed against potential wider benefits – although the relationship between town centre vitality, transport, and 'town centres first' policy is more complex than often assumed. Growing consumer expenditure, for example, suggests there is not always a zero sum game between town centre vitality and development beyond the centre, although PPS6 aims to address this point.

[61] ECOTEC Research and Consulting Ltd and Roger Tym and Partners, *Planning for Economic Development: A Report for the Office of the Deputy Prime Minister* (2004), pp. 9, 81.

6 Planning and innovation

INTRODUCTION

6.1 This chapter considers the role of planning in influencing innovation and agglomeration. It:

- reviews the theoretical reasons and empirical evidence for thinking that agglomeration has a positive impact on productivity;
- considers the reasons for thinking that physical location and proximity are important for the invention and diffusion of new products, techniques and services; and
- presents four case studies to show the impact of planning on the development of innovative clusters: Newcastle 'Science City'; the City of London; Shoreditch and Hoxton; and the high-technology clusters in Oxford and Cambridge.

INNOVATION IN THE UK

6.2 The growing integration of the global economy makes innovation an increasingly important catalyst for productivity growth and economic well-being. While lower levels of investment in skills and capital can explain the majority of the gap between UK and French and German productivity, research suggests only about 20 per cent of the gap with the US can be explained this way.[1] Innovation can help explain some of the remainder; an economy able to devise and diffuse new products and techniques can be expected to sustain a faster rate of economic growth. New ideas can foster enterprise, create new markets and improve efficiency. They also generate important spillover effects whereby new ideas can be potentially be transferred easily across the rest of the economy. The implication is that innovation produces returns for society as a whole.[2]

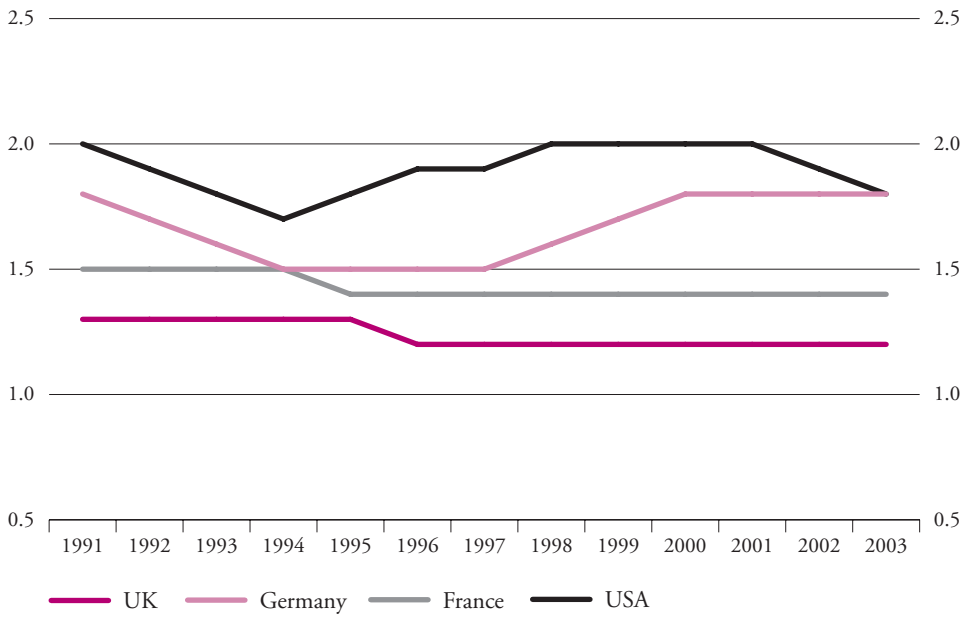
6.3 Despite the benefits of high levels of innovation in the economy, on most measures the UK's record is poor. While there are a number of service sectors in which innovation is strong (creativity in the advertising industry, for example) the UK has persistently spent less – around 1.8 per cent of GDP over the past five years – on research and development (R&D), than the US and Germany, both of which spent at least 2.5 per cent of GDP on R&D every year since 1999

[1] ESRC, *The UK's Productivity Gap: what the research tells us and what we need to find out*, ESRC Seminar Series at http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/Images/UK_Productivity_tcm6-5523.pdf.

[2] This insight is key to the various 'endogenous' models of economic growth. Empirical studies confirm the theoretical possibility of a link between innovation and growth. Coe and Helpman (1995) find that a 1 per cent increase in R&D expenditure – an important indicator of innovative activity in an economy – increases general productivity by between 0.2 and 0.3 per cent. Similarly, a study by the OECD (2001) across several countries found that a 1 per cent increase in R&D produces an increase in productivity of 0.3 per cent.

(see Chart 6.1 for business R&D only). R&D expenditure figures may understate the extent of innovative activity in an economy, but on other measures of innovation the UK also appears to lag: the EU Community Innovation Survey found that just 44 per cent of UK firms were 'product innovators' over 1998–2000, compared to 56 per cent in France and 70 per cent in Germany.[3]

Chart 6.1: Intensity of business expenditure on R&D (% of GDP)



Source: OECD Databank, ONS

6.4 While there is broad agreement that the level of innovative activity in the UK is low, there is little consensus surrounding its cause. Many explanations have been offered for this gap, including: a weak production skills base;[4] a high price of capital for innovation; limited incentives to innovate;[5] and a cultural bias against innovation.[6] In recent years, there has also been growing interest in the extent to which land use regulations impact negatively on innovative activity.[7] This has tended to focus on the role planning plays in limiting or aiding the formation of clusters, either directly in terms of the nature and extent of the land provided for cluster development or indirectly through housing shortages or poor transport links weakening the potential for cluster formation, even where the land is readily available.

[3] A 'product innovator' is described as a firm answering 'yes' to the question 'Did your enterprise introduce any technologically new or significantly improved products which were new to your firm?' It is a measure of diffusion of innovation. Cited in L. Abramovsky, R. Harrison, H. Simpson, 'Increasing Innovative Activity in the UK? Where now for government support for innovation and technology transfer?', IFS Briefing Note BN53 (November 2004), pp. 5–6.

[4] HMT/DTI/DFES Joint Paper, 'Science and Innovation: working towards a ten year investment framework' (March 2004), esp. para. 5.13.

[5] W. Hutton, *The State We're In: why Britain is in crisis and how to overcome it* (London, 1996).

[6] M. J. Wiener, *English Culture and the Decline of the Industrial Spirit, 1850–1980* (Cambridge, 1981).

[7] McKinsey Global Institute (MGI), *Driving Productivity and Growth in the UK* (1998); DETR, *Planning for Clusters: a research report* (June 2000).

6.5 An additional concern arises from the significantly higher dependence on foreign-owned multinationals providing R&D expenditure in the UK than in other developed countries. Nearly 25 per cent of total R&D spend in 2001 came from firms headquartered abroad, compared to less than 5 per cent in Germany and an EU average of less than 10 per cent.[8] Given the mobility of foreign-owned multinationals, UK R&D spend is likely to be particularly sensitive to the institutional and economic environment.

AGGLOMERATION OF ECONOMIC ACTIVITY

6.6 Modern economic growth occurs principally in urban areas, and the sustained rise in the urban population over the past two hundred years points to the substantial economic benefits of agglomeration. After a period of decline in some areas, English towns and cities are currently experiencing a renaissance, exhaustively documented in the 2006 *State of the English Cities* report.[9]

6.7 The existence of agglomerations of types of economic activity has long been noted. Sometimes, these arise directly from the location of natural resources. However, the presence of industrial clusters, apparently unrelated to any obvious, natural advantage may require further explanation. Alfred Marshall, writing in 1890, noted that an 'atmosphere' conducive to trade and the exchange of ideas can be formed in an 'industrial district'.[10]

6.8 The economic geography literature has tended to stress the importance of density in reducing the cost of taking part in economic transactions.[11] For example, when a market is close to its customers, transport costs are reduced. However, there may be diseconomies of scale that occur when density rises beyond the capacity for urban infrastructure to support it. Congestion may occur in excessively dense areas, reducing productivity and impeding growth.

6.9 However, agglomeration can produce positive economic benefits over and above the reduction of transactions costs. The literature has tended to identify two principal sources of these agglomeration externalities:

- localisation benefits, where agglomeration allows a greater specialisation of economic activities, producing economies of scope; and
- urbanisation benefits, where agglomeration allows a greater diversity of economic activities, boosting productivity.

6.10 These drivers work in opposite directions – one relying on diversity of activity, the other on specialisation. Localisation benefits are related to the concentration of industry, where many firms produce the same outputs within an economy. When industrial concentration is high, firms can rely upon 'thick' input and output markets. These are markets with high levels of demand and supply, such as may not exist where industries are dispersed. The labour market is a good example: a concentration of a particular industry in an area will attract labour there, creating a large, well-supplied market that all firms in the industry will benefit from. There may also be the possibility of input sharing, whereby input demands from concentrated industries are outsourced to producers able to achieve economies of scale.[12]

[8] L. Abramovsky, R. Griffith, R. Harrison, "Background facts and comments on 'Supporting Growth in Innovation: enhancing the R&D tax credit."', IFS Briefing Note #68 (November 2005), Figure 2.
[9] ODPM, *State of the English Cities 2006* (March 2006)
[10] A. Marshall, *Principles of Economics* (London, 8th edition, 1920).
[11] P. Krugman, 'Increasing Returns and Economic Geography', *Journal of Political Economy,* 99:3 (1991).
[12] T. J. Holmes, 'Localization of Industry and Vertical Disintegration', *Review of Economics and Statistics,* 81 (1999).

6.11 Urbanisation economies stem directly from the size of the working-age population proximate to an area. The literature has suggested that these concentrations:

- encourage firms to learn from each other;[13]
- protect urban areas against sector-specific shocks, reducing economic volatility;[14]
- enable the efficient use of public infrastructure; and
- facilitate face-to-face contact, important for some sectors of the economy.[15]

6.12 Recent econometric work has attempted to separate the agglomeration drivers, but as Glaeser suggests, 'for the moment, the role of concentration and diversity does not appear to have been resolved by the literature.'[16] In reality, urban areas tend to be simultaneously diversified and specialised. Some evidence suggests that the balance changes over time, as cities age: one recent paper suggests that cities are increasingly organised on functional lines, rather than around specific types of economic activity. Large, established urban areas, especially, are good for managerial and information-oriented activity that benefits from face-to-face contacts.[17] This implies an increased importance for urbanisation effects.

6.13 The evidence points towards the existence of significant productivity gains to be made from urbanisation economies. For example, one recent survey of the literature found that doubling city size increases productivity between 3 and 8 per cent.[18] Without adequate infrastructure, many of the gains to be made from increased size will be lost through congestion. And if population density falls too low, infrastructure will not be efficiently used. Nonetheless, direct estimates of density within standard sized areas tend to confirm its positive impact on productivity: studies in the US report that a doubling in population density there produces a 5 per cent increase in productivity,[19] whilst for Europe the figure is 4 per cent.[20]

6.14 Rice and Venables attempted to estimate the effects of concentration directly, using UK data. They found that doubling the working-age population proximate to an area increases productivity by 3.5 per cent. Interestingly, they found this effect decays over a distance greater than approximately 80 minutes driving time, indicating a strain on transport infrastructure.[21] This may also account for the lower population density effect than reported elsewhere, alongside the UK's historically higher density.

[13] J. Jacobs, *The Economy of Cities* (New York, 1969).
[14] E. M. Hoover, *The Location of Economic Activity* (New York, 1948).
[15] M. Storper and A. Venables, 'Buzz: face-to-face contact and the urban economy', *Journal of Economic Geography* (2004).
[16] E. Glaeser, 'The new economics of urban and regional growth', in G. L. Clark, M. P. Feldman, and M. S. Gertler (eds.), *The Oxford Handbook of Economic Geography* (2000), p. 92.
[17] G. Duranton and D. Puga, 'From sectoral to functional specialisation', Centre for Economic Performance discussion paper #0511 (September 2001) at http://cep.lse.ac.uk/pubs/download/dp0511.pdf.
[18] S. S. Rosenthal and W. C. Strange, 'Evidence on the nature and sources of agglomeration economies' in V. Henderson and J. F. rancois Thisse (eds), *Handbook of Regional and Urban Economics,* vol. 4 (2004).
[19] A. Ciccone and R. E. Hall, 'Productivity and the density of economic activity', *American Economic Review,* 86 (1996).
[20] A. Ciccone, 'Agglomeration effects in Europe', *European Economic Review* 46 (2002).
[21] P. Rice and A. J. Venables, 'Spatial determinants of productivity: analysis for the regions of Great Britain', CEP Discussion Paper #642 (July 2004).

6.15 The results suggest that – for given infrastructure technologies – relatively compact, high-density urban areas are likely to be the most productive. These need not form discrete towns and cities; a contiguous urban area, with a variable density incorporating different urban forms, could still achieve the productivity benefits listed above if the infrastructure provided is adequate to the task.

6.16 In terms of agglomeration, however, caution is needed before the planning system establishes density targets. Whilst there is clearly some optimum density that will maximise productivity, this may conflict with other demands on space within an area. Nor is it clear that this optimum density can be established beforehand, especially given the likely tendency for different areas to have different optimum densities. Recent research has suggested the possibility that different industrial structures produce different optimum densities.[22]

6.17 Moreover, within apparently seamless urban areas there will be significant variations in productivity. In particular, there can be important synergies between urbanisation and localisation, with individuals and firms forming across a region into tightly knit clusters of interrelated economic activity. It is on such clusters, and their impact on innovation, that we wish to focus as it is here that the planning system can potentially have the most significant impact.

THE EXTENT OF CLUSTERING IN THE UK

6.18 Michael Porter initiated the modern research programme into business clusters, with the publication in 1990 of his *The Competitive Advantage of Nations*. This proposed what became known as the Porter diamond of cluster-formation as a means of typologising the relationships between elements within a regional cluster.[23] Porter describes a cluster as 'a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities.'[24] The definition has been widely adopted, in various forms, and it is the broad designation we will use here.[25]

6.19 There is widespread evidence of the propensity of certain types of firm to cluster. Significant clustering in the UK includes – but extends beyond – the most common examples of the City of London and the high-tech cluster around Cambridge (see Box 6.1). Discounting for the fact that we may perceive 'clusters' where no true clusters exist, because even when location is chosen entirely at random some firms will end up close to each other,[26] it appears that 52 per cent of UK industries are genuinely clustered.[27]

[22] P. P. Combes, G. Duranton, and H. G. Overman, 'Agglomeration and the adjustment of the spatial economy' (mimeo, May 2005)

[23] These can be categorised broadly as deep factor markets, stable local demand conditions and the provision of a context for firm rivalry and strategy.

[24] M. Porter, *The Competitive Advantage of Nations* (New York, 1990).

[25] See, for example, the definition given in Lord Sainsbury, *Biotechnology Clusters: report of a team led by Lord Sainsbury, Minister for Science* (August 1999).

[26] Throwing darts, blindfolded, at a map will produce some apparent 'clusters' as a result of random selection.

[27] Using the older Ellison-Glaeser test, it is estimated that 95% of UK industries are clustered. The lower figure removes the effect of random clustering as far as possible. Gilles Duranton and Henry G. Overman, 'Testing for localisation using micro-geographic data', *Review of Economic Studies* 72, pp.1079.

Box 6.1: Key clusters in England[28]

Offshore engineering: The formation of an offshore engineering cluster in the North East dates back to the discovery of North Sea oil in the 1960s. The cluster's economic fortunes have fluctuated, but around 38,000 people are currently employed in some 400 firms around the Tyne and Tees estuaries.

Food production and processing: The cluster is spread through Lincolnshire spilling into neighbouring counties. The food processing industry has grown since the 1950s. It includes distribution, storage, labelling and laboratory testing as well as actual food production and processing. Some 47,000 people are currently employed in this industry in Lincolnshire (about 20 per cent of employment in the county).

Financial services: There are 300,000 jobs in the City of London, the majority of which are based upon financial and business services, or professions ancillary to that. It is without doubt one of the world's leading financial services centres, and appears to be gaining its dominance in several key sub-sectors within the financial services market.

Software: Some 37,000 people are employed in high-tech industries in Cambridgeshire. Almost 5,000 of these work in the software industry, primarily located in Cambridge and its environs. The cluster has grown since the 1970s, primarily on the basis of science park and research facilities associated with Cambridge University.

Chemicals and pharmaceuticals: The North West hosts some 200 biomedical companies, employing around 30,000 people and exporting £3.4 billion of pharmaceuticals annually. In addition, over 400 chemicals manufacturers are based in the region, spending over £400 million annually on R&D, employing over 40,000 directly and supporting a further 120,000 in specialist support roles.

Motorsports: Britain's motorsports cluster has grown gradually since the 1950s. Testing facilities at the Silverstone race circuit, access to a pool of skilled labour and access to road and air communications have all underpinned its growth. The cluster, which centres on Oxfordshire and Northamptonshire, now employs 30,000–50,000 people.

Advertising: There are 144 advertising agencies in London. Of these 55 have postal codes that begin with W1 and a further 29 with WC1 or WC2, according to a survey by the Institute of Practitioners in Advertising. A second advertising cluster is forming in the Clerkenwell, Shoreditch and Spitalfields area.

Electronics/communications: The development of an electronics and telecommunications cluster near to the M4 can be traced back to decentralisation policies in the 1940s and 1950s. Government defence contracting also played a crucial early role.[29] The cluster accounts for a high proportion of the 70,000 plus high-tech jobs located between Berkshire and South Oxfordshire.

[28] Based on DETR, *Planning for Clusters* (London, 2000).

[29] P. Hall, M. Breheny, R. McQuaid and D. Hart, *Western Sunrise: The Genesis and Growth of Britain's Major High-Tech Corridor* (London, 1987).

6.20 For innovative enterprises, the principal benefit from proximity to similar firms is the advantage of maintaining a close research community, which is able to share ideas and experiences across a cluster. This community can then help sustain innovative activity taking place within and between firms. This factor helps explain the existence of small, geographically-concentrated groups of highly innovative firms, such as computer research in Silicon Valley.[30] While some types of information can be transferred easily across space as a result of the telecommunications revolution, these more informal knowledge networks are still critical. This is most likely to be apparent in the high-valued-added clusters of engineering, computer software, electronics, chemicals and pharmaceuticals.[31]

6.21 A number of studies support the contention of a link between innovation and clustering. There is evidence of localised knowledge spillovers from universities to patenting in an area.[32] Local proximity is more important for scientists if they are engaged in new knowledge transfer than if they are providing other services to firms.[33] There is some evidence of the link between innovation clusters and firm size, with evidence to suggest that spillover effects are more important for small firms – those most prone to apparent clustering – than large.[34] Small firm growth within a high-technology cluster appears, in general, to be faster than that outside.[35] Clusters are also more likely to emerge when new economic knowledge plays a more important role in a sector.[36] Survey evidence also shows firms value informal networks, with 54 per cent of high-technology firms finding 'informal local access to innovative people, ideas, technologies' of value to their business, with 80 per cent reporting at least occasional meetings with individuals in other companies.[37]

6.22 However, clustering is not necessarily a wholly benign phenomenon. In particular, there is the potential that a knowledge-producing cluster may become 'too successful': the very attributes that made the area so appealing to innovative industry – a picturesque location, good transport infrastructure, a reliable supply of labour – may be eaten away by the expansion of industry without adequate government intervention.[38] There is also some evidence regarding path

[30] A. Saxenian, 'Regional networks and the resurgence of Silicon Valley', *California Management Review,* 33 (1990).

[31] D. B. Audretsch, 'Agglomeration and the location of innovative activity', *Oxford Review of Economic Policy,* 14:2 (1998).

[32] A. B. Jaffe, 'Real effects of academic research', *American Economic Review,* 79:5 (December 1989). A positive relationship between concentration of research and patenting is found, but it is not statistically significant at the conventional levels.

[33] D. B. Audretsch and P. Stephan 'Company–Scientist Locational Links: The Case of Biotechnology', *American Economic Review*, 86:4 (1996), pp. 641–652.

[34] Z. J. Acs, D. B. Audretsch and M. P. Feldman, 'R&D spillovers and innovative activity', *Managerial and Decision Economics,* 15:2 (March–April 1994).

[35] D. B. Audretsch and Dirk D. 'The impact of location on firm growth', Centre for Economic Policy Research discussion paper #4332 (March 2004).

[36] D. B. Audretsch and M. Feldman, 'R&D spillovers and the geography of innovation and production', *American Economic Review,* 86:4 (1996). They note that in the US, 96 per cent of innovations occur in metropolitan areas.

[37] D. Keeble, C. Lawson, B. Moore and F. Wilkinson, 'Collective learning processes, networking and 'institutional thickness' in the Cambridge Region', *Regional Studies,* 33:4 (1999), p. 325, Table 4.

[38] An example of the well-known 'tragedy of the commons', in which a public good (in this case, a desirable habitat for clustering firms) is over-used because no individual agent appreciates the effects of their actions on others.

dependency – the formation of a cluster can lead to high costs associated with shifting activity away from it.[39] A cluster may facilitate poaching once it reaches a critical mass, with potentially adverse effects on human capital and returns to knowledge.[40]

6.23 There is a related issue of the motivation for economic clusters. While some firms may cluster together to produce more innovations, some may cluster as a side effect of some other factor. If a location has strong transport links and a highly qualified pool of local labour, for example, certain types of firm will choose to benefit from these locational advantages independently of the extent of interaction between them. They may also choose to cluster due to the need to share the prestigious address of key competitors. A Cambridge-based company told one major research project that 'our location represents little more than a prestigious address. If anything proximity creates a more competitive market for skills.'[41] While this may have benefits, to the extent that firms are clusters for reasons other than knowledge, sharing it may have no impact on levels of innovation.

6.24 It is striking that many of the most heavily 'localised' industries are the relatively low-value-added, low-cost sectors that have formed the backbone of the north of England's economy since the Industrial Revolution and were the high-technology industries of their day. Textiles and clothing manufacture of various types make up the bulk of the most heavily clustered industries, reflecting an historic distribution of economic activity.[42] As Michael Porter notes, in his 2003 survey of the UK economy:

> *'Only a small number of clusters tend to be true innovation centers. Others may tend to specialise in producing products aimed at particular market segments, or be manufacturing centers. Still other clusters can be regional assembly and service centers. Firms based in the most advanced clusters often seed or enhance clusters in other locations as they disperse some activities to reduce risk, access cheaper inputs, or seek to better serve particular regional markets. The challenge for an economy is to move first from isolated firms to an array of clusters, and then to upgrade the sophistication of clusters to more advanced activities.'*[43]

6.25 We also note the relatively small geographic size of each cluster in the UK. This is in line with the suggestion made in the Sainsbury Report on Biotechnology Clusters that clusters in the UK are significantly smaller than those in the US:

> *'In the US we found clusters tend to be thought of as locations that can be visited in a single business day, and from this perspective the UK might be viewed as a single cluster. In the UK, the prevailing view is a much shorter journey (around one hour).'*[44]

[39] A. Saxenian, for example, reports the emergence of a distinct Silicon Valley 'language' used by high-technology engineers there that could not be understood properly by those elsewhere in the US. To 'un-learn' this language would impose heavy economic costs. Saxenian, op. cit., pp. 97–8.

[40] K. Stone, 'Thinking and doing: the regulation of workers' human capital in the United States', *Socioeconomic Review,* 4:I (2006). Explores some of the implications for this in terms of intellectual property protection.

[41] MGI, op. cit.: 'Software and services': 11. This finding is replicated in other studies: for example, Corporation of London 2003: 29-32 ranks a prestigious address amongst the most decisive factors driving firm location in the City of London. It is, of course, possible that a 'signalling' effect arising from a prestigious location communicates otherwise hidden information about a firm to potential customers.

[42] G. Duranton and H. G. Overman, 'Testing for localisation using micro-geographic data', *Review of Economic Studies,* 72.

[43] M. Porter and C. Ketels, *UK Competitiveness: moving to the next stage*, DTI Economics Paper #3 (January 2003), p. 28.

[44] Sainsbury, op. cit., p. 9, para. 1.3.

6.26 Although clusters are independent of administrative boundaries, this small size will mean that planning for cluster growth and development can often be undertaken within a single local planning authority. We should be clear, then, that in searching for high-technology clusters, we shall be looking for a small number of small groups, located in a few discrete locations. We would not anticipate that 'true' innovative clusters, given the particular conditions needed for their formation, would be especially widespread.

THE IMPACT OF PLANNING ON CLUSTER FORMATION

6.27 If clusters are thought to be important drivers of innovation, the issue remains of what policy tools can best deliver them. While the literature is wide, the impact of specific policies designed to facilitate clustering is uncertain. Silicon Valley itself emerged as the unintended by-product of military expenditure,[45] and high-technology clustering across Europe has been haphazardly driven by regional comparative advantages in tacit knowledge, often based around higher education and research institutions.[46] Clearly there is a range of factors that can help contribute to cluster growth, and the balance of these factors may vary from case to case. This section will therefore focus on the impact of the planning system, by examining a series of case studies: Newcastle's Science City programme, the City of London, advertising and creative clusters in East London, and the Oxford and Cambridge high-technology clusters.

Newcastle Science City

6.28 Newcastle Science City is an ambitious, technology-led regeneration project in a North Eastern city that suffered serious economic decline during the 1970s and 1980s, causing high unemployment, low activity rates and an exodus of skilled labour. Over the past 15 years, Newcastle has undergone a resurgence, with urban renaissance accompanying sustained economic growth, though significant challenges remain.

6.29 Nonetheless, the city retains numerous historic advantages, including its highly rated university, teaching hospital, attractive urban environment and good transport infrastructure. Newcastle Science City, launched by Gordon Brown in 2004, is a partnership between the city council, One NorthEast (the Regional Development Agency) and Newcastle University. At its heart will be the 'Science Central' development, comprising 150,000 square metres of new mixed-use development on the former Scottish and Newcastle brewery site, next to St James' Park. The programme also develops from existing city-centre science facilities, such as the world-class Campus for Ageing and Health at Newcastle General Hospital, the Millennium-funded International Centre for Life and the existing university buildings. It is hoped that 100 new technology-based start-ups could be developed in Newcastle and the surrounding region by 2010, creating over 5,000 jobs.[47]

[45] T. Heinrich, 'Cold War Armory: military contracting in Silicon Valley', *Enterprise and Society,* 3 (2002).

[46] D. Keeble and F. Wilkinson, 'Collective learning and knowledge development in the evolution of regional clusters of high technology SMEs in Europe', *Regional Studies,* 33:4 (1999); C. Lawson and E. Lorenz, 'Collective learning, tacit knowledge and regional innovative capacity', *Regional Studies,* 33:4 (1999).

[47] See BBC News, 'City at forefront of science', 6 July 2005 at http://news.bbc.co.uk/1/hi/england/tyne/4658119.stm.

6.30 In recent years, the North East region as a whole has seen some improvement in its economic fortunes, with activity rates improving from 66.5 per cent to 70 per cent, a faster rate than the UK average. The proportion of its economically active population educated to at least Level 3 skills[48] has increased faster than the national average, with some evidence that creative professionals and other knowledge workers are being drawn to the area.[49] There are currently 18,000 students registered at the University of Newcastle-Upon-Tyne,[50] and a further 25,000 at Northumbria University (spread across two campuses),[51] plus thousands more enrolled in the region's large further education colleges.

6.31 However, a pronounced 'technology gap' exists between the region and the rest of the UK. The North East has the lowest proportional R&D spend of any English region, accounting for just 2 per cent of the UK's total R&D expenditure.[52] There are fewer patents granted in the North East than in any other English region,[53] and the lowest R&D employment.[54] To launch a technology-led regeneration scheme from what, in aggregate, appears to be a weak base will require strong local leadership and a clear focus on regeneration opportunities.

6.32 Much of the city is publicly owned land, and public sector employment across Newcastle is high by national standards. The planning issues involved are thus somewhat different to elsewhere; the potential is available for strong local, public institutions to directly influence the city form and tie physical and economic regeneration together, if adequate tools are provided. The University of Newcastle-Upon-Tyne is a leading part of the regeneration plan. It is pursuing a market-led expansion, focusing on its key strengths of stem-cell biology, research into ageing and health, molecular engineering, and energy and the environment. An understanding of the need for spatial proximity of research and business is at the heart of this expansion: the benefits of Newcastle's compact city centre are stressed and the deliberate aim is to concentrate research within a relatively small area at the edge of the city centre. A sense of 'place' appears to be vital to high-technology industry, and recent research has noted some of the difficulties faced by out-of-town science parks.[55] The Newcastle Science City programme directly reflects this understanding of the need for an urban environment for the successful exploitation of high-technology research.

6.33 Image and reputation will be key to the success of the Science City. Place-setting features, such as Anthony Gormley's 'Angel of the North', can develop a sense of 'buzz' and excitement about an area. The creative use of existing built and cultural heritage has been credited with assisting the rebirth of previously declining urban centres, such as Manchester and Liverpool.[56] Some regeneration has already produced economic gains for Newcastle, with the Grainger Town and the Quayside areas being highlighted in a recent RICS report as leading a 'cultural renaissance'.[57] By placing the spatial needs of innovative activity at the centre of the Science City programme, the broader aspects of regeneration across Newcastle can be tied into the development of functioning high-technology clusters within the city centre.

[48] A-levels and above.
[49] RICS/Demos, *Northern Soul* (London, 2003).
[50] University of Newcastle-Upon-Tyne, 'Facts and Figures' at http://www.ncl.ac.uk/press.office/figures.phtml.
[51] Northumbria University, 'Student numbers by school as at 1/12/05' at http://northumbria.ac.uk/sd/central/finance/manacc_inf/fi_information_online_data/factsandfigures/figs2/studnumb_sch/.
[52] National Statistics, UK Business Enterprise Research and Development, 2004.
[53] Patent Office, Facts and Figures, 2001–2005.
[54] National Statistics, UK Business Enterprise Research and Development, 2004.
[55] See, for example, D. S. Siegel, P. Westhead and M. Wright, 'Science parks and the performance of new technology-based firms: a review of recent UK evidence and an agenda for future research', *Small Business Economics,* 20.
[56] M. Nathan and C. Unwin, *City People: city centre living in the UK* (IPPR, 2005).
[57] RICS/Demos, *Northern Soul* (London, 2003).

6.34 There are some difficulties with the development that do not arise from the planning system. Small landowners dispersed across the proposed Science City sites present a particular concern, as many are ostensibly waiting for an increase in site values before selling. It is possible that Compulsory Purchase Orders will be used to resolve this. Similarly, although local, place-sensitive public bodies can be brought on-board with the Science City programme, other national public institutions – such as the NHS – have their own interests, for example in maximising their own resources ahead of longer-term, area-based regeneration. However, the planning system has a direct impact in the following areas:

- the needs of university growth can conflict with local residents' desires, as for example in the expansion of student accommodation. The extension of an existing hall of residence at Castle Leazes, adjacent to residential areas, was opposed by ward council members;
- both university and city authorities appreciate that the statutory planning framework is not always best-suited to their purposes, for example in not prioritising Science City elements above other planning considerations;
- difficulties in the integration of Regional Economic and Spatial Strategy documents have led to a 'jam-spreading' approach to spatial planning, rather than the creation of an epicentre for growth in the core urban area. Different spatial elements are distributed evenly across the whole North East region, with the result that strategic focus on spatial and economic regeneration has been weakened; and
- the River Tyne forms a natural centre to the core urban area, but administration is split between Newcastle City and Gateshead Metropolitan Borough councils. This reflects both an historic legacy of distinctive urban identities, cultures and rivalries and the relative inability of either area to provide a leadership role or economic focus for the region as a whole. Following years of competition, Newcastle and Gateshead have adopted a more co-operative attitude of late, establishing the Newcastle–Gateshead Initiative as a successful business and leisure marketing agency. City planning, however, is still split along administrative lines, rather than taking account of the natural development of the whole urban area, and the comparative weakness of regional planning authorities have not been able to surmount this difficulty. Two major urban core development sites – the Discovery Quarter in Newcastle (where the Science Central development will be located) and Gateshead town centre – are thus being envisioned and planned independently.

6.35 The city council expects to have an adopted plan for the city centre by 2008, but regeneration work in some important areas (such as the old brewery site) is already underway. It is claimed that piecemeal development before the plan is finalised allows for some flexibility in the process. The coincidence of the development of Science City and the broader Area Action Plan is helpful, but accidental.

The City of London

6.36 Across London as a whole, gross value added is 27 per cent higher than the UK average, driven partly by its highly skilled workforce and partly by the advantages of clustering.[58] Thirty-seven per cent of all UK inward investment in 2004/5 went to London,[59] whilst entrepreneurial activity rates were more than 50 per cent higher in London than the UK average.[60] Much of this activity is determined by London's specialised regional advantage in financial services, focused on the City of London. The City is a world-class centre for financial services, accounting for over 36 per cent of the world financial derivatives trade.[61] It contributes 2.5 per cent of the UK's GDP.[62]

6.37 The local government of the City is unique, which creates unusual conditions for planning. With a limited number of residents, and businesses holding a franchise, it is direct commercial considerations that tend to dominate decisions: City planners therefore see their task as managing a world-class spatial environment for business, rather than catering for diverse (and potentially competing) claims. As a result, both property developers and businesses more generally report that a generally favourable and co-operative atmosphere prevails.[63] Further, the protection and maintenance of public space within the City is vital to its success as a cluster;[64] given the 'public good' characteristics of such space, with social benefits exceeding private, planning has undoubtedly aided the City's success in this regards.[65] The City planners also believe they can act to dampen potentially overheating markets, and thereby reduce volatility. They have also increased office space in response to growing levels of demand, in contrast to areas such as the West End.

6.38 The City's success has created some classic, cluster-related difficulties. Over 97 per cent of City of London companies believe that productivity of their staff is reduced by problems faced in commuting.[66] There are clear problems imposed by congestion and, given the high propensity of financial and related services to co-locate, these are unlikely to diminish in the foreseeable future. This implies a need for effective spatial management within the City. It has also resulted in high prime office rents, though these have been partly mitigated by a search for different ways of doing things to economise on an expensive resource, with one study suggesting that 'some of London's dynamism is therefore likely to come from the innovation that is associated with reducing the need for space.'[67] Given the noted advantages of proximity for the businesses in the City cluster, for many firms the critical issue in finding office space may be not so much the price as the flexibility of its use. But essentially, the story of cluster planning in the City is a positive one – it has helped support a world-class financial centre.

[58] Oxford Economic Forecasting for the Corporation of London, *London's Place in the UK Economy, 2005–2006* (London, 2006).
[59] ibid.
[60] London Business School, *Global Entrepreneurship Monitor 2003*.
[61] GLA, 'London as a financial centre' at http://www.london.gov.uk/london-life/business-and-jobs/financial-centre.jsp.
[62] Corporation of London, 'Key facts about the City of London and the 'Square Mile" at http://www.cityoflondon.gov.uk/Corporation/media_centre/keyfacts.htm.
[63] Meeting with stakeholders, City of London, 21 April 2006.
[64] Oxford Economic Forecasting for the Corporation of London, *London's Place in the UK Economy, 2005–2006* (London, 2006).
[65] See, for example, Llewelyn Davies in association with DTLR and The National Retail Planning Forum, 'Quality Streets: The Economic Benefits of Good Walking Environments' at http://www.c-london.co.uk/files/pdf/ Quality%20Streets%20-%20main%20report.pdf.
[66] Corporation of London, *The Economic Effects of Transport Delays in the City of London* (2003).
[67] Oxford Economic Forecasting for the Corporation of London, *London's Place in the UK Economy, 2005–2006* (London, 2006).

Shoreditch and Hoxton

6.39 Shoreditch and Hoxton make up the southernmost corner of the London Borough of Hackney.[68] They lie to the immediate east of the City of London; but despite this proximity, by the early 1980s Shoreditch was a byword for inner-city deprivation. The decline of light manufacturing across London had left the area suffering the twin blights of high unemployment and derelict industrial space. Rents collapsed, but the area retained a significant architectural appeal. In some cases, the Greater London Council deliberately maintained low rents in its properties to discourage squatting.[69]

6.40 According to GLA Economics, 'Artists started moving into Hoxton during the late 1980s and early 1990s when old warehouses suitable for studios were available at cheap rents.'[70] This rehabilitation of industrial architecture depended, to a great extent, on its users taking a more flexible approach to the available space: partly from a deliberate lifestyle choice and partly from financial necessity, what became known as 'live–work' spaces proliferated, alongside the re-opening and refurbishment of existing commercial buildings.[71]

6.41 The White Cube gallery was opened in 1993, and a cluster of around 80 'commercial and non-commercial' galleries now operate in an area covering little more than a square mile.[72] London's creative industries are growing faster than any others except finance and business services, and contributed up to one quarter of total employment growth in London between 1995 and 2000.[73]

6.42 UK creative industry labour productivity growth is estimated to be 4.59 per cent per annum over 1995–2000, compared to 1.41 per cent in non-creative industries.[74] They accounted for 8 per cent of UK gross value added in 2003, and contributed £11.3 billion to the balance of trade.[75] Both capital and labour requirements are low in the creative industries, with an average UK creative enterprise size of just 11 employees.[76] The least capital-intensive creative industries saw the biggest labour productivity growth over the last part of the decade.[77]

6.43 Productivity growth within the sector as a whole is therefore driven to an unusually large extent by directly innovative activity, rather than by increasing the intensity or extent of factor use. To survive, small creative industry firms must exploit the kind of externalities and cluster effects described elsewhere in this chapter. As the Greater London Authority describes, the most important driver of the innovation process within the fastest-expanding creative industries is 'proximity… – [London's] unique asset. It provides the capacity for inspiration, for innovation and the spread of ideas.'[78] Within London, creative industries are clustered in distinct areas: Shoreditch

[68] Both formerly independent boroughs were incorporated into the Borough of Hackney in 1965. We will follow common practice and refer to both areas by the single name of 'Shoreditch'.
[69] N. Green, 'Artists in the East End, 1968–1980', *Rising East,* 3:2.
[70] GLA Economics, *Creativity: London's core business* (2002), p. 49.
[71] See, for example, 'Street credibility: bright young artists are revitalising Hoxton', *The Independent* (4 August 1994); and 'Full of East End promise; Something is happening in deepest Hoxton: the artistes are taking over', *The Independent*, 9 June 1995.
[72] GLA Economics, op. cit., p. 49.
[73] GLA Economics, *London's creative sector – update 2004* (April 2004).
[74] GLA Economics, *Creativity: London's core business* (2002), p. 56, Tables A6, A7.
[75] G. Cox, *Cox Review of Creativity in Business: building on the UK's strengths* (November 2005), p.10.
[76] GLA Economics, *Creativity: London's core business* (2002),p. 59, Table A15. Even this low figure is skewed upwards by the large size of TV and radio producers.
[77] ibid., p. 56, 59, Tables A6, A15.
[78] ibid., p. 34.

is notable for the presence of a large number of photographic studios and service providers,[79] alongside an array of firms operating across different creative sectors. As the price of office space in the West End continues to rise, due in part to the inelasticity of supply, the appeal of relatively cheaper rents in the East End acts as an incentive for relocation, though at the potential cost of weakening the existing advertising and creative cluster in the West End.

6.44 Such has been Shoreditch's success in attracting and sustaining a cluster of creative enterprises that London Metropolitan University has opened an incubator facility for new firms there. Housed in the award-winning Shoreditch Building, Accelerator provides equipment and on-site support for new local enterprises specialising in ICT and new media. In addition, the university provides training and education to the firms. Its current tenants are a mix of social entrepreneurs and multimedia service providers.[80] Particularly interesting is Accelerator's role in providing a cross-over from creative industry and into more conventional high-technology sectors such as ICT.

6.45 Effective planning policy has been credited with pushing the area's regeneration by London First, a local business pressure group.[81] This is partly true: Hackney's planning department was widely regarded as in severe difficulties throughout much the 1990s: underfunded and understaffed, it was not best able to cope with this expansion of demand for highly unusual building-space on its southern fringes. The impression gained is of would-be developers and tenants working against, rather than with, a local planning authority.[82]

6.46 However, a general improvement in the borough council's management led to a reformation of its planning department, and the adoption of a quasi-official recognition of a 'live/work' use-class. This more flexible approach to building use lessened the constraints caused by planning and undoubtedly encouraged a significant inflow of investment into Shoreditch. A veritable property boom resulted, leading to complaints from existing local residents, fearful of being priced out, and the alleged skirting of planning permissions by local landlords and estate agents.[83] Both have caused the council to tighten up its regime in more recent years, in an effort to regulate competing demands for limited space.

[79] 'Shutters trip in Shoreditch', *The Independent,* (3 May 1998). Shoreditch hosted London's first international photography show.

[80] See the tenancy list currently maintained at http://www.londonmet.ac.uk/index.cfm?99198881-FB56-BAE2-ED06-D7F2427BACD4.

[81] See London First's submission to the ODPM Select Committee, 2002: 'In Shoreditch, Hackney, the relaxation of employment zoning and acceptance of residential and live/work uses led to the area's regeneration.'

[82] See, for example, 'Leader', *Planning in London,* 51, at http://www.planninginlondon.com/HTML/Articles/Archive_FeaturesOpoin.htm; also stakeholder interview, March 2005.

[83] For example, in telling would-be tenants to put a computer in the corner of a room to ensure the 'live/work' usage designation was complied with – stakeholder interview, March 2005. See also GLA Economics, *Creativity: London's core business* (2002).

High-technology clusters

6.47 The UK is something of a pioneer in promoting university–industry links, 'having one of the most advanced university research promotion systems'.[84] The 'entrepreneurial university'[85] has become an aspiration of central government and academic institutions alike, with successive governments placing universities at the centre of their strategies for economic development. In 2003–04 alone, licensing agreements between universities and commercial institutions doubled, and per unit of research funding, the UK generates more spin-offs than the US.[86] There are many examples of successful commercialisation. This section focuses on two of the most prominent: the clusters around the universities of Cambridge and Oxford though the issues raised have wider resonance. The University of Southampton, for example, has a successful science park on the edge of the city, supporting 850 jobs in 52 companies, including international companies such as Merck. But containment policies also have the potential to exact a high economic price. The availability issue of suitable employment land as the park seeks to extend its 30 acre site is an important one, as is the need for housing that young science park employees can afford.[87]

Cambridge cluster

6.48 The term 'Cambridge Phenomenon' was coined as far back as 1986 to describe the mushrooming of more than 300 high-technology firms in the county.[88] It was the culmination of a process beginning with the flagship Cambridge Science Park of 1973, now one of many freestanding research parks and home to 60 companies. Despite a break in growth in the early 1990s, high-technology companies have continued to sprout across Cambridgeshire, to 959 by 1999, employing 31,000 people. In the same year, the Cambridge cluster drove R&D activities to account for a higher share of gross value added (3.2 per cent) in the East of England than any other UK region. Across the whole region, 110,000 jobs are estimated to depend directly upon the Cambridge cluster.[89]

6.49 This growth has appeared in an area spatially constrained by strong containment policies, dating back to the 1950s. These policies, which included a 5-mile strip of green belt drawn tightly round the boundaries of the city, were aimed at preserving the special character of the area, controlling urban expansion and preventing the coalescence of settlements. With the boundaries of the City so tightly drawn, any new land for development had to come from the districts of Huntingdonshire and South Cambridgeshire, whose incentives for recommending the approval were extremely limited. The effectiveness of these policies in constraining the growth of the city is clear. Over 85 per cent of Cambridgeshire is intensive arable agriculture or some form of intensively managed grassland, and only 10 per cent is urban. By 2001, Cambridge's population had grown to only 108,000 compared with 81,500 in 1950 when the containment began.

[84] H. Lawton Smith and J. Glasson, High-Tech Spin-Offs: measuring performance and growth in Oxfordshire, Oxford Economic Observatory (Oxford, 2005), p.1.

[85] S. Slaughter and L. Leslie, *Academic Capitalism: politics, policies and the entrepreneurial university* (Baltimore, MD 1999).

[86] Warwick Ventures, 'Survey of UK University commercialisation shows a doubling of licensing activity in 2004' at http://www2.warwick.ac.uk/services/ventures/news/22_11_05/.

[87] The average cost of a house near the park is currently £500,000.

[88] Segal, Quince and Wicksteed, *The Cambridge Phenomenon: the growth of high technology industry in a university town* (Cambridge,1986).

[89] Eurostat, 'Portraits of the regions: United Kingdom – East of England – Economy' at http://forum.europa.eu.int/irc/dsis/regportraits/info/data/en/ukh_eco.htm.

6.50 On top of a general policy aimed at discouraging development, there has historically also been specific difficulties surrounding the development of clusters. The first explicit reference to high-technology industry was provided in the 1991 Regional Planning Guidance, but this did not refer to clustering – quite the opposite: the plan sought to promote a policy of dispersion away from the 'most prosperous and congested regions'. Further regional strategies in the form of the SCELA 1992 and the Cambridgeshire County Council aimed at entrenching this objective of moving development to deprived and relatively peripheral areas, despite the lack of demand for development in East Cambridgeshire and the Fenland. This formed the policy context for a high profile planning application that brought the difficulties of gaining permission for national research facilities in the area to the fore (see Box 6.2).

Box 6.2: The Wellcome Trust Genome Campus

The Wellcome Trust Genome Campus at Hinxton, Cambridge, is Europe's leading centre for genome sequencing and analysis. It is best known for its role in the Human Genome Project, deciphering one-third of the human DNA sequence, in addition to research mapping and sequencing more than 40 disease-causing organisms, including tuberculosis and malaria. It is also home to Europe's leading centre for biological computing. Its proposed 40,000 square metres development was set out in 1997. Following non-determination by the South Cambridgeshire District Council, an appeal hearing was held in June 1998 and reopened in March 1999. The Secretary of State provided conditional support for a reduced scale proposal in August 1999, recognising that the national interest was 'beyond dispute'. A scaled-back planning application for a 27,000 square metres of research facilities, data centre, innovation centre, commercial space and ancillary facilities was subsequently submitted, with approval finally being granted by the local authority – a full 5 years after the original proposal – in April 2002. Phase one of the extension was completed in 2005, at a cost of £95 million. The prominence of the delay, the costs to the Wellcome Trust and the wider scientific community it engendered, and the difficulty it exposed in securing developments of national economic significance in reasonable timeframes was one of a number of pressures leading to a more 'pro-growth' policy for the Cambridgeshire sub-region and to efforts on a national scale to foster clusters through better planning.

6.51 It is in this context that a McKinsey Global Institute (MGI) report was produced in 1998. The report presented case studies from different industry sectors within the UK, some of which MGI claimed were adversely affected by the planning system. It concluded that growth of high-technology clusters in the UK software industry has 'been slowed or even prevented by local planning restrictions.'[90] However, evidence for this assertion was seemingly based solely on case studies of one or two software companies in Cambridge and the report has been criticised elsewhere.[91] Nevertheless, the Sainsbury Report highlighted the 'significant barrier' to cluster growth presented by the planning system in Cambridge and Oxford.[92]

[90] MGI, op. cit.: 'Executive summary': p. 16.

[91] Roger Tym and Partners, Memoranda submitted to the ODPM Select Committee, 13 December 2002 at http://www.publications.parliament.uk/pa/cm200203/cmselect/cmodpm/114-iii/114m01.htm.

[92] Lord Sainsbury, *Biotechnology Clusters: report of a team lead by Lord Sainsbury, Minister for Science* (1999), p. 41.

6.52 None of the above necessarily implies that the planning system was the principal impediment to the growth of the Cambridge cluster. While the role of the planning system is mentioned in the most recent study of the Cambridge's failure to emerge from 'nascent cluster' status, it was considered as less of a factor than the distance from the US (the principal market for high-technology products) and 'the lack of good marketing and management skills, which, while endemic to the growth of British industry, have been noticeably absent when it comes to high-technology products and businesses'.[93] It is also the case that the planning system may itself help provide a motivation for firms to locate to the region. As has been noted, skilled knowledge workers value an attractive environment very highly. Cambridge's attractive urban environs are considered especially important by high-technology entrepreneurs. Keeble et al. found that 80 per cent of surveyed high-technology firms there consider the 'attractive local living environment' important for staff and visitors.[94] This is in line with the broader Cambridge-MIT survey, reported earlier;[95] it strongly suggests that the management of Cambridgeshire's visual environment has important spillover effects for the functioning of local labour and other markets.

6.53 There is also evidence that the authorities recognised the issue of the need for more cluster development in and around Cambridge, in addition to the need for other forms of development in the context of the rising appeal of the city to 3.5 million tourists annually and increased demands for education, retail and health care development. This was partly in recognition of the spatial specificity of much development, and the concern that attempting to disperse industry had reduced investment rather than successfully redirected it. In addition, the Cambridge structure plan and the related local plans from 2001 all attempted to restrict the use of land for employment purposes to businesses which can justify a location in the area for the purposes of economic clustering. A DETR report concluded, 'in Cambridgeshire the prestige and high quality jobs associated with the software cluster have led to planning policies that have sought to preserve scarce sites for high-tech businesses that can benefit from location in the county'.[96] There have also been significant releases of Green Belt land by local planning authorities to aid development. But the conditions for locating in Cambridgeshire in general remain stringent.

Oxford cluster

6.54 It is striking how many of the same issues that affect cluster development around Cambridge are to be found in the developments around Oxford. At least 114 technology-based companies have originated in Oxfordshire's three universities and seven research laboratories. The great majority of these are small-to-medium enterprises, with only 12 being stock exchange listed, but 'the survival rate is high … nearly 90 per cent [of these firms] are still in existence.' The surviving firms are concentrated in biomedical research (some 40 per cent of all firms) and IT, with 30 firms currently operating in the sector.[97] Together, these firms employ 9000 people – about 3 per cent of the total Oxfordshire workforce, and have a turnover of £1 billion.

[93] S. Athreye, 'A study of the Cambridge high-tech cluster' in T. Breshanan and A. Gambardella (eds), *Building High-Tech Clusters: Silicon Valley and beyond* (Cambridge, 2005).

[94] D. Keeble, C. Lawson, B. Moore and F. Wilkinson, 'Collective learning processes, networking and 'institutional thickness' in the Cambridge Region', *Regional Studies,* 33:4, p. 325, Table 4.

[95] C. Baxter, P. Tyler, B. Moore, N. Morrison, R. McGaffin, M. Otero-Garcia and J. Poteete, *Policy and Enterprising Places; encouraging technology based development*, Cambridge-MIT Institute Programme on Regional Innovation Competitiveness Report (Cambridge, 2005).

[96] DETR, op. cit., p. 13.

[97] Lawton Smith and Glasson, op. cit., pp. ii–iii.

6.55 The area has many of the features of an innovative cluster: the strong research base is provided by the universities; the firms are geographically proximate; and the movement of skilled workers between public research and private enterprise seems relatively painless. The assessment made by the most recent academic research on the county is generally more favourable than that made in similar studies of Cambridge. Although Lawton Smith and Glasson admit that none of the high-technology firms spun off from Oxford's universities 'have grown to the size of some of the companies originating in Stanford University', they note the importance of niche markets to much of Oxfordshire's high-technology industry. Isis Innovation, a university-based commercialisation project, has helped generate a significant increase in spin-off activity over the past five years. A raft of other, more-or-less informal institutions have developed, principally over the past two decades, to facilitate innovation.[98]

6.56 Like Cambridge, Oxford has also been subject to astrategy of containment in recent decades, centred around a city with tightly defined borders circled by a large stretch of Green Belt. The population has risen from 108,000 in 1981 to around 140,000 today,[99] with development also taking place in the satellite towns of Witney, Bicester and Didcot. Unlike in Cambridge, the boundary issues and extensive green belt have precluded any significant relaxation in containment in the county, despite the worsening of congestion in the city centre and the difficulty in securing land for housing in an area with some of the highest house prices in the South East. This has resulted in a tightening of local labour markets to the detriment of the local economy.

6.57 Although 40 per cent of high-technology firms in Oxfordshire were established before 1993, it is also only comparatively recently that local authorities have taken this apparent clustering into account. Early structure plans attempted to regulate the local environment through the dispersion of new development to peripheral towns and the interception of commuting into Oxford itself.

6.58 Under pressure from high-technology firms desiring to locate close to the university, strict development control policies gradually shifted towards what Glasson et al. call development 'facilitation'. In 1987, the Structure Plan was amended to read:

> *'In Central Oxfordshire, provision will be made and proposals will normally be permitted for science based industries concerned primarily with research and development which can show a special need to be located close to Oxford University or to other research facilities in Central Oxfordshire.'*[100]

6.59 The county council took the view in the late 1980s that 'many so-called 'science parks' were simply standard business parks operating under another name, and that many of the claims for a need to be close to Oxford University or one of the other research establishments did not bear close examination.' Scarce land close to Oxford has been strongly 'protected' for R&D use. The council cite business support for this policy, with at least one major manufacturer not wanting these tight controls relaxed.[101] But these policies have by no means solved many of the remaining issues, with further expansion of clusters difficult within current boundaries – the Oxford Science Park, for example, is nearing capacity and land restrictions are likely to impede further development.

[98] These include: Oxfordshire BiotechNet, funded partly by the DTI; Oxford Bioscience Network, administered by Oxford Brookes University; and DiagnOx, catering for diagnostics firms and initially funded by the DTI. Lawton Smith and Glasson, op. cit., pp. 11.

[99] ONS.

[100] Quoted in J. Glasson, A. Chadwick and H. Lawton Smith, 'Defining, explaining and managing high-tech growth: the case of Oxfordshire', *European Review of Planning* (forthcoming), p.5 20.

[101] Oxfordshire County Council, Memorandum to the Select Committee of the Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions, 2003.

6.60 While policy at a local level often remains constraining, Oxford appears to have benefited more than some other university clusters from wider reforms to planning policy aimed at increasing its flexibility, due in part to the presence of more industrial land in the area than around Cambridge. A revision by the county council to the General Development Order in 1988 allowed the transfer of use class from B2 (general industry) to B1 (business offices) without further permission being necessary. This facilitated the rapid growth of the Milton Park Business Park, near Didcot on the A34, in the 1990s. By 1999, employment had increased to over 5000, 'on an extensively landscaped Park covering nearly 250 acres.'[102]

6.61 Glasson and his co-authors note, however, that the very success of Oxford's high-technology expansion has created or exacerbated problems; congestion in the town centre has worsened,[103] whilst there is significant pressure on existing green space for housing – resulting in tightening local labour markets. Glasson et al. believe that Oxford needs 'smarter planning' to steer through these difficulties, though they cite promising recent signs of a willingness to make imaginative decisions about land use in the county – such as reconsidering the green belt to make 'green wedges' separating new developments.[104]

6.62 A broadly similar milieu, consisting of a world-renowned university and surrounding research units, and a similar desire to protect the existing environment (both built and natural) using similar planning implements appear to have led to slightly divergent results. The volume and number of complaints about planning in Cambridgeshire appear greater than those in Oxfordshire. The critical difference appears to be the slightly earlier recognition of clustering, and proximity to university facilities: Oxford, after its 1987 Structure Plan alteration, essentially gained a ten year head-start on Cambridge. Though the effects were not immediate, the backlog of sought permissions and delayed expansion gradually began to undermine Cambridge's initial lead in clustering high-technology industry, though recent changes to planning policy may help to reverse this.

CONCLUSION

6.63 The planning system has the potential to influence the size and development of agglomerations of economic activity. Larger towns and cities may reap benefits in the form of labour market pooling and supplier specialisation. Where planning constrains city growth it will constrain these benefits – one recent study has suggested doubling the size of a city can result in productivity gains of three to eight per cent.

6.64 There are clearly a number of factors that influence the development of clusters. These include the presence of a strong skills set within the local labour market, the strong promotional role of a university, the presence of good transport links and – in many instances – proximity to London. This supports the bulk of the literature that stresses that land use planning is only one factor among many in determining the success (or otherwise) of innovative clustering. It is not the role of the planning system to create clusters.

[102] J. Glasson, A. Chadwick and H. Lawton Smith, 'Defining, explaining and managing high-tech growth: the case of Oxfordshire', *European Review of Planning* (forthcoming), p. 520.

[103] 'Negative restraint policies will not be adequate to achieve the 'smart growth' needed. Their legacy from the past has been increasing traffic congestion and reduced agglomeration economies as a result of spreading development around the country towns': Glasson et al., op. cit., p.5 22.

[104] Glasson et al., op. cit., pp. 520, 521.

6.65 But there is some evidence of land use regulation impeding the development of clusters that could have developed quicker or more extensively. This is true both in terms of land designated for the purpose of cluster formation, and wider policies relating to planning, such as the need to ensure an adequate supply of housing to support local labour markets. Local authorities that chose to adopt pro-growth policies aimed at promoting clusters can be instrumental in ensuring their development and continued success, as the City of London illustrates. But planning does not always play this positive role, though recognition of the importance of clusters is growing. A DTI report concluded that planning restrictions 'can be a significant barrier to cluster growth'. The Cambridge cluster, for example, now employs over 30,000, but as recently as the early 1990s regional and county planning guidance was aiming at a policy of dispersion of ecomonic activity. A current example is Newcastle Science City, where the planning framework and administrative boundary issues may be slowing development aimed at attracting 100 new technology start-ups to Newcastle and the surrounding area by 2010. Where the wider conditions exist, it is therefore important that the planning system does not act as an impediment to the development of clusters, within the context of the system's wider sustainable development objectives.

7 The impact of planning on skills and labour market flexibility

INTRODUCTION

7.1 The influence of land use on the supply and demand for skills is more limited than its impact on the other productivity drivers of: competition, innovation, enterprise and investment. However, the planning system may have some effect through the types of educational expansion it facilitates, the housing development it supports, the infrastructure it provides and the enterprise it encourages.

7.2 This chapter focuses on:

- the impact of land use regulations on the supply of skills through its influence on the expansion of the higher education sector[1] – although the issues raised here are not unique to the sector but highlight wider tensions;
- the relationship between house prices, transport links and labour market mobility; and
- issues relating to the demand for high skills caused by regulating the type of employment that will be allowed in certain locations.

WHY DO SKILLS AND MOBILITY MATTER?

7.3 Globalisation and technological change accelerate the transfer of both low and high-value economic activity to other regions such as Asia and Eastern Europe. These changes put an increasing premium on the UK's skills profile and utilisation. Already there is a shift in occupational structure, towards occupations requiring higher-level qualifications and technical skills generally, and this is forecast to continue (see Chart 7.1).

7.4 Yet there is evidence that the UK is lagging behind many of our competitors in terms of our stock of skills and the flexibility of their deployment.[2] In terms of labour flexibility, despite lower transaction costs associated with moving, the UK has lower mobility rates than the US and this difference appears to have been longstanding.[3] However, the great majority of the causes of our relatively low skills base,[4] are unaffected by planning issues.

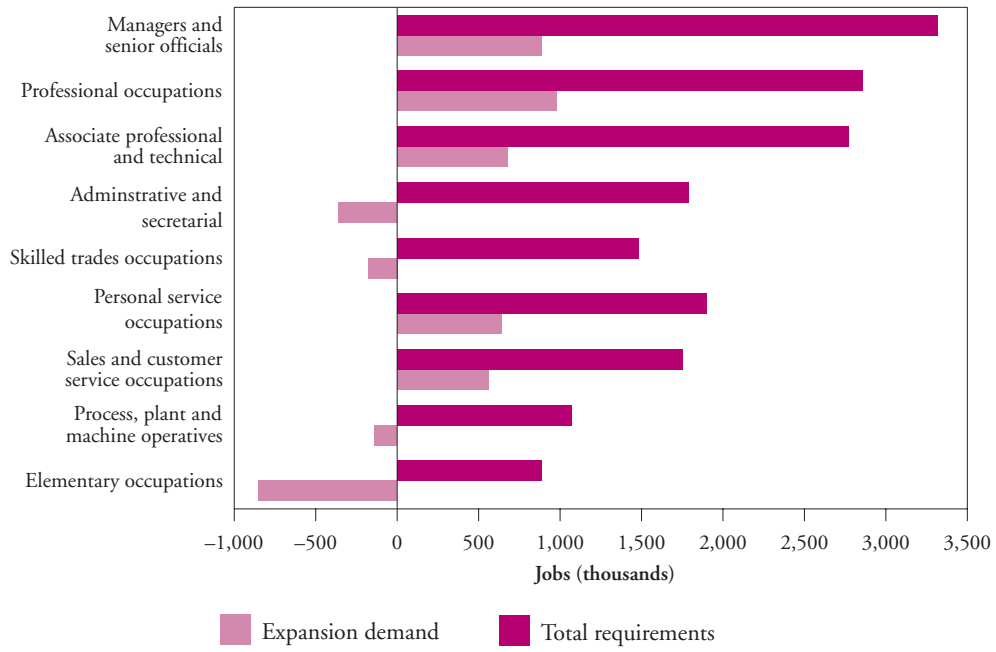
[1] Planning also affects schools and further education colleges but the focus here is on universities as a self-contained case study.

[2] For a more expansive discussion of the issues see S. Leitch, *Review of Skills. Skills in the UK: The long-term challenge. Interim report: Analysis* (London, 2005). See also A.E. Green and D. Owen, The Institute of Employment Research, University of Warwick, *The geography of poor skills and access to work. A report for The Joseph Rowntree Foundation* (London, 2005). Report available at http://www.jrf.org.uk/knowledge/findings/socialpolicy/0046.asp.

[3] J. Long and J. Ferrie, 'Labour Mobility', in J. Mokyr (ed.), *Oxford Encyclopedia of Economic History* (Oxford, 2003).

[4] See D. Finegold and D. Soskice, 'The failure of education and training in Britain', *Oxford Review of Economic Policy*, 4/3 (1988), pp. 21–53; H. Kennedy et al. *Learning Works: widening participation in further education. A report for the Further Education Funding Council* (Coventry, 1997); and A. Wolf, *Does Education Matter? Myths about Education and Economic Growth* (London, 2002).

Chart 7.1: Total labour demand by occupation, 2004–2020



Source: Cambridge Economics/Institute of Employment Studies employment projections

The growth of universities

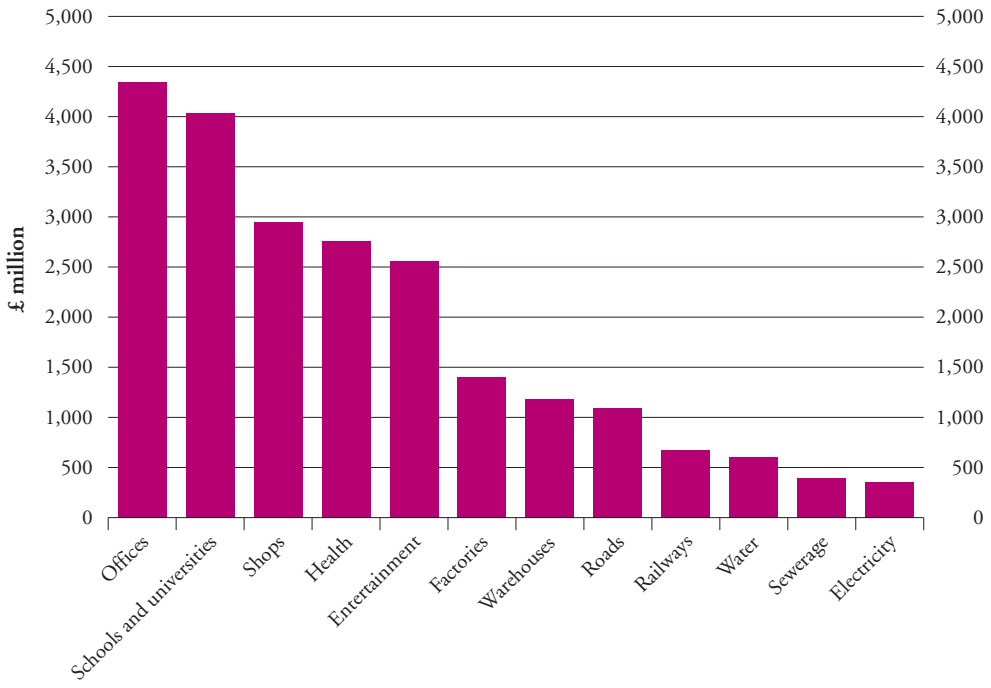
7.5 The growth of the whole education sector and its facilities is important for economic development. Universities are used here as an illustration of the tensions that arise within the planning system when expansion of facilities is required.

7.6 The higher education sector in the UK is undergoing a major expansion, spurred in part by strong private returns on investment. In 2004 alone, over £4 billion of new construction orders were placed in the school and university sector, second only to office development and ahead of retail, health, entertainment, factories and warehousing (see Chart 7.2). The UK higher education estate comprised almost 35 million square metres of gross space in 2004, with a total insurance replacement value of £38.9 billion.[5] Meeting the Government's target of 50 per cent of young people receiving higher education by 2010, from 43 per cent in 2003/04,[6] will mean significant further expansion to accommodate anticipated growth, while existing buildings will also require modernisation.

[5] Higher Education Funding Council for England report 2006, quoted in Association of University Directors of Estates submission to the *Barker Review of Land Use Planning* 2006.

[6] S. Leitch, Review of Skills, *Skills in the UK: the long-term challenge. Interim report* (London, 2005).

Chart 7.2: Value of new construction orders, by type, 2004



Source: 'Construction Statitistics Annual 2005' Department of Trade and Industry

7.7 The higher education sector in England is extremely diverse, and the extent to which the land use planning system acts as a facilitator or impediment to development will vary in nature and extent from institution to institution. There is very little literature in this field, so a full analysis of the impact of planning on the sector is not possible. However, as the Association of University Directors of Estates (AUDE) has pointed out:

> *'The experience of HE (higher education) institutions in terms of the planning system is varied. Most will have developed estate strategies and, in doing so, will have engaged with the planning authorities. In best-case scenarios the university strategy is formally endorsed by planning authorities and incorporated in relevant plans. At the opposite end of the spectrum, there may be informal agreement at a strategic level, but then individual planning applications are frustrated by the process and by changed local policies.*[7]'

7.8 A number of structural features about universities may aid their ability to work with the planning system to achieve desired outcomes. The permanence of many universities, combined with the central role that they often play in the local economy – even a medium-sized university can directly or indirectly support a sizeable proportion of the local employment – means that they have strong 'incumbent' powers which enable them, for example, to influence the formation of local development plans more than those who do not have the permanence or the personal relationships within the relevant authority.[8]

[7] Association of University Directors of Estates (AUDE). Submission to Barker Review of Land Use Planning call for evidence.

[8] T. Brindley, Y. Rydin and G. Stoker, (2nd edn.) *Remaking planning: The politics of urban change* (London, 1996).

7.9 Difficulties, however, often arise when universities are seeking major expansions. These are inevitably problematic if this involves using land designated as green belt – the cost and delays of expanding in this context can be substantial (see Box 7.1). Other examples of difficulties cited by universities or their representative bodies,[9] which are potentially issues felt more broadly within the sector, include:

- delays to the system, caused, for example, by having to work with a broad range of statutory consultees, whose late submission of responses can require carefully laid plans to be changed at the last minute. Similarly, new buildings often rely on external funding and private benefactors, resulting in short development time frames that are harmed by additional delays (as in the University of Newcastle Upon Tyne);
- the indirect costs of wider planning policies that can affect universities, such as restrictions to the number of students looking for private accommodation, which mean universities must provide accommodation (as with Loughborough University);
- many higher education institutions play an important role in fostering research, innovation and technology transfer and have set up and own science and enterprise parks to provide for new start-ups or incubator units. In addition to wider economic loss, any shortage of space for these facilities or their expansion can represent a significant loss of income.[10]

7.10 Of course the issues facing universities discussed here are similar to those facing other institutions. There may, however, be structural reasons why universities may be disproportionately disadvantaged:

- a number of universities are based in historic towns and city centres – they are therefore heavily constrained by listed building restrictions, being sited in conservation areas, and other regulations such as Tree Preservation Orders. A good example is Bath which has a conservation area covering two thirds of the city, 4,980 listed buildings, five scheduled monuments covering 1.4 hectares, and an area of Recognised Archaeological Potential covering most of the city centre, protected in the 1997 Local Plan[11] – though this protection of course brings many benefits; and
- low student voter turn-out, combined with the transient nature of the student population, may mean that local authority councillors have less incentive to take into account their needs compared with those of the local resident population. Only 37 per cent of 18–24-year-olds voted in the general election in 2005.[12]

[9] Comments from submissions to the *Barker Review of Land Use Planning* and through the consultation process: AUDE; University of Newcastle Upon Tyne; Oxford University; Cambridge University; University College London; University of Warwick.

[10] See Chapter 6 of this report for a discussion of this in relation to clusters.

[11] For details of Bath: http://www.bathnes.gov.uk/worldheritage/2.5OwnMgt.htm.

[12] http://www.officeronline.co.uk/campaignsupport/participate/democracytoolkit/271774.aspx.

7.11 The response here is not to compel plans to give priority to any one group of developers, in this case the university sector. It is to note that plans can help with university expansion and success, and can also hinder it. It provides another example of where the timely delivery of one government policy is hampered by delays in decision making, which may sometimes be unnecessary. In the context of ensuring a strong skills base, it is therefore important to ensure that where possible the planning system provides an enabling role.

Box 7.1: Case studies: university campus expansions and accommodation

Bath University: The university needed land to build teaching rooms, student housing and other facilities. Planning Inspectorate has now recommended that 14.1 hectares be removed from the Green Belt to prevent the decline of the university. But it took nearly four years of intense lobbying, effort from the university and a substantial commitment in consultancy costs to reach the current arrangements. The university still cannot secure enough land in Bath for larger scale expansion and is committed to developing an area in Swindon as a means of achieving this.

University of Surrey: The university recently managed to convert its extant 1965 planning permission to a more secure outline planning permission. This has secured its future and provided it with a framework to be able to respond to new opportunities. However to achieve this through the Local Plan route took six years and incurred substantial financial costs. The costs ran into the region of £500,000 (not including the section 106 agreements which have yet to be decided or costs associated with staff time).

University of York: Since its foundation in 1963, the university has grown rapidly in staff and student numbers and in reputation. It is frequently listed among the top ten universities in the UK. In order to maintain its success, the university is now under intense pressure to expand. The current campus is constrained by the planning condition restricting the area that can be built on to 20 per cent of the land area, and it is now almost at full capacity. The proposed area of development, south of Field Lane, was one of 16 sites that were considered for University expansion. The environmental and monetary costs of other sites were too great, and the City of York Draft Local Plan identified Heslington East as the only site feasible for development. The university wishes to remain a single campus university and expansion on Heslington East has always been its preference. Despite the potential benefits of the expansion there has been local opposition, especially around the village of Heslington and in the eastern fringes. There is still a lengthy consultation and planning exercise to be undertaken, and designs have yet to be finalised.

University of Newcastle Upon Tyne: The University is an integral part of the city and crucial to its economic growth, being one of the UK's leading universities for 'knowledge transfer', not least through graduate retention in the local economy. To meet these local commitments and compete on the national and international stage, the University needs to expand its student accommodation by 1,000–2,000 beds by 2010. In addition it needs a new site for its Business School, which is currently housed in buildings not fit for purpose, to successfully compete for overseas students. A new building on a key site on campus has been held up and this has necessitated rental of expensive commercial office space off campus. While the University has good working relations with planning officials, and understands many of the decisions made, it is struggling with the timeframes. A planning decision on additional student accommodation at its Castle Leazes site took roughly three years, meaning the University has been able to meet demand.

Labour market mobility – housing and transport

7.12 The second way the planning system can impact on skills is through the labour market. There are two principal mechanisms here: the impact of high house prices, and sharp regional house price differences.

Housing

7.13 The 'mobility trap'[13] in the UK has been linked to the disparity between regional house prices, which has four key effects:

- homeowners from comparatively low-priced regions cannot afford to move to higher priced regions;
- homeowners in regions with high house prices are reluctant to move out because they may not be able to move back;
- people are reluctant to move into areas with falling house prices because of negative attitudes towards property investment; and
- a downturn in the property market makes it harder to sell property and would be a disincentive to move, particularly if the downturn affected one region and not another.

7.14 While it is usual to expect the demand for most goods to increase if its price falls, housing is an asset so expectations matter. If the price of housing in one region falls relative to other regions, we would only expect more people to demand housing there if this fall was not expected to continue. House prices therefore have uncertain influences on migration and this issue is discussed in recent research.[14] Regional mobility within the UK is likely to be affected by the sharp divide in house prices between the South East of England and other areas (although there are also significant differences within regions due to the attractiveness and economic strength of particular locations). When examining regional variations in house prices and labour mobility the 'travel to work area' is the most important consideration. This is set by the distance workers are prepared to commute to work. At the margin, they will substitute between extra commuting time and extra housing cost, since housing costs more next to high-employment locations.

[13] O. Bover, J. Muellbauer and A. Murphy, 'Housing, wages and the UK labour market', Centre for Economic Policy Research Discussion Paper, 268 (1998) cited in T. Champion, S. Fotheringham, P. Rees, P. Boyle and J. Stillwell, Department of Geography, University of Newcastle, *The determinants of migration flows in England. A report for the Department for Environment, Transport and the Regions* (London, 1998). Report available at http://www.bathnes.gov.uk/worldheritage/2.5OwnMgt.htm

[14] G. Meen (project director) Affordability Targets Implications for Housing Supply (ODPM, 2005).

7.15 Tenure type has some impact on mobility. Those in privately-rented accommodation are the most mobile of house occupants, being significantly more likely to move for directly job-related reasons than other groups. A switch from owner-occupation to private renting is estimated to increase an individual's propensity to move 'approximately fourfold'.[15] This suggests that home ownership is a disincentive to move and high levels of home ownership will have a negative impact on labour flexibility, although there is an endogeneity problem in assessing its impact – those who choose to rent may do so because they want, or need, to be more mobile.

7.16 Commuting is seen as an alternative way to increase labour mobility and overcome some of the barriers to it. Workers, as we have suggested, can substitute greater commuting distance for moving house. There is evidence that high housing cost in the South East region has already resulted in increased commuting; 19 per cent of private sector employers believed that commuting was being extended because of housing costs when asked in 2003.[16] Recent research points to a significant increase in average commuting times in the South East over the 1990s.[17] This region has the highest house price increases over the decade,[18] suggesting workers in the South East substituted commuting for housing costs, although this is not likely to be the only factor. Outside of the South East, there have been no significant increases in average commuting times.[19] Increased commuting distance supports agglomeration economies but can create negative externalities in the form of congestion and pollution.

Transport

7.17 In addition to the impact on mobility of high house prices, there is also an impact caused by poor transport links. An efficiently planned transport infrastructure can assist the supply and utilisation of labour in a number of ways:

- shorter commuting times can increase productivity through time efficiency gains, with workers able to use a proportion of the time saved through shorter travel to engage in productive work;
- better transport links may increase labour market participation, as at the margin potential employees determine that the benefits of working may now outweigh the direct and indirect costs of commuting. Research shows that the *private* monetary value of commuting time saving is between 36–86 pence per minute depending on the salary band. So an hours commuting time for an individual earning above £35,000 pa is work £516:[20] or more simply, if one regards time as a substitute for wages then all the time saved by shorter commuting has a value. People may be able to earn more money or enjoy more leisure in the time they are not commuting;

[15] J. Gardner, G. Pierre and A. Oswald, 'Moving for Job Reasons', mimeo, Department of Economics, University of Warwick, (2001).

[16] DTZ Pieda Consulting, *Housing Economic Development and Productivity: literature review. A report for The Department of Trade and Industry* (forthcoming). To note: the data only covers the South East.

[17] A. J. Oswald and A. Benito, 'Commuting in Great Britain in the 1990s', Warwick Research Paper no. 560, Department of Economics, University of Warwick (2000). Article available at http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/oswald/benito.pdf.

[18] 'House price divide widens', BBC News online, 26 February 2002. Article available at http://news.bbc.co.uk/1/hi/business/1841835.stm.

[19] A. J. Oswald and A. Benito, 'Commuting in Great Britain in the 1990s', Warwick Research Paper no. 560, Department of Economics, University of Warwick (2000). Article available at http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/oswald/benito.pdf.

[20] P. J. Mackie, A. S. Wardman, G. Fowkes, J. Whelan, J. Nellthorp and J. Bates, *The Value of Travel Time Savings in the UK: Summary Report*. Report to the Department for Transport (London, 2003).

- demand for skilled labour may rise where ease of accessibility to an area encourages businesses to locate there because they have easy access to a pool of workers, markets and suppliers. Good transport links can increase connectivity between places and open up competition between regions (though where transport links are improved the subsequent increase in house and land prices[21] may offset some of these gains). It should also be noted that encouraging long distance commuting also increases the use of fuel and associated emissions, although correct pricing of externalities would help address these problems; and

- it can also stimulate labour market flexibility as improved transport links between highly productive economic areas and areas of lower productivity can encourage workers to move to more productive jobs in a different area.[22]

7.18 British Chambers of Commerce[23] data provide evidence that some businesses are choosing not to expand, or to move out of an area because of transport failures:

- 46 per cent of businesses attribute a lack of investment in their region to the transport infrastructure;

- 56 per cent of businesses report that the transport infrastructure has a major influence on where they decide to locate; and

- 76 per cent of businesses report increased operating costs as a result of transport failings.

7.19 However, other research suggests that transport is only a small fraction of overall costs, about 5 per cent, and therefore transport only becomes an important factor once a business has decided to locate somewhere.[24] But perceptions of travel time are also important to businesses when making investment decisions; quality, reliability, time, and financial cost of journeys are all part of this perception. The availability of qualified staff, a pool which may be widened by good transport links, was rated as the single most important factor in deciding where to locate by senior executives from over 500 European companies.[25]

7.20 A wide variety of factors influence the provision of transport infrastructure: financing, return on investment, social and economic demand, space and public opinion. But the delays, cost and complexity of the planning system are a key feature, particularly regarding major infrastructure projects, which can take many years to navigate their way through the planning system, particularly if they are for a transport use that requires a number of separate planning applications to different bodies in order to proceed.[26] The delays, cost and complexity in delivering transport infrastructure also create uncertainty for businesses, which may impact on their own location or investment decisions. The Eddington Study is currently investigating the long-term impact of transport decisions on the UK's productivity, stability and growth.

[21] S. Gibbons and S. Machin, 'Valuing rail access using transport innovations', *Journal of Urban Economics*, 57/1 (2005), pp. 148–169.
[22] Organization for Economic Cooperation and Development (OECD), *Impact of Transport Infrastructure Investment on Regional Development* (Paris, 2002).
[23] 'Chambers calls for improved transport links to spread economic development and prosperity', *British Chambers of Commerce Online*, 30 June 2004. Article available at http://www.chamberonline.co.uk/Yfc-0ZFoarMi4g.html.
[24] R. W. McQuaid, M. Greig, A. Smyth and J. Cooper, *The Importance of Transport in Business Location Decisions. Report to the Department for Trasnport* (London, 2002).
[25] Cushman and Wakefield Healey and Baker, *European Cities Monitor 2002* (London, 2002).
[26] This issue is addressed in Chapter 3 of this report.

Business growth, investment and the demand for skills

7.21 In addition to increasing the supply of high-level skills, either directly or via enhancing labour market flexibility, the planning system also needs to ensure it encourages the growth of enterprises that will utilise these skills, and incentivises individuals to up-skill. If regional and local economies can utilise higher skills effectively then they should experience productivity growth. Many of the relevant issues here are dealt with in other chapters of this report – the supply of high-technology clusters, for example, is examined in Chapter 6. This section explores an area of more direct effect – the potential for the planning system to reduce demand for high-skilled employment through allocating land for certain employment uses.

7.22 One of the benefits of the planning system is its ability to contribute to making the local economy more successful.[27] At the regional level the Regional Economic Strategy and Regional Spatial Strategy will, ideally, be working together. At a local level development plans could potentially be used to encourage the growth of new economy business into old industrial areas. There are many instances where this is occurring effectively, aided by the change in the Use-Class Order that allows land to be moved from light industrial to other purposes without having to apply for planning permission. However, there are examples of policies to retain the existing stock of jobs or encourage jobs to suit the needs of low-skilled residents (see Box 7.2). Where land is allocated for industrial use rather than for other employment purposes this may also have the result of indirectly influencing the skills profile of the area though of course some manufacturing work is high-skilled.

7.23 These policies often have the best of intentions. Where there is high unemployment in an area and the local workforce is low-skilled, it is understandable that the local planning authority may be tempted to protect employment land that is likely to utilise this labour. Similarly, matching job prospects to local skills could in theory reduce the need for commuting as workers would not have to travel outside the borough to gain employment. And there is, of course, an important role for lower-skilled employment in the economy.

7.24 There are, however, clear hidden economic costs associated with these policies. Restricting commuting may reduce labour market flexibility in response to changing economic factors – if the local businesses can no longer compete, local people risk being shut off from other economic opportunities. Similarly, restraining movements of people could have impacts on labour market efficiency and allocation of resources more generally. If local authorities are focusing on existing old-economy business then they may be doing so at the expense of new-economy enterprise and the related incentives for the working population to re-skill or up-skill. There is evidence that high-skilled employment often brings lower skilled jobs in its wake – a proportion of the higher incomes from the employment, for example, may be spent locally. This is also the case in terms of releasing the land for housing where the price differentials suggest this is socially desirable – new residents will consume local goods and services and indirectly generate additional employment. There is also never any guarantee that once land is designated for a certain type of employment the labour will in fact be found locally. These policies can essentially represent a cross-subsidy from employers of high-skilled labour (forced to pay higher costs through more limited employment land options) to employers of low-skilled labour, although the impact of this is very difficult to estimate, and assessing the trade-off is difficult for the planning authority.

[27] Refer to Chapter1, pp. 16 – 22.

Box 7.2: Case studies: protecting low-skilled employment areas

While some local authorities work to promote and encourage inward investment that will up-skill its resident workforce, others chose to try to encourage low-skilled employment by limiting the opportunities for higher skilled uses. Examples include:

Lambeth: There are about 7,800 businesses in the borough, providing 95,400 jobs. These are predominantly small businesses with 88 per cent of them employing fewer than 25 employees. Lambeth has comparatively high unemployment. For this reason the development plan specifies that

> *It should not be presumed that a proposal would automatically be given approval if it will result in the same or greater numbers of jobs than the present or pre-existing use of the site. The replacement jobs provided by a prospective scheme may not represent the best result in terms of accessibility to that employment by disadvantaged local residents, particularly in comparison to the existing occupier.*[28]

Hammersmith and Fulham: the borough council decided to retain an area of warehousing in a part of West London with extremely high land values. The rationale for this decision was to provide employment for a nearby housing estate, which had high levels of unemployment, despite the lack of evidence on how many people from the housing estate were employed in the industrial area, what the implicit per worker subsidy this policy entailed and what the opportunity cost was in terms of investment forgone.

Conclusion

7.25 There is less evidence of the impact of planning on the demand and supply of skills than for other productivity drivers. But it can be used to facilitate the expansion of the education sector at a time of growing demand for higher-level skills. It can also aid labour market flexibility through its impact on housing supply and transport infrastructure. And it can be used to influence the types of employment and hence skills base likely to be employed in a given locality:

- In terms of facilitating the expansion of colleges and universities the picture is varied. The biggest difficulties often relate to land supply issues, with planned expansions at Bath, Surrey and York all taking several years to negotiate their way through the planning applications process;
- In terms of influencing labour mobility there is evidence that regional house price to earnings differentials may reduce mobility between regions. Similarly delays to transport infrastructure provision can influence labour market flexibility; and
- Plans can also influence the demand for skills through the plan-framework that can influence the type of employment in a certain area. Policies to encourage jobs that suit the needs of low-skilled residents, for example, will limit the growth of new enterprises.

[28] Lambeth Unitary Development Plan, 4.12 policy 23. http://www.planningportal.gov.uk/wps/portal/?PpAction=select_document&select_type_id=120&select_object_id-1090430558508&text_category=P2&select_loc=

8 Planning and price signals

INTRODUCTION

8.1 In drawing up their plans planning authorities will designate land for different uses. In terms of economic objectives, for example, the authority may aim to assess the quantity of floorspace and employment land required and to allocate land accordingly, while bearing in mind national policy and other material considerations and public consultation. The development plan overall aims to reflect the demands of the electorate and government policies, and other parties who participate in the consultation process.[1] These plans and designations set out the vision for an area, and also aim to internalise the costs of development that would not be reflected in the pure market price.

8.2 This process can, however, result in hidden costs that may not be fully taken into account – costs that can be estimated through market mechanisms such as price signals. Restricting the supply of space, either horizontally through zoning for different uses, or vertically through height restrictions – applied formally or informally – has the effect of pushing up the price level for any given level of demand. Space restrictions therefore give rise to an opportunity cost – the cost associated with the use to which that space could otherwise have been put.

8.3 This chapter explores the main implications of a planning system that may not be sufficiently responsive to price signals, focusing on:

- the economic distortions caused by large price differences at the boundaries between different use class zones such as residential land, industrial land and agricultural land; and
- the effect on occupation costs caused by limits on the supply of employment land or by the imposition of height restrictions.[2]

8.4 However, it is difficult to reach a final conclusion on some of the issues raised, and areas of uncertainty, or needing further analysis, are identified.

PRICE DISCONTINUITIES

Price discontinuities between land for different uses

Conceptual framework

8.5 Urban economic theory predicts that the value of land depends on its location. The value of land in the centre of a city – near the public transport hub – is likely to be more expensive than that on the edge of the centre, which in turn will be more expensive than land in the surburbs or outskirts which will be more expensive than agricultural land. The result is that land and rental values generally decrease from the city centre outwards. The resulting land value gradient, in an

[1] For a discussion of the differences in evaluation methods between planners and economists, see J. Corkindale, *The Land Use Planning System* (London, 2004), pp. 20-24.

[2] *The Barker Review of Housing Supply* (2003) analysed these costs in the context of housing, concluding that reducing land supply for housing increases land prices which in turn increases the cost of housing.

unrestricted land market, should be smooth with values equivalent at the boundaries of areas characterised by different uses, after non-market social and environmental values have been taken into account.

8.6 Although this model is stylised, and does not take into account geographical features or major employment sites outside the city centre, it does illustrate the central point that the urban land market is the place where the demand for property leads to specific patterns of land use as developers compete for a limited supply of land. Developers' valuations of land, landowners' response to demand signals, and the input of the planning system, are all central in determining the value and release of land.[3]

8.7 With strict planning restrictions, where parcels of land are earmarked for certain uses, whether housing, retail or general industry, such constraints will prevent prices from equalising at the spatial boundary when demand shifts for a particular type of land.[4] Demand may shift for many reasons, including population growth, structural change of industry, or the effect of income growth on the demand for open space. In England, land and buildings are characterised by their 'use class' and substantive changes of use requires planning permission.[5] There is evidence that plans have not always been sufficiently responsive to changing demand for different land uses (see Box 8.1). Local authorities either tend to determine 'need' for a particular use, independently of the demand for alternative uses, while others 'have simply rolled forward employment land allocations between plans' essentially fixing across decades the supply of commercial space.'[6] There may therefore be disparities in price between adjoining plots of land. Charts 8.1 and 8.2 below illustrates this diagrammatically. It shows the land value gradient (a) where the land market functions efficiently, with a smooth progression of uses, and (b) where restrictions on the ability of land to be transferred between uses leads to discontinuities in the gradient.

[3] M. Ball, C. Lizieri and B. MacGregor, *The Economics of Commercial Property Markets* (1998), pp. 56-58.

[4] The spatial boundary is the edge of a particular type of land use, where it just becomes profitable to convert it from one use to another – for example, where a residential area borders an agricultural area. In an unrestricted market, we would expect the land value for the residential area to be equal to that of the agricultural area at the spatial margin – otherwise the land would be converted to residential use until it just becomes unprofitable not to do so, for example because transport costs are increasing with distance from the town centre, or because demand for housing is low. There will also be a spatial margin at the edge of agricultural land and uncultivated land, namely the point where it just becomes profitable to cultivate it. Note that this approach ignores infrastructure costs.

[5] Under the Town and Country Planning Act 1990, development control extends not only to new building work but also to changes of use of buildings or land. Accordingly planning permission is normally required for changes of use. The Town and Country Planning (Use Classes) Order 1987 puts uses of land and buildings into various categories. Certain uses of land are so similar, in planning terms, that to require planning permission to change between them might be considered as overly burdensome and so planning permission is not needed for changes of use within the same use class. Therefore, in order to relieve the planning system of a large number of unnecessary applications, the 1990 Act excludes from the definition of development (and hence from planning control) any change of use where both the existing and proposed uses call within the same single class in the order. ODPM Circular 03/2005 amended the Use Class Order. These changes mainly concerned business properties, in particular those in food and drink and nightclub industries.

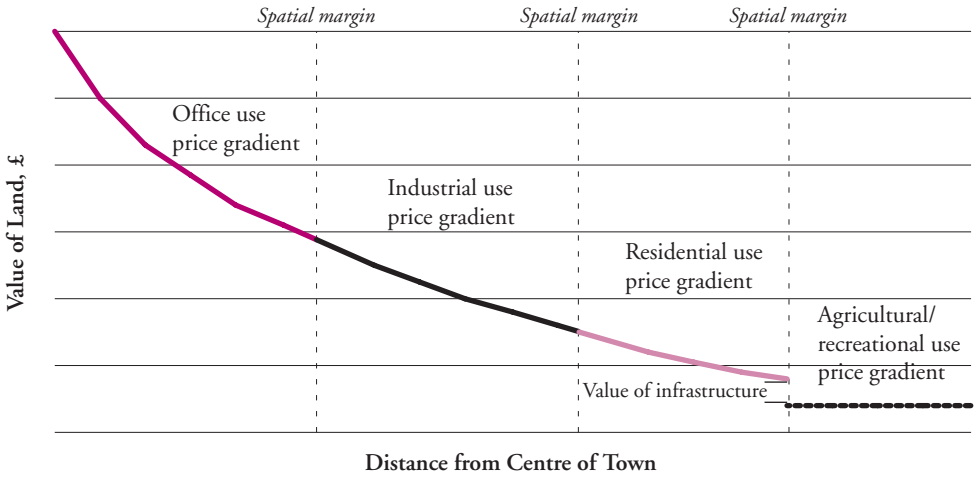
[6] Planning Research, *Planning for Economic Development*, Report for the Office of the Deputy Prime Minister (2004), p. 10.

Box 8.1: Planning and Changes of Use

Goodman Baylis Printers operate from a 5-acre site within the city boundary of Worcester, employing 150 highly skilled people and modern equipment. The market is becoming increasingly competitive, especially due to competition from firms in Eastern Europe and the Far East. To respond to this competition the firm was looking to build a state-of-the-art printing centre close to the motorway, on an industrial site, as their current premises is old and is not now economic as a factory. The company requested a change-of-use from industrial land to housing land. They could then sell the site and re-invest the excess value in the new facility. The Council did not grant permission, in order to protect industrial land. The company's view is that 70 years ago the site was appropriate for industrial use, but times have changed and planning should reflect this. Source: CBI, Response to the Barker Review of Land Use Planning Call for Evidence.

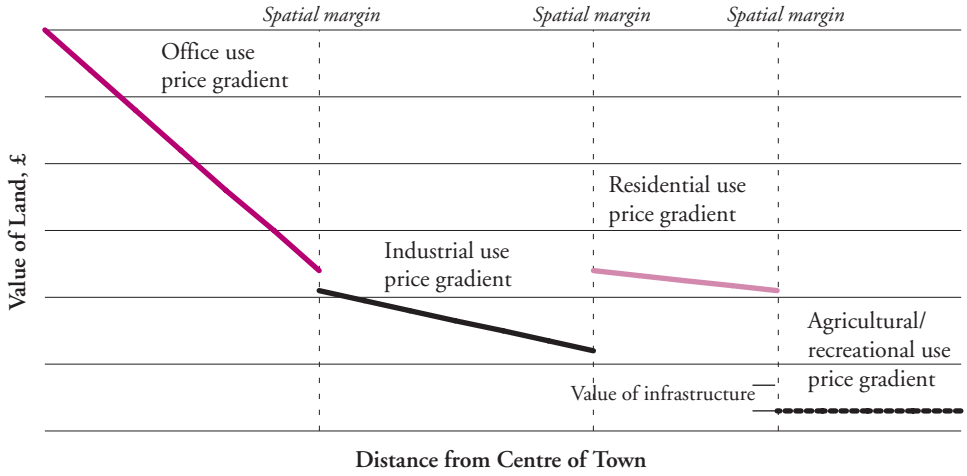
H&R Johnson Tiles is the UK's leading manufacturer of ceramic wall and floor tiles, with a turnover of £50 million and employing 465 people. It has undertaken major restructuring involving consolidation of four sites into one and an investment of around £35 million in a state-of-the-art development in Stoke-on-Trent. Their efforts to gain permission for retail development on the remaining land so that it could be sold to help fund the investment took over five years, having gone to public inquiry. In the company's view, it was a derelict site in a run-down industrial area badly in need of regeneration. Source: G. Day, Report for Institute of Directors, *Planning for Success: The Land Use Planning System* (2005).

Chart 8.1: The emergence of land price discontinuities in the fact of fixed supply



(a) Designated areas in 1947

Chart 8.2: The emergence of land price discontinuities in the face of fixed supply



(b) After change in demand, with inflexible zoning.
Illustration of land price discontinuities due to inflexible zoning.

Source: Drawn from Cheshire and Sheppard (2005).[7]

Evidence: cross-section

8.8 There is some evidence that such discontinuities exist in land values, beyond the differences expected due to the value of infrastructure in developed land, and the social and environmental value of undeveloped land. Table 1 below illustrates the value of land for different uses as at 1 January 2006. In England and Wales, the average value of general business class B1 land is £779,000 a hectare, against a mixed agricultural land value of just £10,023. The latter will be higher than the true market price to reflect the value of agricultural subsidies – i.e. the value of the subsidies are capitalised. The value of mixed agricultural land is 1.5 per cent that of the average for industrial and warehousing land, and 1.2 per cent of the value for business class uses. The disparity is even greater for land for residential use, with agricultural land averaging 0.004 per cent of the value of residential land. A number of studies have noted the impact of planning on constraining the movement of land from agricultural to non-agricultural uses.[8] The Government is currently considering how a modest portion of the land value uplift resulting from the grant of planning permission can be captured to finance local infrastructure necessary to support and stimulate new development, in the form of a Planning Gain Supplement, accompanied by a scaling back of section 106 agreements.

8.9 These disparities in value for land for different uses are also apparent at a regional level (see Table 8.1). For example, they are much greater in Eastern England and the South East, while less pronounced in the North East. Values for business class B1 – which excludes prime office space – and industrial land are of the same order of magnitude as each other in each region. However, the disparity between those uses, and agricultural residential land, are extremely large. In specific areas,

[7] P. Cheshire and S. Sheppard, 'The Introduction of Price Signals into Land Use Planning Decision-making: A Proposal', *Urban Studies*, 42/4 (2005), pp. 647-663.

[8] R. H. Best and M. Anderson, 'Land-use structure and change in Britain, 1971 to 1981', *The Planner*, 70/11 (1984), pp. 21-24; P. Bibby and J. Shepherd, *Rates of Urbanisation in England, 1981-2001: Report for the Department of the Environment* (London, 1991).

the disparities and values are higher – in inner London, bulk sites for residential development are worth £8,450,000 per hectare. The averages only give part of the picture – there will be wide variations within each region too.

8.10 The Valuation Office also reported that there were 39 towns in 2004 where the differential between industrial and residential land was more than £1 million per hectare. This was not restricted to the South East but included towns such as Sunderland, Warrington, Liverpool, Bradford, and others.[9] Disparities between residential and industrial land values can also work the other way; there are areas in the South East where industrial land values are higher than those for residential development, including High Wycombe, Crawley, Swindon and others.[10]

Table 8.1: Land values for different uses in the regions

Region	Mixed agricultural land £/ha	Land for residential use, £/ha[11]	Industrial and warehousing £/ha	Business Class B1, £/ha[12]
North East	6,701	2,210,000	167,000	235,000
North West[13]	9,633	2,740,000	425,000	583,000
Yorkshire/Humberside	9,159	2,330,000	522,000	557,000
East Midlands	7,595	2,060,000	438,000	500,000
West Midlands	11,945	2,200,000	525,000	639,000
Eastern	7,739	3,615,000	1,038,000	1,269,000
South East	11,787	3,240,000	1,393,000	1,672,000
South West	10,416	2,340,000	662,000	760,000
Wales	9,774	2,270,000	223,000	266,000
England & Wales excl London	10,023	2,600,000	660,000	779,000
London	n/a	7,265,000[14]	1,767,000	2,138,000

Source: Valuation Office Agency, *Property Market Report 2006*.[15]

8.11 The data should be treated with care, because land values are difficult to assess. Furthermore, they illustrate *average* values, whereas our interest is in values at the spatial *margin* of uses (as illustrated in Chart 8.1). Of course, it is to be expected that the value of land for housing

[9] T. Leunig, 'Turning NIMPBYs into IMBYs', *Town and Country Planning* (December 2004).

[10] Y. Barnes, 'Resi is not such an easy crop', *Property Week*, 10 February 2006, p. 48.

[11] This is the valuation of bulk sites of residential land, in £/hectare, rather than small sites or sites for flats.

[12] Business Class B1 is defined as use as an office for other than a use within Class A2 (financial and professional services); for research and development of products or processes; or for any industrial process which causes significant disamenities in residential areas 'by reason of noise, vibration, smell, fumes, smoke, soot ash, dust or grit'.

[13] For land for residential use, the figure for North West excludes Merseyside, presumably because this would bias the average. The VOA report separately that the value for Merseyside was £1,220,000.

[14] This is an average for Inner and Outer London as quoted in the *Property Market Report*.

[15] The core data of the Property Market Report are data from actual transactions – all completed property transactions of property sold, or leased for seven years or more, or where an existing lease on land and buildings is assigned. However, the values reported in the PMR are valuations by district valuers, who supplement transactions data with their own market intelligence. Typical property types for each sector and area are selected and reported – for example, a typical 'arable farm', or typical 'residential land for apartments'. The land is assumed to be ripe for development, and adjusted for typical planning obligations via s106 agreements. For example, for residential land, the land is assumed: to be in a 'typical location' for the area; have planning permission; services to the edge of the site; and be ripe for development. If planning obligations in the location generally include an element of affordable housing, that will also be reflected in the district valuers' valuations to the extent that the market would adjust the value.

on average is worth much more than that for agriculture. In many cases the land uses are not substitutable. Furthermore, the value of infrastructure is capitalised into the developed land value – so that agricultural land is worth less not only because of the use to which it can be put, but because it usually does not include highway infrastructure, access to utilities such as electricity, gas and water, and public transport. It has been estimated that a market price of £250,000 per hectare of land which is vacant but otherwise serviced with infrastructure would be compatible with an agricultural value of less than £12,500 per hectare.[16] Land prices near the middle of towns, or near to valued infrastructure, such as good schools, will be higher. Housing price differentials at the margin which are significantly higher may reflect constrained land use in plans. This does not, of course, necessarily imply that these differentials are inappropriate. There are good reasons, set out later in the chapter, for not allowing unregulated use of land.

Evidence: time-series

8.12 Equivalent land value data to this table over time is not available. However, data on illustrative industrial and residential land values are available from 1983. Charts 8.3 and 8.4 illustrate district valuers' assessments of the value of land for industrial and residential development in the South East and the West Midlands.[17]

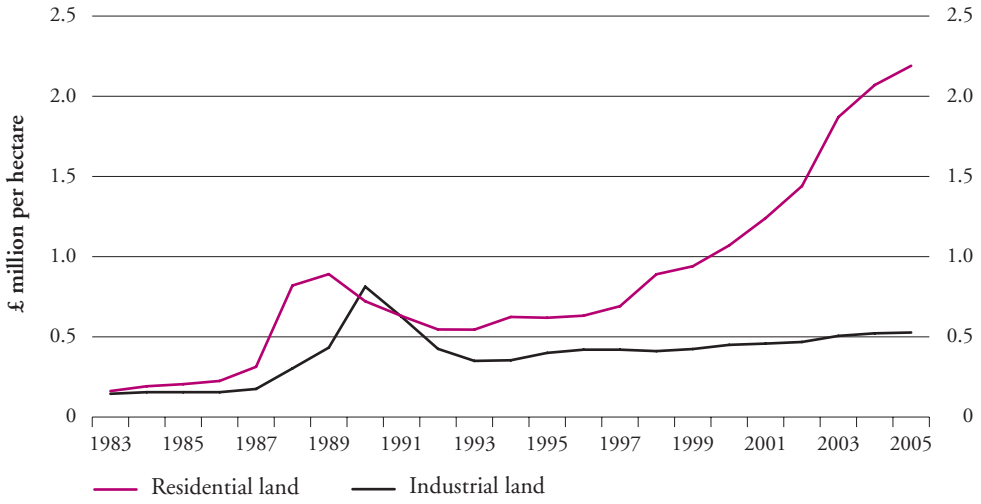
8.13 These data illustrate that a snap-shot of prices at a point in time can be difficult to interpret. There may well be different cyclical trends in different types of property. For example, in recent years the rise in English house prices, while partly attributable to under-supply of new development, was arguably more significantly affected by demand-side factors, such as the decline in real long-term interest rates. On the other hand the decline in manufacturing and shift to more space-intensive industry has meant that industrial land values have been rising only gently in nominal terms since 1992. Without a time-series of commercial land prices, however, these charts are not able to give a full picture.

8.14 It is worth noting that the property market, besides being a market for land and buildings themselves, is also a market in legal rights. Development rights were nationalised in 1947 and are allocated by the local authority through the planning system and infrastructure provision, and transferred to land allocated for development. Urban land prices may tend to be cyclical because land gives the owner the option of whether to develop it or not. As the value of that option depends on expectations of the future value of development, the urban land market is prone to speculative bubbles and busts.

[16] A. Evans, *Economics and Land Use Planning* (London, 2004), p.128.

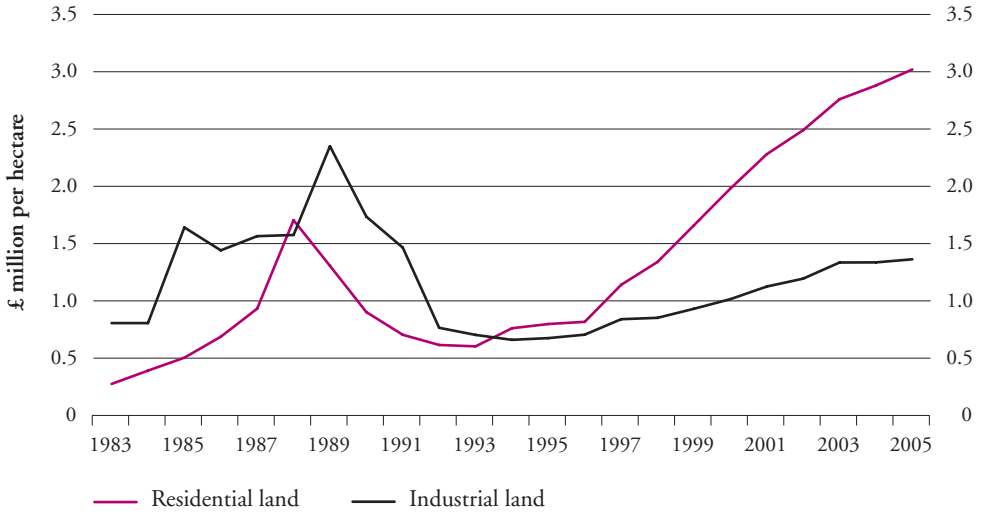
[17] This is because actual transaction data may be so few, and depend finely on the type of contract or location and thus skew the data so that it is less reliable than a surveyor's estimate of 'typical' land values. Currently in London and to some extent the South East, developers are tending to buy up old houses, factories or disused warehouses, paying the market price for the buildings, and secure change-of-use to develop new houses. It should also be noted that land values will be sensitive to particular local conditions – for example, the trend illustrated for industrial land in the South East is not typical of most of the rest of England, although it does mirror that for the East of England and Outer London. For both charts given here, the data for industrial values up to Autumn 1997 gives the midpoint value, between the maximum and minimum values, within the region. From 1998 onwards the midpoint is replaced by the average typical value for the region. Also note that a feature of the residential land market is the 'lumpiness' of changes in value. Although data are gathered every six months, it is difficult to establish exactly when significant movements in value occurred and an average over a longer period may provide a more realistic assessment of the market. This is particularly the case for the values reported from 2002.

Chart 8.3: Residential and industrial land values in the West Midlands, 1983–2005 (£ million per hectare, current values)



Source: Valuation Office Agency, Property Market Report 2006.

Chart 8.4: Residential and industrial land values, South East England, 1983–2005 (£ million per hectare, current values)



Source: Valuation Office Agency, Property Market Report 2006.

8.15 Further time series data, although only resting on data for 1984 and 2003, is provided by research into land values in Reading. Cheshire and Sheppard analysed the price discontinuities between use classes in this area in 1984 and have updated some figures for 2003, finding substantial increases in the discontinuities and suggesting this was predominantly due to planning (see Box 8.2).

Box 8.2: Price discontinuities for different uses in Reading

Where planning restrictions do not allow reallocation between different uses, then price discontinuities will emerge. Cheshire and Sheppard found that for Reading (in 1984) land values at the urban fringe, stripped of 'hope' value, were £2,500 per hectare and infrastructure costs were estimated at £62,500-£125,000 per hectare (1983 prices).[18] There was a net premium for residential land at the urban fringe of £175,000-£450,000 per hectare. At the residential/industrial border it was more than £500,000 per hectare and at the industrial/retail border more than £5,000,000 per hectare (1984 prices).

Today, the market price of agricultural land at the urban fringe of Reading is some £2,500 per hectare while the price of residential land appears to be more than £5,000,000 per hectare. This discontinuity has therefore grown substantially. However, the premium for industrial land over residential land in 1984 has now reversed, with prices suggesting that housing land had become more expensive than industrial land. Land prices for offices and retail development showed substantial growth over the adjoining zones for industrial and residential in both periods. Cheshire and Sheppard concluded that 'by far the most important source of such discontinuities is the differential degree of long term restriction exercised by the planning system'.[20] This suggests the planning system is not flexible enough or price-responsive enough to account for changing patterns of demand signified through market signals.

Are these discrepancies justified?

8.16 Allocating land for particular uses, even where price signals indicate otherwise, may have important wider benefits to society. The question is whether social and environmental benefits are sufficient to justify the scale of discrepancy between different land uses in evidence. There are numerous difficulties regarding the valuation of non-market goods. However, it is not clear that the potential benefits are of the same order of magnitude as the land value disparities.

Value of open space

8.17 In terms of price discrepancies between open space and developed land, Table 8.2 below illustrates the results of a survey of individuals' willingness to pay for various social and environmental values arising from different types of land. The appendix at the end of this chapter gives further detail on how these estimates were calculated and what the social benefits comprise. The non-private value of open space – in terms of recreational, landscape and other values – was estimated using contingent value methodology. Contingent value methodology surveys people's willingness to pay for a change in the quantity or quality of a non-market good or service. For example, people may be asked how much they would be willing to pay towards a new urban park, or whether they would vote in a local referendum for such a park if it were to add £100 to their tax bill.

[18] Cheshire and Sheppard, *Introduction of Price Signals*, p. 8. Note that 'hope' value is the value a plot has when adjusted for the expectation of value uplift when redesignated by a planning authority. An agricultural plot ripe for residential development may have a hope value substantially in excess of its existing use value.

[19] Ibid, p. 11.

Table 8.2: The Social Benefits of Open Space

Land Type	Value to the public per hectare per year, 2001	Present Value, per hectare
Urban core public space (city park)	£54,000	£10,800,000
Urban fringe green belt	£889	£177,800
Urban fringe forested land	£2,700	£540,000
Rural forested land	£6,626	£1,325,200
Agricultural extensive	£3,150	£630,000
Agricultural intensive	£103	£20,600
Natural and semi-natural wetlands	£6,616	£1,323,200

Source: Barker Interim Report, 2003, p. 44,[20] using data from Eftec and Entec*, Valuing the External Benefits of Undeveloped Land – A Review of the Economic Literature: Report for ODPM* (2002)

8.18 As Table 8.1 shows, the disparity between land values for commercial or industrial development compared with agricultural land is presently less than that between agricultural and residential land. Taking the data in the two tables together:

- a number of types of open land appear to have higher value to the public left undeveloped than when developed. This includes wetland, extensive agriculture, urban boundary forest, city parks, and rural forest.
- However, land values for commercial and industrial development are often orders of magnitude higher than that for intensive agriculture and for urban fringe green belt – even if the values derived from the CVM study, and the value of infrastructure, are taken into account.[21]

8.19 With a high percentage of land in England either classed as intensive agriculture land or urban fringe green belt, relative to the total size of urban development, this indicates a potential misallocation of resources. At present, green belt policy protects 12.85 per cent of land in England[22] while over 70 per cent of land in England and Wales is agricultural land.[23]

8.20 These results should be interpreted with care. The CVM results illustrate stated preferences expressed by interview rather than revealed through actions and the benefits measured for each land type are slightly different, as the appendix explains. Furthermore, there may be other benefits which these estimates do not capture. However, the differences in valuation between land amenity type are so large that it seems very unlikely that they are due solely to data problems and bias in results. As Evans points out,

> *'looking at the environment from an economic point of view, the difference between the price of land for residential development and its price for agricultural use should be a measure of the social costs, or negative externalities, of new housing on green field sites. After all the constraint on the availability of land presumably exists because of these social costs. But the price difference*

[20] K. Barker, *Review of Housing Supply: Securing our Future Housing Needs. Interim Report – Analysis* (London, 2003).

[21] An allowance should also be made for the costs of additional congestion caused or expansion needed on neighbouring transport and utility networks, which planners aim to take into account. It is possible that, if technologies for road pricing improve, the need to do this via the planning system should decrease.

[22] Source: Department for Communities and Local Government, http://www.dclg.gov.uk/index.asp?id=1161678, Table 2.

[23] Source: The Environment Agency.

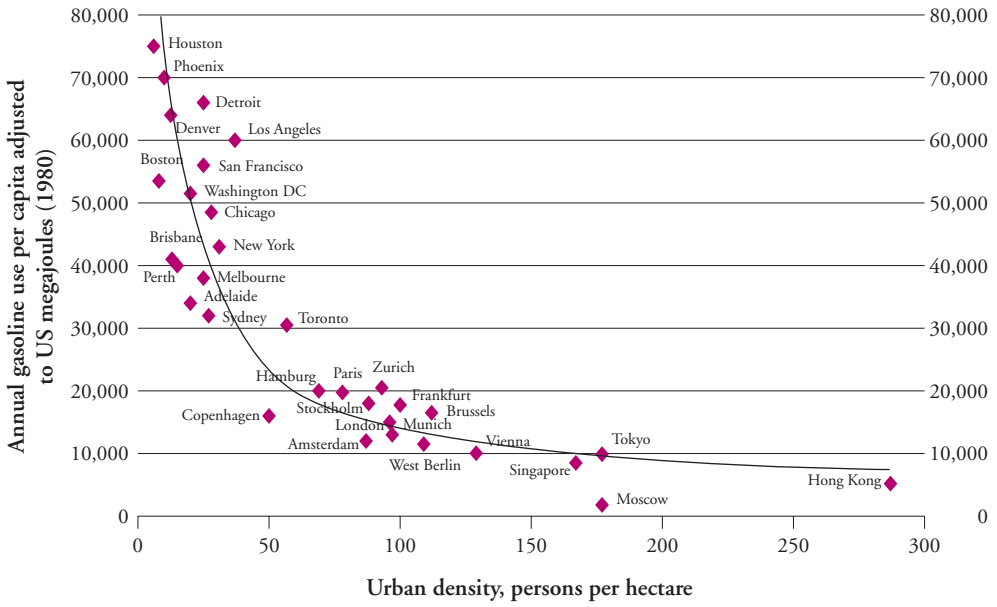
is much greater in the south than in the north, whilst there seems to be no reason to suppose that the social costs of urban expansion would be higher in the south than in the north. Indeed much of the south, East Anglia and the South West in particular are less urbanised than areas in the north where the price difference is least.'[24]

8.21 A variant of the argument that the value of open space justifies price discontinuities is that there is a need to protect agricultural land in itself as farmland. But as one leading commentator has observed, 'because the value of farm output is fully reflected in the amount that agricultural users are willing to pay for the land, a successful bid by developers means that society values the houses and other structures built on the land more than the farm output foregone. If farmland became truly scarce and in need of preservation, its selling price would be high, making the land resistant to urban encroachment'.[25]

Congestion

8.22 There are other reasons why a high price differential between open space and developed land might be justifiable. For example, it is argued that living and working at high densities results in a reduction in carbon emissions. Fewer and shorter journeys may be made the nearer individuals live to their workplaces and facilities. Bicycles or walking can therefore be promoted and there will be sufficient passengers for public transport to become economic. Commuting times may be socially suboptimal if cities expand too much. In addition to the private costs of commuting, there are also social costs associated with the extra congestion resulting from the commuter's presence on the road. A slight increase in traffic volume can lead to a substantial drop in traffic speed, thereby raising the time cost of travel for all commuters.

Chart 8.5: The relationship between gasoline use and density



Source: Rogers, Towards an Urban Renaissance (1999), p.103

[24] A. Evans, 'Building Jerusalem in England's Green and Pleasant Land: Land Use Planning and Economic Growth', paper presented to the Lincoln Institute of Land Policy, Cambridge, MA, July 2002.

[25] Ref: J. Brueckner, 'Urban Sprawl Diagnosis and Remedies', *International Regional Science Review*, 23/2 (2000), pp. 160-171.

8.23 There is evidence to support these views. In terms of transport, for example, a study by Newman and Kenworthy[26] suggested that the highest consumption of gasoline was seen in low-density cities in the US, while cities above a density of 30 to 40 people per hectare showed an exponential decrease in automobile use (see Chart 8.5).[27] It concluded that for practical planning purposes a region or corridor with a minimum urban density of 20 and preferably 30 to 40 people per hectare would encourage public transport use. Other studies posit also a link between density and public transport use. The Commission for Integrated Transport, in a comparison of the UK and Germany, found that 'compact cities are likely to be an important factor leading to lower car use, and lower travel overall.'[28] The Rogers Report, using data from a DETR study, estimated that in an urban area with a density of 50 persons per hectare, 59 per cent of the local population will be more than 500m (five minutes' walk) from the services in the centre and so make heavier use of their cars, while the same population at 150 person per hectare would leave only 13 per cent of the population more than 500 metres from the centre, which creates the potential for multiple bus routes.[29] A British study in 1993 drew similar conclusions.[30]

[26] See P. Newman and J. Kenworthy, *Cities and automobile dependence a source book*. (Aldershot, 1989) and P. Newman and J. Kenworthy, 'Gasoline consumption and cities – a comparison of UK cities with a global survey'. *Journal of the American Planning Association*, 55 (1999), pp. 24–37.

[27] The data they used was adjusted to allow for US income, vehicle efficiencies and gasoline prices.

[28] UK Commission for Integrated Transport, *European Best Practice in Transport – the German Example* (London, 2005), section 6

[29] Rogers of Riverside, *Towards an Urban Renaissance. Final Report of the Urban Task Force* Taylor and Francis, (London, 1999), pp. 61–63. It suggests that in an urban area with a density of 50 persons per hectare, 59 per cent of the local population will be more than 500m (five minutes walk) from the services in the centre and so make heavy use of their cars, while the same population at 150 persons per hectare would leave only 13 per cent of the population more than 500 metres from the centre, and create the potential for multiple bus routes.

[30] ECOTEC, *Reducing Transport Emissions Through Planning. A Report to the Department of the Environment and Department of Transport* (London, 1993).

Box 8.3: Green belts and traffic flows

Green belt policy protects 12.85 per cent[31] of England. Green belt is a planning policy designation rather than an environmental one. Its purpose is not to protect attractive or bio-diverse landscapes but to check the unrestricted sprawl of large built-up areas; to prevent neighbouring towns from merging into one another; to assist in safeguarding the countryside from encroachment to preserve the setting and special character of historic towns; and to assist in urban regeneration, by encouraging the recycling of derelict and other urban land.

The policy has resulted in many beneficial effects[32] but in some parts of Southern England has resulted in some unsatisfactory consequences. In addition to increasing prices in urban areas due to unanticipated population growth and increased prosperity, constraints on the expansion of some cities have resulted in settlements forming on the edge of the green belt land, with large numbers of commuters "jumping" the green belt every day. It is argued that the Oxford green belt, for example, has led to growth in surrounding towns – the population of Didcot has grown from 16,000 in 1991 to 23,500 in 2001[33] – with many commuting in to the city on a daily basis. Oxford now has 27,000 more jobs than residents.[34] Further research[35] shows that Oxford is one of the worst cities in the UK for traffic gridlock and suggests that the impact on the economy of increasing congestion will be increased by proposed housing developments at Didcot.

However, it is clear that most green belt land will still be fully justified in reference to one of the above five purposes, particularly where urban regeneration remains the priority.

8.23 However, this is a complicated question. The Newman and Kenworthy data, for example, has been challenged for failing to factor in fuel price.[36] In the USA, for example, people can afford to buy larger and less fuel efficient cars due to cheaper petrol prices, and it may be this rather than density which drives some of the correlations.[37] A re-analysis of the data, using regression analysis, shows that the apparent effect of density is indeed greatly reduced when three very-high density cities – Moscow, Hong Kong and Singapore – are excluded[38] and when fuel price is included as a variable in the regression.[39] The same research concluded that densities would have to be doubled in order to reduce energy use by just 15 per cent. A more recent multivariate analysis[40] of the Kenworthy and Newman data similarly challenges the drawing of crude assumptions about the link between density and public transport. Precluding cities from expanding may in certain circumstances also result in higher rather than lower traffic flows (see Box 8.3).

[31] http://www.communities.gov.uk/pub/680/Table2AreaofdesignatedGreenBeltlandbylocalplanningauthority2003and2004byregion_id1161680.xls.

[32] For a discussion see M. J. Elson, *Green Belts: Conflict Mediation in the Urban Fringe* (London, 1986).

[33] According to census data.
See http://www.southoxon.gov.uk/ccm/navigation/council-and-democracy/about-south-oxfordshire/.

[34] According to 2001 census data.

[35] Prime Retail Research 2005 cited in Oxford Economic Partnership, *Economic Development Strategy: Oxfordshire 2006–2016* (Oxford, 2006).

[36] M. Breheny, 'The compact city and transport energy consumption', *Transactions of the Institute of British Geographers*, 20/1 (1995), pp. 81–101.

[37] It should be noted here that the earlier survey by Kenworthy did allow for both price and vehicle efficiency in their analysis but it is not clear if the data they are referring to here also does so.

[38] "On average, cities with double the density cut . . . energy demand by only 15 per cent." P. Hall, Planning for a sustainable future in A. Layard and S. Davoudi (eds.), *Sustainable cities or town cramming?* (London, 2001).

[39] I. Gordon, 'Densities, Urban Form and Travel Behaviour', Town and Country Planning, 66/9 (1997), pp. 239–241. See also J. A. Gomez-Ibanez, 'Review of Newman and Kenworthy', *Journal of the American Planning Association*, 57/3 (1991), pp. 376–79.

[40] O. Mindali et al, 'Urban density and energy consumption: a new look at old statistics', *Transportation Research Part A*, 38 (2004), pp. 143–162.

8.24 There is also a question about what the best policy tools to achieve changes in travel behaviour might be.[41] There are other policy tools; for example, elasticity estimates from the Department of Transport[42] and other research,[43] suggests emissions are linked to fuel price. Influencing demand directly by influencing price of car travel may be a more efficient way of lowering emissions than indirect measures relating to spatial form, particularly when we do not know what the optimal level of constraint should be. In this context the Government's commitment to exploring the potential for road user charging at the local and national level is welcome. However, there are other advantages and disadvantages relating to more dense urban forms – for example the discussion about productivity and agglomeration (see Chapters 5 and 6). Infrastructure costs will also be relevant. Some considerations will be location, or region, specific and, in this context, the flexibility on housing densities in draft Planning Policy 3 is welcome. Planning policies certainly should consider the likely impact on travel behaviour, but the question is what mix of policies would be most effective.

Other considerations

8.25 Protecting agricultural land from development in favour of developing land that is contained within cities may on occasion also bring costs as well as benefits. The policy of encouraging development on previously developed land may, for example, in certain instances have a biodiversity cost. Though clearly in most cases it is preferable to build on this land from an environmental perspective, this is not always the case (see Box 8.4) and Table 8.2 makes clear the importance attached by the public to green space within urban areas.

Infrastructure

8.26 A further argument is that high price discontinuities may be desirable as urban expansion may be too great when private developers do not take the costs of public infrastructure development into account. New development may result in the construction of extra roads, schools or sewers. Where these are paid from general taxation, the whole community will bear the cost. As the tax burden for the new occupiers is lower than would be the case if they paid for the marginal cost of infrastructure rather than its average cost, prices will be lower and more units demanded than is socially optimal. But in the UK there are fiscal mechanisms in place to account for this spillover in the form of section 106 payments. The proposed new Planning Gain Supplement will also be used to pay for infrastructure for the community.

Regeneration

8.27 A final consideration is that high price discontinuities have also been argued to aid regeneration by increasing the incentive to develop land near the centre.[44] Urban expansion increases the supply of developed land and this reduces the rate of growth of housing and commercial rents in the city. This reduces incentives for upgrading and redevelopment. While this is a good argument in many areas, price discontinuities occur even in the absence of the need for town and city centre regeneration, as in successful market towns in the south of England.

[41] National House-Building Council, new house building statistics quoted in A. Evans, *Unaffordable Housing: fables and myths* (London, 2005).

[42] M. Hanly, J. Dargay and P. Goodwin, ESRC Transport Studies Unit, Review of Income Elasticities and the Demand for Road Traffic. Report to the Department for Transport (London, 2002).

[43] P. Goodwin, J. Dargay and M. Hanly, 'Elasticities of road traffic and fuel consumption with respect to price and income: a review', *Transport Reviews*, 24/3 (2004), pp. 275–292.

[44] See for example A. Power and R. Rodgers, *Cities for a Small Country* (London, 2000); A. Power, *Estates on the Edge* (London, 1999).

Box 8.4: Examples of the biodiversity value of previously developed land

- Barking Reach. The site is an extensive previously developed land, with high ecological value which is well-used by local people. Part of the existing site includes a previously developed land nature reserve managed by London Wildlife Trust;
- Hardings Pits, King's Lynn. This site contains a number of locally rare plant species and has developed into a classic urban wildlife site. It is well used by the public as a route into the centre of the town and forms a popular "wild" area within a few hundred metres of King's Lynn town centre in an urban renewal zone;
- Millfields Way, Haverhill. A former landfill site, its wildlife value is considerably enhanced by being attached to an urban wildlife corridor in the form of a disused railway line. Land to the north west of the site has now been developed for housing.

Differentials within urban areas

8.28 In terms of price differentials at the boundaries of different types of developed land, the arguments can be even less clear. The desire for a mix of employment uses, employment opportunities near where people live, the need to isolate industrial hazards and to minimise spillovers such as pollution and noise, are all potential justifications, but great care needs to be taken in their deployment given the scale of the price disparities that need to be justified. If industrial land is significantly cheaper than residential land (or vice versa) this is because the market indicates it is of less value in that use. Protecting this land may therefore cause a net welfare loss to society even though the intention was to minimise an externality. Where decisions are taken to override market signals for wider policy reasons, the implied welfare cost of doing so should be fully factored into decision-making. There may be more efficient means of regulating spillover effects rather than through requiring planning permission for changes of use.

8.29 There may be perverse effects; where there is a strong price discrepancy between use classes, property owners have an incentive to hold back land for development in the hope of a future change of use, thus increasing vacancy rates and leading to an inefficient use of land in urban areas. Where the difference in price for competing uses may be in the millions of pounds per hectare, this incentive will be extremely strong.

PLANNING AND OCCUPATION COSTS

8.30 This section explores the potential impact of planning restrictions on occupation costs in England. It considers why occupation costs matter, how planning may influence them, and alternative explanations for why these costs may be so high.

Why occupation costs matter

8.31 Total occupation costs comprise rents, business rates and running costs. For example, the Lyons Review reported that for the public sector in Central London, total occupation costs formed £750 per square metre, with rent £450 per square metre, rates £175 per square metre and service charges and running costs £125 per square metre.[45] For other types of property in other locations rents may form less than half of the total occupation cost. However, in terms of the price of space paid by the occupier, the lessor will charge what the market will bear. If rates or running costs were suddenly reduced, we would expect rents to rise because the property market capitalises such features extremely efficiently, as discussed in the section on property taxes later in the chapter.

[45] M. Lyons, *Independent Review of Public Sector Relocation* (London 2004), p. 145.

8.32 High occupation costs will have a direct effect on firms. Total occupation costs are thought to form between 10 per cent and 20 per cent of overall business costs, with only labour costs being substantially higher.[46] Retail and leisure occupiers often regard property as a more significant cost than other industry groups.[47] Increasing this cost base could have further effects, from deterring foreign direct investment as the UK becomes a more expensive place to locate, to higher prices in the shops as a proportion of the costs are passed through to consumers. Labour productivity may also be reduced if firms seek to compensate for higher land rents by space-saving measures.[48] Box 8.5 describes the types of firm likely to be most affected.

Box 8.5: Which sectors are most likely to be affected by high occupation costs?

If the planning system is increasing the price of commercial property, this is unlikely to affect all firms equally. The following types of firm might be affected:

- firms which are land-intensive, such as energy supply, minerals extraction, wholesale distribution and manufacturing goods, that are unable to substitute land for other factors of production;
- firms which are heavily exposed to international trade and so are likely to find it harder to pass the increase in costs on to the consumer;
- firms such as insurance and retail distribution which have property costs as a high proportion of overall business costs;
- firms located in areas with particular restrictions on the availability of suitable land, such as the tourism and leisure industry in many rural locations;
- firms that require particular locations, either for clustering purposes, or proximity to suppliers, customers or certain transport networks, and which will find it more difficult to compensate for high land costs by relocating elsewhere.

Case Study

Contractors Machinery Ltd is a small business in Cambridgeshire in the export trading business. It has been looking to develop a freehold site to help bring its rent under control. Three applications have been made but none have been successful, in part due to car parking restrictions. Over £20,000 has been spent on architects' fees alone, and freehold property is now selling at more the double the rate at which it could have been developed. Sites for 3,000-5,000 sq feet of development 'are not easy to find and never have planning permission for office use' with small businesses as a result 'marginalised into farmyards or old 1960s or 1970s industrial estates' (Source: Institute of Directors, *Planning for Success*, 2005).

[46] A survey by Bannock and Partners in 1994 estimated them at 15–20 per cent while Avis and Gibson in 2000 found property to be the second or third highest operational cost for business in the UK. See Graham Bannock and Partners, *Property in the Boardroom:* A New Perspective (Hillier Parker, London, 1994); M. Avis and V. Gibson, *Real Estate Resource Management* (Wallingford, 1995). In 2000, Wyatt surveyed businesses and found that found that 74 per cent of business reported occupational costs of up to 20 per cent of overall costs. 40 per cent of respondents estimated that property was responsible for up to 10 per cent of total annual operating costs; 33 per cent between 10 per cent and 20 per cent; and 13.5 per cent between 20 per cent and 30 per cent.

[47] P. Wyatt, 'An Investigation of the Nature of the Valuation Service Offered to Business Occupiers', RICS Cutting Edge Conference, London, September 2000.

[48] Department of Environment, Transport and the Regions, *The Economic Consequences of Planning to the Business Sector* (London, 1998), p. 39.

8.33 Similarly, higher occupation costs will result in attempts to use land more intensively by applying more capital in the form of taller buildings. However, this capital substitution involves higher construction costs. According to one source, in 1997 a speculative medium-rise office would have cost between £945 and £1,450 per square metre, while a high-rise would cost between £1,300 to £1,700 per square metre. In addition, building efficiency is reduced due to the space taken by the structure frame and for vertical elevation. An office building with five to nine floors may have an efficiency ratio of 79–83 per cent, while an office block with 30-39 floors may only have a ratio of 69–75 per cent.[49] However, where returns justify this, building higher is clearly economically desirable.

8.34 High occupation costs also may have anti-competitive effects. Increasing the cost of establishing a new business increases the cost of entry which may make entry prohibitive for small firms. The high price of space on the high street, for example, will limit the number of independent small retailers who are able to compete successfully with larger chains who benefit from economies of scale and scope. There is also some evidence that business rents play a role in wage and price determination.[50]

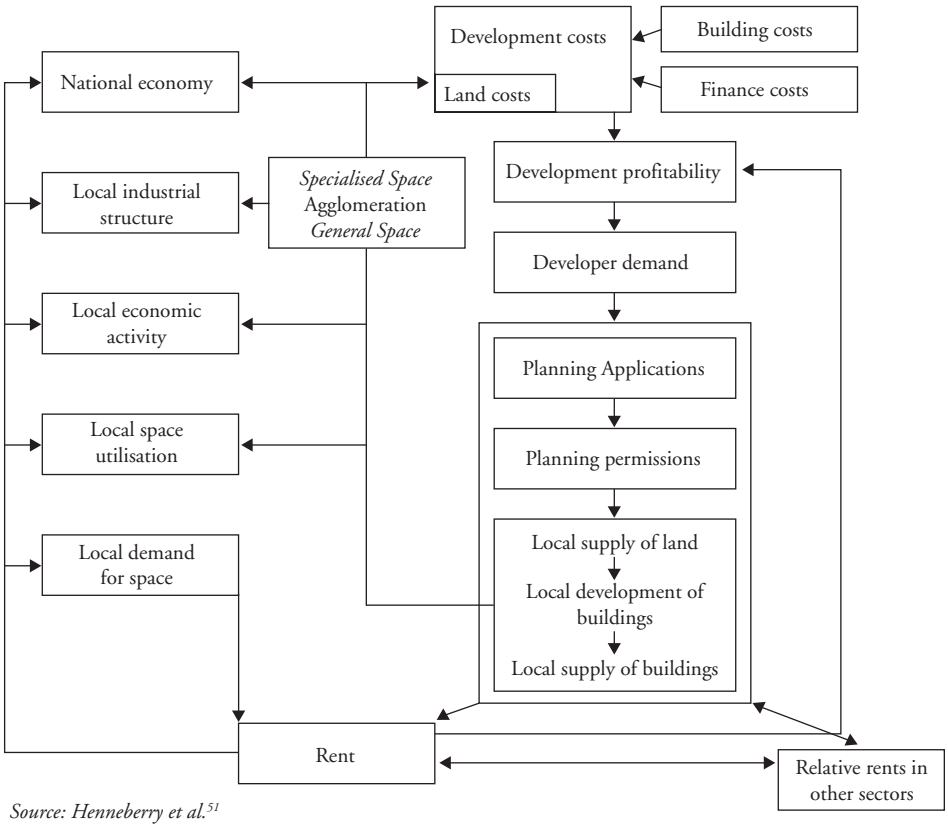
How might planning impact on occupation costs?

8.35 The planning system might impact on occupation costs through restricting the supply of space for commercial purposes (see Figure 8.1 aqnd Box 8.6).

[49] Davies Langdon & Everest, 1997, 'High Rise Office Towers Cost Model', cited in DETR, *The Economic Consequences of Planning to the Business Sector* (London, 1998), p. 39.

[50] Bowdler found a lag of c.2.5 years between business rents and consumer price inflation, which might operate via five-yearly rent reviews. See C. Bowdler, 'Inflation Forecasting for the United Kingdom', mimeo, Nuffield College Oxford, 2006.

Figure 8.1: Sector-specified model of the local property market



Source: Henneberry et al.[51]

Box 8.6: What determines the price of land?

Traditional Ricardian theory treats land prices as being determined by demand in the final product market. Crucially, the theory assumes that land supply is fixed. According to Ricardian theory, high land values are caused by high house prices or high demand for commercial property, rather than high land values causing high house prices or commercial property occupancy costs. The supply of land is fixed no matter what price is paid for it.

Neoclassical rent theory, however, recognises that land has alternative uses and, like any other factor of production, must receive a transfer payment: 'a potato field should pay as well as a clover field and a clover field as well as a turnip field, and so on'.[52] Since land has an opportunity cost – the rent that can be obtained in the most profitable alternative use – then rent does enter into the cost of production. Contrary to Ricardian theory, an increase in the rent of land can cause an increase in the price of a good in the final output market – so that high land values will cause high house prices or high commercial property occupancy costs. So while the total supply of land is to all purposes fixed, the supply of land for a particular use is not.

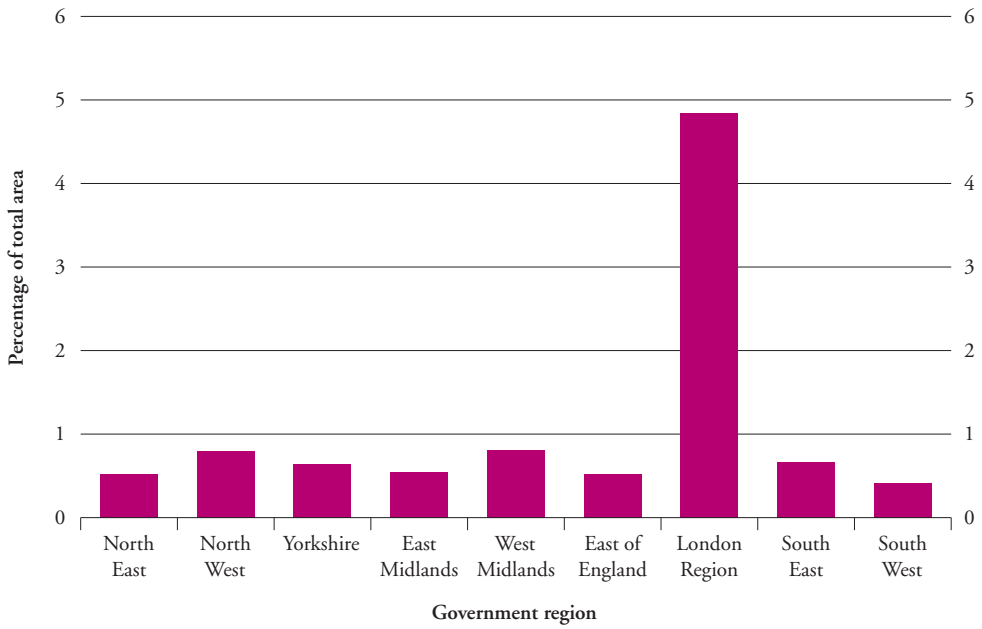
8.36 The supply of land in England, relative to population, is already relatively restricted. Of this land supply, around 0.6 per cent is currently being used for non-domestic buildings (see Chart 8.6).[53]

[51] J. Henneberry, T. McGough and F. Mouzakis, 'The Impact of Planning on Local Business Rents', *Urban Studies*, 42/3 (2005), pp. 471-502, p. 476.

[52] The marginalist economist W. S. Jevons in 1871, cited in A. Evans, Economics, *Real Estate and the Supply of Land* (Oxford, 2004), p. 14.

[53] The 'non-domestic buildings' category includes public buildings and others – such as hospitals, places of worship, universities, schools and town halls – and so this is not a measure of the total of land for commercial property. Note: it includes only the footprint of the building and not roads, paths and car parks.

Chart 8.6: Non-domestic buildings as percentage of total land area



Source: Generalised Land Use Database

8.37 These regional aggregates shown above can mask local differences, with major commercial centres such as Birmingham and Manchester having over 5 per cent of their area devoted to non-domestic buildings. London has a high proportion of land devoted to commercial use, with the City of London having 41 per cent of its area covered by non-domestic buildings. Westminster, Camden and Islington – all important locations for business – have over 12 per cent of land devoted to this use, while other cities such as Chester have under 1 per cent (see Table 8.3).

Table 8.3: Non-domestic buildings as a percentage of total land area for selected local authorities

Non-domestic buildings, % total land area for selected local authorities			
Gateshead	2.3	City of London	41.0
Newcastle-upon-Tyne	3.1	Barking & Dagenham	6.6
Manchester	6.2	Brent	7.1
Chester	0.6	Camden	12.2
Doncaster	0.8	Greenwich	5.1
Sheffield	2.0	Hackney	10.2
Leeds	2.0	Islington	14.0
Hull	6.4	Kingston	3.6
Nottingham	6.0	Westminster	18.0

Source: Generalised Land Use Database.

8.38 Planning can also increase prices by limiting the supply of vertical space as well as horizontal space. Where there are height restrictions in the form of floor-area restrictions or of protected views of significant buildings or 'visual amenities' more generally, this also may limit the supply of space. In certain areas, such as the West End of London, these restrictions can be significant, although there is no recent study of the effects.

8.39 In recent decades, the combination of a variety of space restriction policies including height restrictions, density targets, sequential tests, previously developed land targets, protected areas, town-centres-first policies and plans which may not have responded readily to changes in demand have tended to reduce the availability of space for development. One study concluded, 'all the evidence points to the planning system having a significant effect on land supply. The outcomes of this constraint include higher land prices.'[54] Similarly, in 1999 Deutsche Bank suggested that land in the UK for major retailers cost up to six times as much as for leading continental retailers. It concluded that land costs were higher in the UK because of population density, planning constraints and poor road infrastructure.[55] More recently, concerns have been expressed regarding the availability of employment land in the context of high demand for housing (see above paragraph 8.30).

Evidence from international comparisons

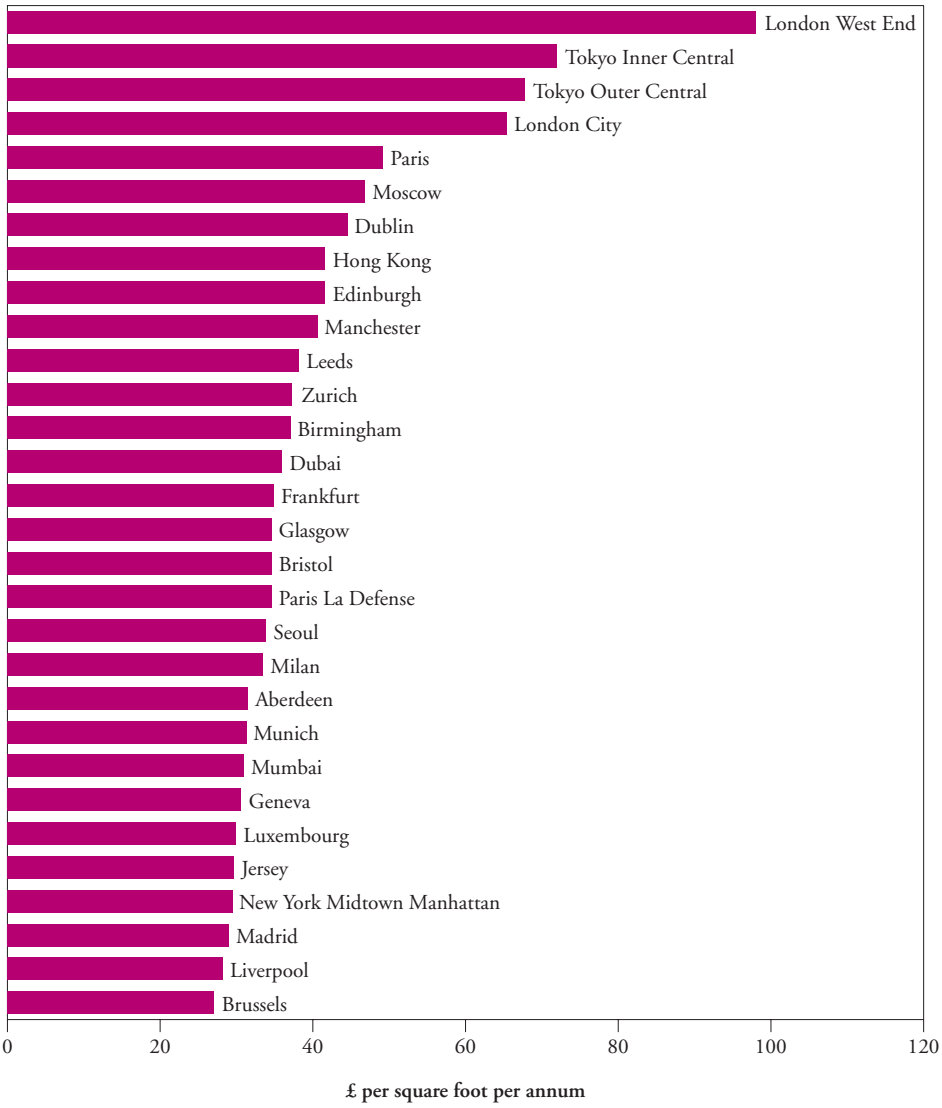
8.40 A further piece of evidence, albeit limited due to the age of the data, was provided by Cheshire and Sheppard who analysed two matched pairs of UK and US towns, assuming similar physical and economic features and attempting to isolate out the impact of land use restrictions. They found that in 1984 the value of land in Reading and Darlington was, in most cases, significantly higher than land for the same uses in Stockton, California and Erie, Pennsylvania, respectively.[56] For example, sites for retail development in Reading were worth 18 to 246 times as much as those in Stockton.

[54] C. Whitehead, S. Monk, B. Pearce and Gerald Eve & Co., *The Relationship between House Prices and Land Supply: Report to the Department of the Environment* (London, 1992), p. 49.

[55] Competition Commission, op.cit. (2000) p. 288.

[56] P. Cheshire, and S. Sheppard *The Economic Consequences of the British Land Use Planning System: a Pilot Study*, Final Report to ESRC (1986).

Chart 8.7: Total occupation costs for selected cities, 2006

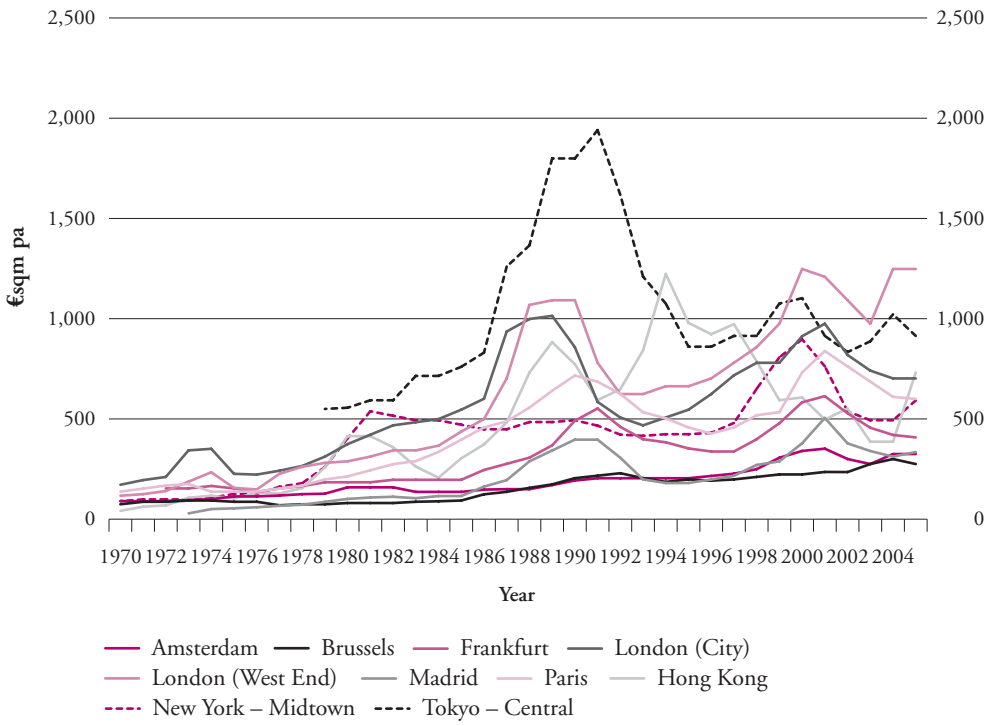


Source: CB Richard Ellis, Global Market Rents, January 2006.

8.41 There is more recent data in the form of international comparisons of office and other commercial occupation costs. For many firms, the impact of land use restrictions will be felt indirectly, in this form. Available evidence suggests that England has relatively high occupation costs. While demand for space in London is such that high occupation costs would be expected, London West End occupation costs, at £98 per square foot per annum, are the most expensive in the world. They are twice those of the next most expensive European city, Paris, and of any other city bar Tokyo, and over three times those of Midtown Manhattan. Dublin, Manchester, Edinburgh and Leeds are the next most expensive cities in Europe after London and Paris. Prime office occupation costs in Manchester and Leeds are around £40 per square foot, around 40 per cent more than Midtown Manhattan.[57]

[57] These measurements are sensitive to exchange rate change and so relative positions may change, although the point that English cities rank highly remains.

Chart 8.8: Prime office rental values, € per square metre per annum



Source: King Sturge, Global Industrial and Office Rental Survey and various agents.[58]

8.42 These disparities appear to have been apparent for several decades (see Chart 8.8). Since 1970, London has generally had the most expensive rents among the European examples given – and the disparity has grown larger with time. It should be noted, however, that current exchange rates (as of July 2005) were used to calculate the series, and exchange rate movements will affect these comparisons.

[58] Note that the King Sturge time series data report headline rents. These exclude rent-free periods which are common in the UK for long institutional leases. Furthermore, direct comparisons between cities can sometimes be misleading. Property research company DZT report data for Paris which samples the whole city, while that for Frankfurt covers only the Central Business District.

Box 8.7: Case study: Canary Wharf and the City

An interesting example in terms of the impact of planning policy on property supply and prices occurred with the opening up of Canary Wharf in the mid-1980s, where weaker planning restrictions and fiscal incentives combined to increase office supply space. In the early 1980s, more offices were built in Reading than in the City but, by the mid-1980s, the City of London changed its planning policy in order to continue to attract large space users and to compete with Canary Wharf and locations such as Frankfurt. As a result, rents in the City of London have fallen in real terms. It is arguable that this would have occurred to some extent in response to occupier demand – because land came on stream at the right time and in response to financial deregulation. Nevertheless, it is interesting to compare this with the West End, where there has been very little new development so that rents at present are significantly higher than the City. Here, the proposed development at Kings Cross may have an impact, with property analysts revising predictions of future rents in central London downwards in the light of the anticipated 5.2 million square feet of office and employment space coming on stream, illustrating the impact of supply on prices.

8.43 It is also notable that the data suggests that many countries or cities that operate a more relaxed system of land use regulation tend to be correlated with lower occupation costs. Brussels, where the planning regime is permissive, has had low and stable rents throughout the period from 1970-2005. Similarly, Antwerp has some of the cheapest industrial space in the world. Houston, famous for its permissive land use regulations, also has relatively low prices despite its prosperity, although this is hardly surprising given the much lower US population density.

Other hypotheses for high occupation costs

8.44 The fact that land values and occupation costs in England are high does not in itself suggest that land supply is problematic – there are a number of other factors that could be at play, both in terms of demand for and supply of commercial property. In this section we examine four in particular: the level of demand, the level of property taxation, construction costs and lease structures.

High demand

8.45 One alternative hypothesis is the strength of demand for commercial property in England. A study by Cass Business School and Jones Lang LaSalle for the British Property Federation, for example, reported that "proximity to customer base, proximity to suppliers, the availability of adequately skilled labour, the level of grant aid available in the area and the draw of a 'cluster' of like businesses" predominate in the locational choices of inward investors, and that property issues are of secondary importance.[59] Commercial space could therefore be expensive in England due to factors such as the quality of highly skilled staff or the strength of transportation links between London and the rest of Europe. This is supported by Cushman and Wakefield Healey and Baker surveys of businesses which gives a score to selected European cities based on their desirability as a business location. London's weighted score is 0.87, some way ahead of Paris on 0.6 and Frankfurt on 0.33.[60] In addition it finds that:

> *'London is the top rated city for access to markets, for the availability of qualified staff, for international transport links, telecommunications factors, and for languages spoken.'*[61]

[59] Cass Business School and Jones Lang LaSalle, *Report to the British Property Federation* (March, 2004), p. 24.
[60] The other British cities featured in the survey of 30 cities were Manchester, ranked 15 with a score of 0.12, and Glasgow, ranked 22 with 0.08.
[61] Cushman and Wakefield Healey and Baker, *European Cities Monitor 2005*, p. 2.

8.46 This argument is given some added weight by the fact that what makes the commercial property market different to other asset markets is its heterogeneity – properties are locationally different and of different size, quality and specification. Where demand is strong for a particular location, and that location is necessarily restricted in supply by some factor other than planning, this will impact on price. It is the perennial excuse of the monopolist that supply restrictions do not matter because "demand is high" – namely, customers are willing to pay the higher price. What matters for efficiency purposes, however, are those customers who are not, but who would be willing to pay a lower price in an unrestricted market.

8.47 However, while demand for space in England – and in particular in London – is strong, it is difficult to conclude that this would account for the scale of discrepancies in occupation costs between cities in England and abroad. There is no reason to suppose that demand for space is substantially higher in London, Manchester and Birmingham relative to New York, Singapore, Hong Kong, Frankfurt or Tokyo. Within England, price differentials between land uses still persist and are greater in the South East, so that even if there is higher commercial demand there due to location, the price differentials suggest that prices are being inflated by restrictions on supply for commercial development.

Levels of taxation

8.48 A second possible cause of high occupation costs is business property taxation. In 2005–2006, the gross non-domestic (or business) rate yield from local lists in England was £17.9 billion.[62] For the UK as a whole the business rate formed 4.0% of public sector receipts over 2005–06.

8.49 However, there is little evidence that taxes on occupation are damaging for tenants because they are often capitalised, and consequently taxes such as non-domestic rates actually depress rental and capital values (see Box 8.8). The empirical evidence is limited, but suggests that the capitalisation rate of property tax is very high. Mehdi demonstrated for six London boroughs that moving from the former locally-set rate to the national non-domestic rate in 1990 resulted in tax increases or decreases being fully capitalised – namely that property owners bore the full incidence of the change in tax.[63] This corroborated earlier work by Bond et al. who concluded that in 'the long run, we cannot reject the hypothesis that rents fall pound for pound with business rates'.[64]

8.50 Thus, although the tax is formally incident on the occupier, these studies implied that some of the burden of taxation ultimately falls on the property owner rather than the occupier – although, of course, a great deal of commercial property is owner-occupied. However, it is unlikely under all circumstances that the tax will be fully capitalised; this depends on the elasticity of demand for and supply of rented accommodation, and so occupiers, in some markets, are likely to bear a part of the burden.

[62] Department for Communities and Local Government, *Local Government Finance Statistics England No. 16*, p. 51. Other property taxes include stamp duty, but this, with the exception of lease duty, is only paid on transactions.

[63] N. Mehdi, 'The Capitalisation of Business Rates: An Empirical Study of Tax Incidence in Six London Boroughs', Ph.D. thesis, London School of Economics, 2003.

[64] S. Bond, K. Denny, J. Hall and W. McCluskey, 'Who Pays Business Rates', Fiscal Studies (1996), 17/1, pp. 19–36, p. 21.

Box 8.8: Property taxation and rents

At first glance it might appear that commercial property taxation acts to increase total occupancy costs. However, this does not take place because a permanent change in the taxation of an asset will, subject to relative elasticities, be capitalised into the price, and incident on the current owner. Changes in taxation of assets such as commercial property can impose large capital gains and losses on current owners because asset prices adjust to reflect expected future taxes. A simple example of capitalisation is given below.

Imagine that an asset pays £500,000 to the holder this year, and £500,000 to the holder next year, with no redemption value. The value (V) of the asset at present is the Net Present Value (NPV) of these payments:

$V = 500000 + 500000/(1 + r)$

where r is the market rate of interest. If the interest rate is 15 per cent, r= 0.15, and

$V = 500,000 + 500,000/1.15$

$= 500,000 + 434,782.60$

$=$ £934,782.60

If the government announces that payments in the current year are to be taxed at 20 per cent, the value of the asset to the holder falls to

$V = 500,000\ (1 - t) + 500,000/(1 + r)$

$= 500,000\ (1 - 0.2\ ) + 500,000/1.15$

$=$ £834,783

ie the value of the asset falls by the full amount of the tax, namely £100,000.

If the government announces now that payments next year are to be taxed at 20 per cent, the value of the asset to the holder falls to

$V = 500,000 + 500,000(1 - t)/(1 + r\ )$

$= 500,000 + 500,000$ x $0.8/1.15$

$= 500,000 + 347,826$

$=$ £847,826

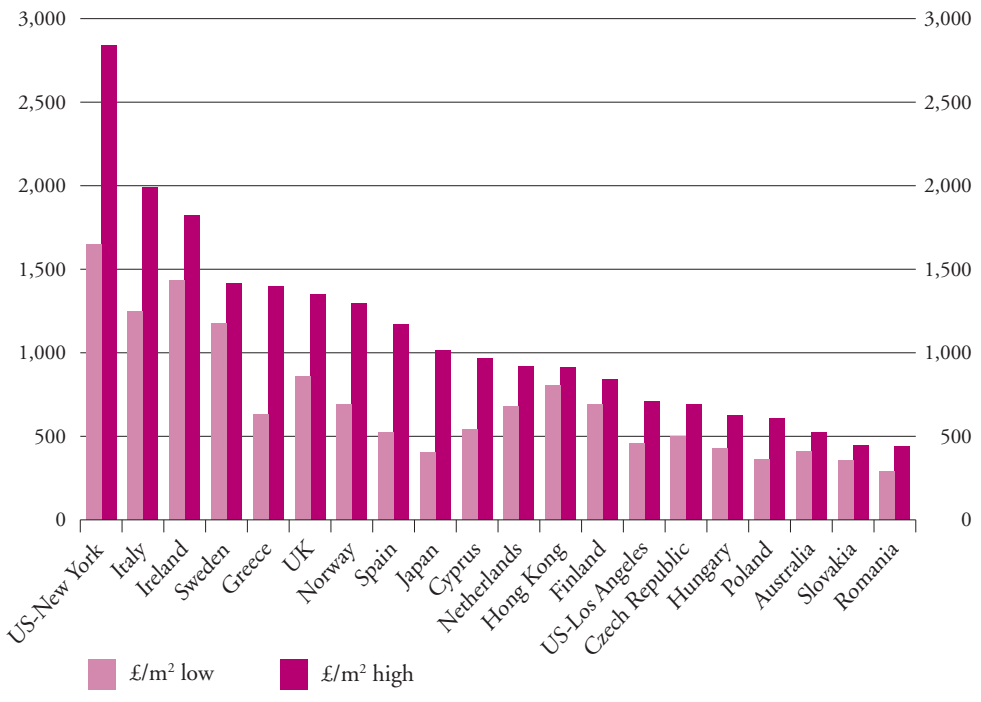
The value of the asset falls by 100,000/1.15 = £86,956.52, which is the discounted present value of next year's tax liability. This loss is suffered by the current owner of the asset, even if they sell it before next year's payment is due. The price that a buyer would be willing to pay for the asset has been reduced by exactly the amount of the tax.

Level of construction costs

8.51 Land is not the only or even the primary cost in terms of development. If occupation costs are high, it may be because construction costs are more expensive in this country, requiring higher returns to compensate for this.

8.52 However, the available data does not support this. Although comparative construction costs vary according to the type of development – such as apartment blocks, office blocks, business parks and warehouses – the UK is not an outlier in any one type of development. One example is given below, drawn from data gathered by Gardiner & Theobald, a commercial provider of construction cost data. They provide estimates based on projects with which they have been involved, and so estimate 'typical' costs for a 'typical' high-value and low-value project in order to show the relevant range of costs. The construction costs for new shopping centres are illustrated below; while the UK is the sixth highest, costs do not seem exceptionally high.[65] In terms of construction labour costs, Gardiner & Theobald report that the UK all-in rate for unskilled workers, at £9.23 per hour, ranks 12 out of 16 European countries listed, and ranks the same for skilled workers at £12.27 per hour. By comparison, the equivalent rates are £13.11 and £18.24 for France, £17.08 and £23.91 for Germany, and £20.49 and £25.61 for the Netherlands.[66]

Chart 8.9: Shopping centre construction costs, £/m²



Source: Gardiner & Theobald LLP, Construction Costs January 2005.

[65] It should be noted that this is merely one data source, although Gardiner & Theobald are a prominent company and its data are used to provide estimates for the DTI *Construction Statistics Annual*.

[66] The all-in rate gives the gross hourly cost of employing the site operative, based upon the standard working week, including insurance, statutory contributions and taxes. See Gardiner & Theobald LLP, *International Construction Cost Survey*, January 2005, p. 9. It should again be noted that snap-shot comparisons depend on exchange rates and in the short-term exchange rate movements will affect these comparisons.

Lease structures

8.53 There is some interest in whether lease terms and structures may bias the rental market in favour of the owner and to the detriment of the occupier, who tends to have much less bargaining power. In the commercial property market, lease structures have traditionally been much longer in the UK than in the US or continental Europe, although they have recently become shorter. The bedrock of the UK commercial property market has traditionally been the 25-year Full Repairing and Insuring (FRI) lease with perhaps five-yearly upward-only rent reviews.

8.54 This meant that occupiers made long-term commitments to a particular property, which provides security of income for the lessor but inflexibility for the lessee if their needs change. Furthermore, the 'upward-only rent review' (UORR) provision tends to predominate, which means that rents cannot be negotiated downwards when a rent review is undertaken. While the industry has adopted a voluntary Code of Practice for Commercial Leases (see Table 8.5), UORRs are still common. Criticisms include:

- UORRs inflate property prices and distort investment choice, resulting in property investment being favoured over more productive assets;
- UORRs distort the buy-versus-rent decision in favour of buying, resulting in a largely closed market in freehold property; and
- when economic growth slows, tenants who agree lease terms and rents at the height of the business cycle must continue to pay these rates, which is a burden in recession and hampers recovery.

Table 8.5: Comparison of traditional FRI lease and terms of new leases under the Lease Code

FRI Lease	2002 Lease Code
15–25 year term with no breaks	Shorter, more flexible term
Upward-only rent reviews	Alternative to UORRs
Onerous repairing obligations	Repairing obligations linked to length of term and building condition
Guarantor on assignment; subletting restrictions	Landlords should offer more choice
Reinstatement and dilapidations	Greater flexibility on disposal

Source: Jonathan Edwards, Cass Business School, January 2006.[67]

8.55 However, this effect cannot account for the scale of the disparity between occupation costs in England and abroad. This is partly because UORRs can be capitalised, but also because it is argued that property investors favour UORRs because they provide security of income; if they were to be banned, the result would be a capitalisation of the increased volatility of the asset in addition to any capitalisation of the lower future rental income. Tenants may also benefit from a stable rental stream, although others may prefer flexibility. For property markets, where expected growth is high and volatility low – such as out-of-town retail – there would be little effect on rents and capital values, whereas in markets where rental value growth is likely to be weak and volatility high – such as London office markets – the effect of banning UORRs could be an increase of as much as 10 per cent of rental or capital value.[68] Furthermore, more flexible lease packages are emerging.

[67] Table drawn from material presented at a seminar at HM Treasury, January 2006.
[68] Cass Business School and Jones Lang LaSalle, *The Impact of Banning Upward-Only Rent Reviews*, March 2004, p. 22.

8.56 It may be that the cumulative impact of the above factors, where specific to the commercial property market in England, may lead to occupation costs being higher than elsewhere. However, we now examine whether spatial constraints can be a prime cause of high occupation costs.

Can supply restrictions be consistent with high vacancy rates and other market data?

8.57 Some data casts doubt on the hypothesis that planning restrictions account for relatively high occupation costs. This section explores three types of data: vacancy rates; ratio of planning permission to new-build; and historical rental data.

Vacancy rates

8.58 In terms of vacancy rates, it appears that there are sections of the commercial property market which are currently weak. On the face of it, this might make it difficult to argue that supply constraints can exist when there are vacant properties. The non-food retail market is also weakening, with some suggestions that space growth is outstripping the market growth rate.[69]

Table 8.6: Office vacancy rates for selected countries

	Office Vacancy Rates		
	2002	2003	2004
US	15.6	16.7	16.0
Japan	8.0	8.5	7.2
Germany	7.1	9.8	11.4
UK	**8.0**	**11.3**	**9.8**
France	5.9	6.0	6.6
Italy	4.7	5.4	7.5
Canada	13.7	15.6	14.4
Australia	8.3	10.3	11.5
Ireland	18.4	17.5	16.7

Source: Bank for International Settlements, *75th Annual Report* (June 2005), p. 131.[70]

8.59 The table above illustrates vacancy rates from 2002-2004 in selected countries. It could be assumed that low vacancy rates would indicate pressure on supply while high vacancy rates would indicate fewer restrictions, where levels of demand are broadly similar. On that basis, the UK does not look particularly constrained. However, the following should be noted:

- there is a natural rate of vacancy, which is not zero – as with the housing market and the labour market, a certain level of vacancies reflect 'frictional vacancies' as companies move in and out of buildings;
- these rates may indicate a particular point of the real estate occupation cycle; vacancies rose after the dot.com collapse of 2000, for example, and are now recovering; and
- high vacancy rates can indicate a mismatch between occupiers' demands – for example, for property of a particular quality or type – and the type of property available, so that high demand is coterminous with high vacancies.

[69] 'L. Chesters, 'Baugur Chief's Property Warning: Iceland's Retail Pioneer Johannesson Warns Rents Will "Go Down" as Supply Soars', *Property Week*, 16 June 2006, p. 1.

[70] Vacancies defined as immediately vacant office floor space (including sub-lettings) in all completed buildings within a market, as a percentage of the total stock. For Switzerland and the United States, nationwide; for Australia, France, Germany, Italy, the Netherlands and Spain, the average of major cities; for other countries, the capital city.

8.60 In short, not enough is known about the real estate cycle and other economic factors for these data to be conclusive. If vacancies are high because of short-term frictional movement in the economy (if a firm goes out of business there will be a period of vacancy before the property is sold or leased, for example), if the lack of fiscal pressure on empty properties and vacant brownfield land is hindering the speed at which they come forward for development, or if they are high because inflexibilities in the planning system preclude movement from one use-class to another, then there is no reason to suppose that vacancy rates are incompatible with tight planning restrictions. Further research here would be valuable.

Stock of planning permissions

8.61 The size of the 'stock' of planning permissions – i.e. those permissions granted but not yet exercised – suggests that in many instances more may be going on than a simple lack of supply of space. In London for example, the ratio between the stock of permissions in terms of net lettable space, at the end of 2003, was six times the average rate of construction starts over the preceding three years.[71] By 2005 this had ratio had grown to 8:1, after some 3.8 million square metres of office space was granted permission in 2005.[72] In 2003 there was 9.8 years' worth of new supply of office space available, with the report noting that 'the planning system has been highly effective in maintaining a pipeline ready to respond to almost any level of construction the development industry deems appropriate.'[73] This is potentially important data. There is inadequate research into the issue of why developers do not build more quickly on sites for which they have planning permission. In some instances it may be that permission was granted too late and the occupation cycle is at a low point; in others that the developer is waiting for capital values to rise.

8.62 The existence of an ultimate 'capacity constraint' (in the form of fixed land supply) may soften competition in the industry, so that new supply of commercial property is not rolled out as quickly as possible. For example, new development around the Paddington area of London is being phased-in partly so that the new supply does not lower rental returns. A further point is that a slow or insufficient delivery of infrastructure, either because of planning problems or difficulty co-ordinating finance, may restrict the opening up of sites for development or reduce the substitutability of locations. However, at present evidence has not yet been found to distinguish between these hypotheses.

8.63 This feature may be exacerbated by bottlenecks relating to the planning process itself. These include:

- the need for developers to understand the development and planning control framework in an area – for example, knowing which locations and types of development are most likely to receive planning permission and what section 106 obligations are likely to involve;
- the need to have a good relationship and reputation with local authorities, landowners and local building contractors;
- the propensity of many authorities to release land in large – rather than small – plots;
- the skills and capacity of local planning authorities; and
- the small amount of land allocated for commercial development which means that accessing land is a strategic imperative.

[71] David Chippendale *et al.*, *London Office Policy Review: A Review of Office Market Trends in 2003/4 and Their Implications for Strategic Planning Policy* (London, 2004).
[72] Mayor of London, 'Local Plan Annual Monitoring Report 2' (February 2006), p. 37.
[73] Ibid., p.37.

8.64 Options can operate as a barrier to entry and prevent land coming forward for development, where the option holder does not wish to promote a particular site at one point in time but a second developer would be willing to do so. The *Barker Review of Housing Supply* noted that options do not necessarily exclude potentially more efficient developers because they are tradable.[74] However, there may be value to option holders in denying rivals access to land.

8.65 For commercial property, real rental values have fallen over the 1970-2002 period: by 37 per cent for industrial property, by 26 per cent for offices, but rising by 9 per cent for retail.[75] It appears that it is only in specific sectors and locations where real rents have risen more substantially – such as prime office space in Westminster, or retail warehousing, where planning constraints have been particularly tight.[76] However, the figures shown earlier in the chapter show that the UK still has some of the highest occupation costs in the world. The relevant question is not whether they are falling, but whether they are falling *enough*.

Can the impact of planning on commercial property prices be measured?

8.66 While there are a number of different data sources suggesting that land supply restrictions may impact on land values and therefore rents, none of them result in any empirical estimate of the nature of this potential impact. There have been a number of studies looking at the impact of planning restrictions on house prices – in the US, it was found that tight planning controls increased house prices by as much as 17 per cent to 38 per cent[77] while in England, Cheshire and Sheppard found that the net costs of tight planning restrictions in Reading could be as much as 3.9 per cent of annual household income.[78] Other studies conclude that that the effect of land use and other restrictions on the price of Manhattan condominums is some $300 per square foot – which comprises *half or more* of the value of the condominium.[79]

8.67 The literature estimating the impact of land use planning on the price of commercial real estate is less extensive due to data availability and methodological problems. But a recent study concluded that the impact may be substantial. Henneberry et al. found a direct relationship between the local planning regime; the local supply of space; the level of economic activity; and the level of rents, which was elastic and significant in the case of office and industrial rents.[80] Less

[74] K. Barker, *Review of Housing Supply: Securing our Future Housing Needs. Interim Report – Analysis* (London, 2003), p. 81.

[75] T. Key, 'Matching the Business and Property Cycles, Cass Business School, presentation to Sixth OPD Conference', 2004, p. 2.

[76] Ibid, p. 2.

[77] L. Katz and K. T. Rosen (1987), p. 158.'The Interjurisdictional Effects of Growth Controls on Housing Prices', *Journal of Law and Economics*, vol. 30 (1987), pp. 146-160, p. 158.

[78] P. Cheshire and S. Sheppard, 'Welfare Economics of Land Use Regulation', *Journal of Urban Economics*, vol. 52 (2002), pp. 242-69, p. 266.

[79] E. L. Glaeser, J. Gyourko and R. E. Saks, 'Why is Manhattan so Expensive? Regulation and the Rise in Housing Prices', *Journal of Law and Economics*, 48/2 (2005), pp. 331-369.

[80] J. Henneberry, T. McGough and F. Mouzakis, 'The Impact of Planning on Local Business Rents', *Urban Studies*, 42/3 (2005), pp. 471-502.

formally, the 1998 DETR study suggested that the effect was potentially over £1 billion based on total business rate in excess of £16 billion (i.e. over 6.2 per cent of total costs), while another study has suggested that:

> *'once one has standardised for city size and prosperity, total occupation costs of both industrial and office property are at least twice as high in British cities as they are in those of continental Europe: and more than twice those of cities in the US or Asia.'*[81]

8.68 In order to probe this, the review commissioned a study to estimate the cost of regulatory constraints – including, but not restricted to planning and spatial constraints – on the British office market. This draws on the methodology developed by Glaeser et al., applied to the Manhattan condominium market.[82] The study estimates the magnitude of the effect of regulatory constraints on the price of office space by examining the disparity between marginal construction cost and observed market price, and expresses this disparity as a ratio of construction costs. This gives a sense of the magnitude of the overall costs of regulation, although these will include not just 'restrictions on supply' via zoning or height or floor-area ratios, but costs of complexity and compliance also.

8.69 Assuming a competitive property development market and free entry and exit, price equals average cost in the long run. In theory, in the absence of height or space restrictions, buildings should expand to a point where the cost of adding an additional floor (the marginal construction cost) equals the market price of this additional floor. The disparity between the observed market price and marginal construction cost can be interpreted as deriving from the regulations applying to that market.[83]

8.70 It should be noted that to the extent that a competitive market does not exist, the disparity will be overestimated. It is unlikely that competition is perfect, but the international nature of the industry and the fact that offices of different sizes and in different locations are substitutable means that the assumption is broadly reasonable. It should also be noted that the exercise is designed specifically to abstract from the price of land (which is relevant to average, but not marginal, costs).

8.71 The study uses historical data on construction costs and 'price' data – in the form of rents and yields – for 14 local office markets going back to 1973, with data for the City of London and London West End going back to 1960.[84] From this, the 'market price' of an additional floor of office space was derived. The disparity was computed as the estimated market value per square metre, adjusting for rent-free periods and vacancy rates, minus the construction cost of an extra floor, and reported relative to marginal construction cost as a ratio.[85]

[81] P. Cheshire, 'Unpriced Regulatory Risk and the Competition of Rules: Unconsidered Implications of Land Use Planning', *Journal of Property Research*, 22/2/3 (2005), pp. 225-244, DETR, op.cit (1998), pp. 58-59.

[82] The methodology can be applied to any category of space where a unit of space in an additional storey is a perfect substitute for an additional unit of space via a larger building footprint.

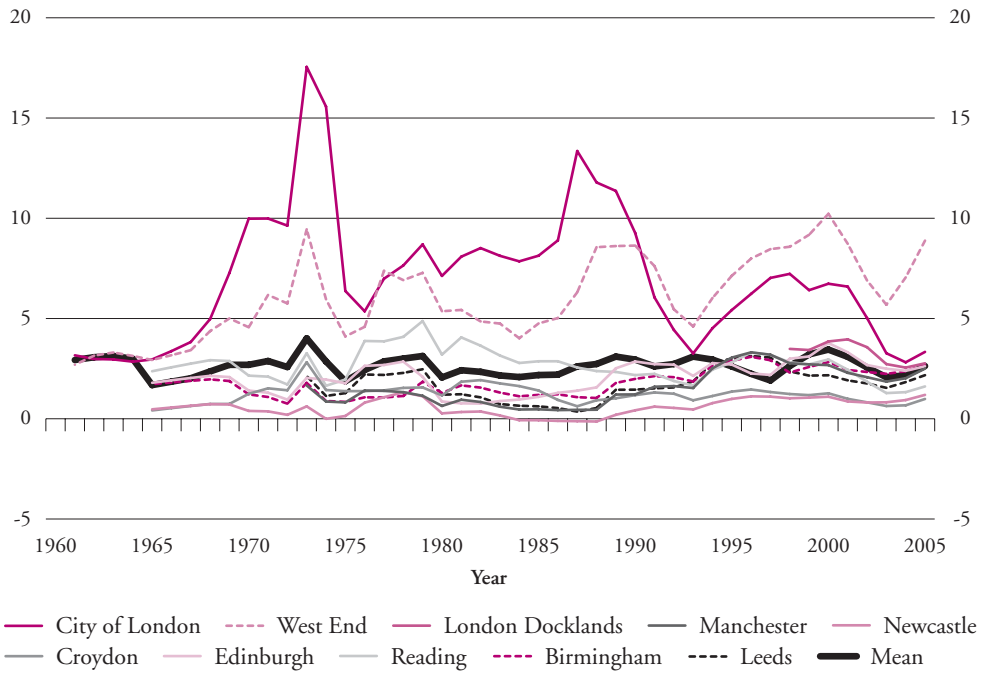
[83] Glaeser *et al.* explain that 'the key difference between a regulated and an unregulated market is the gap between prices and marginal costs, and we use this difference to measure the extent of housing supply restrictions'. Glaeser *et al.*, op.cit., p. 333.

[84] The 14 office markets comprise: City of London, London West End, City of London/Bishopsgate, London West End/Berkeley Square, London Docklands/Canary Wharf, London Hammersmith, Manchester, Newcastle, Croydon, Edinburgh, Glasgow, Maidenhead, Reading, Bristol, Birmingham, and Leeds.

[85] This ratio was subjected to sensitivity analysis by assessing how the results changed when the underlying assumptions were adjusted in line with various plausible scenarios – for example, assuming that the yields have been systematically underestimated. The current adjustments for vacancies may not be sufficient since DCLG/IPD estimates do not cover vacancies for new developments. Furthermore, the precise estimate is sensitive to the specification of the equivalent yield model used to estimate the market value of an estimated floor (although sensitivity analysis shows that the margin for error is not sufficiently large to render the estimate in doubt).

8.72 The results showed that the mean disparity, for 1961-2005, for the most conservative estimates, was 2.37 (ratio) or 237 per cent (rate). This was much higher than that estimated for Manhattan condominiums by Glaeser *et al.* (1.07 or 107 per cent). Chart 8.10 below illustrates the values for selected UK cities together with the mean value. However, it is unlikely, given the caveats above relating to the level of competition in the industry and the fact that all types of regulation are included in the estimate, that this disparity could all simply be attributed to the UK planning system.

Chart 8.10: Disparity between price and marginal cost as a ratio to marginal cost. Selected cities, 1961–2005

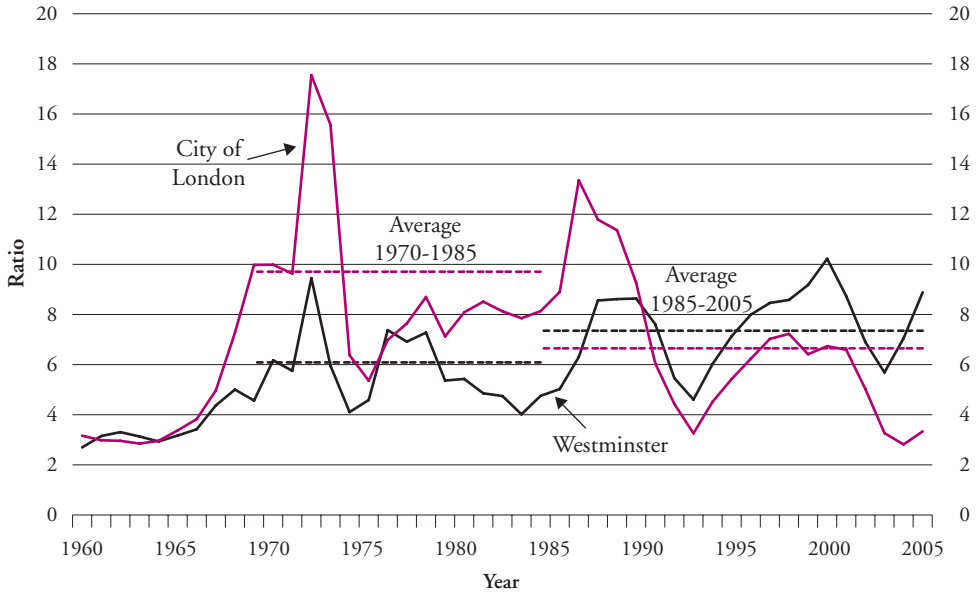


Source: P. Cheshire and C. Hilber, 'The Cost of Regulatory Constraints on the British Office Market', Report for HM Treasury, May 2006.

8.73 Some industry specialists often argue that planning is generally permissive, and that planners 'want development'. However, an interesting natural experiment is provided by the differing experiences of the City of London and London West End as discussed earlier in Box 8.7. Competitive pressure increased in the City with the development of Canary Wharf, while restrictions – for example, in relation to listings as well as planning restrictions – have remained tight in the West End.[86] Chart 8.11 below illustrates that the disparity has been falling over time in the City – having reached a ratio of almost 18 or 1800 per cent in 1973 – while in the West End it has been rising. This indicates that the supply of space more accurately reflects market signals in the City than in the West End. This relative restrictiveness in the West End may be for sound reasons, such as the desire to protect amenities or the built heritage. However, the change in the averages does tentatively suggest that planning policy can affect occupation costs.

[86] J. Simmie, *The Changing City: Population, Employment and Land Use Change Since the 1943 County of London Plan*, Report for the City Corporation of London (2002), p. 56.

Chart 8.11: Disparity between price and marginal cost as a ratio of marginal cost, City of London and Westminster



Source: Cheshire and Hilber as above.

CONCLUSION

8.74 There are large differences in land values for different uses in England. For England and Wales, excluding London, the average value of mixed agricultural land is around £10,000 per hectare. But the low percentage of land developed (see Chart 8.6), and restrictions on the use of vertical space through height restrictions, contributes to higher land values for other uses. Average costs as reported in January 2006 are £2.6 million per hectare for housing land, £660,000 for industrial and warehousing and £780,000 for general office class B1.[87]

8.75 These are average figures, and it is not surprising that there is a large discrepancy in land values between certain use classes. But research suggests this descrepancy is also found at the border between use classes. While non-market values of land must also be taken into account and these can be substantial (rising to over £10 million per hectare for urban core public space) it is not clear that wider social or environmental benefits can always account for the level of disparity in land value for different use-classes.

8.76 These land supply restrictions, combined with height restrictions due to tall buildings policies or protected views, are likely to have the effect of increasing property occupation costs for businesses. Evidence suggests that England has some of the highest occupation costs in the world, as shown in Chart 8.7. London has occupation costs that are three times those of New York and twice those of the most expensive city in Europe, while Birmingham, Manchester and Leeds rank in the top 15 world-wide. It is difficult to account for these figures in terms of demand alone. Other hypotheses for these values, such as higher construction costs in England, or higher property

[87] Valuation Office Agency, *Property Market Report*, 2006.

tax rates, do not seem to account for these figures, although may have an effect when considered cumulatively. But the issue is complex, and there is other evidence that suggests planning is not a major constraint. In London, for example, the stock of available permissions greatly exceeds the average rate of new construction starts. Therefore, in addition to land supply constraints there may also be issues relating to the operation of the land and development market. In short, this is a complex area and research in the field is limited. But this provisional analysis suggests planning restrictions are likely to be contributing, along with other factors, to high occupation costs in England.

Appendix: Notes on the Estimates of the Social Benefits of Undeveloped Land

The results in Table 8.2 were calculated by conducting meta-analysis of 47 separate studies. From this, 28 sets of results were combined to derive the estimates of willingness to pay per hectare for various types of undeveloped land.

Most valuation techniques arrive at a willingness-to-pay per person estimate for changes in the provision of an environmental good or service. The present value of all future benefits must then be derived from this, and calculated over an appropriate time horizon. Discount rates are used to compress a stream of future benefits and costs into a single present value amount.

The net present value is the value today of a stream of payments, revenues or costs over time, as discounted through the use of an interest rate.

It should be noted that the benefits estimated for each land type are slightly different:

- urban parks: recreation, landscape and tranquillity benefits.
- urban fringe green belt: recreation, landscape and ecological benefits.
- urban fringe forest and rural forest: recreation, landscape, ecological and tranquillity benefits.
- agricultural extensive land: recreation, landscape, ecological and cultural heritage benefits.
- agricultural intensive land: landscape benefits.
- wetlands: recreation, landscape, ecological and hydrological benefits.

Also it should also be noted that the value for urban parks reflects an average for six different parks as valued by local residents. For rural forests – particularly ancient forests – there are few close substitutes which might account for the high values reported. For cultivated agricultural land, the social benefit does not include ecological or market values. Access problems and lack of recreational value may also account for the low social value.

In addition, the studies used in the meta-analysis have also neglected some factors which may further bias the results: air quality, climate control, hydrology and soil functions; the external benefits of maintaining previously-developed biodiverse land in its current state; and consideration of the location of the various types of land – for example, the social benefit of intensive agricultural land at the urban fringe.

Regarding the choice of discount rate, various writers have found that social discount rates are about 2–3 per cent in the UK and the US – see Entec and Eftec, *Valuing the External Benefits of Undeveloped Land: Report for ODPM (2002)*, citing D. W. Pearce and D. Ulph, 'A social discount rate for the United Kingdom' in D. W. Pearce, *Economics and Environment* (1999), and A. M. Freeman III, *The Measurement of Environmental and Resource Values* (1993). In the UK, the Treasury has recently calculated the social rate of time preference to be 3.5 per cent as described in the *Green Book*, although for effects pertaining over the very long term a lower discount rate should be used. The Treasury estimate was therefore used in the Entec and Eftec calculation of the net present value to society of undeveloped space. Note, however, that the result is highly sensitive to the choice of discount rate and rate of willingness-to-pay.

Annex A: Consultation process

The consultation process for the Review has so far comprised the following stages.

CONSULTATION PANELS

The consultation process for the Review draws on the expertise of two consultation panels:

Panel of Experts

Sir Howard Bernstein:	Manchester City Council
Andrew Beshaw:	Siemens Real Estate
Professor Paul Cheshire:	London School of Economics
Dr Rachel Griffith:	The Institute for Fiscal Studies
Sir Peter Hall:	University College London
Mike Hayes:	West Northamptonshire Development Corporation
Nathalie Lieven:	Landmark Chambers
Professor Colin Lizieri:	University of Reading Business School
David Lock:	David Lock Associates
Sir Michael Lyons:	Birmingham University
Adrian Penfold:	British Land
Mark Southgate:	The Environment Agency

Whitehall Stakeholder Group

Department for Communities and Local Government

HM Treasury

Department for Transport

Department for Culture, Media and Sport

Department for Environment, Food and Rural Affairs

Department of Trade and Industry

Government Offices for the Regions

SEMINARS

The Review has held five seminars to date with representatives from the following groups:

- academics
- environmental professionals
- large businesses
- small and medium enterprises
- planning professionals

Academics seminar

The academics seminar was attended by:

Phil Allmendinger:	University of Reading
Heather Campbell:	University of Sheffield
Tony Crook:	University of Sheffield
Alan Evans:	University of Reading Business School
Tim Leunig:	London School of Economics
Henry Overman:	London School of Economics
Mark Pennington:	Queen Mary College, University of London
Chris Webster:	Cardiff University
Christine Whitehead:	University of Cambridge

Environmental professionals seminar

The environmental professionals seminar was attended by:

David Westbrook:	Wildlife Trust
Ed Pomfret:	The Woodland Trust
Henry Oliver:	Wildlife and Countryside Link
Ian Smith:	English Nature
John Corkindale:	Environment Agency (attending on a personal basis)
Kate Gordon:	Campaign to Protect Rural England
Ruth Chambers:	Council for National Parks
Simon Bullock:	Friends of the Earth
Stephen Joseph:	Transport 2000
Simon Marsh:	Royal Society for the Protection of Birds

Large businesses seminar

The large businesses seminar was attended by:

Susan Aistrup:	Thames Water Property Services
James Blakey:	United Utilities
Andrew Bull:	LaSalle Investment Management
Fenella Collins:	Country Land & Business Association
Nick Greer:	Vodaphone
Gareth Llewellyn:	National Grid
David Riddle:	Cory Environmental
John Ring:	Mitchells & Butler
Robin Worthington:	Cadbury Schweppes

Small and medium enterprises seminar

The small and medium enterprises seminar was attended by:

Michael Robinson:	Burn How Hotel
David O'Riley:	Project Fire
Paul Hancock:	Bowman International
Michael Hambling:	Hambling & Trebble Ltd
Jeremy Hinds:	Savills Commercial Ltd
Jamie Eagles:	Shoreditch Trust
Daniel Bridge:	Invest Hackney
Mark Herring:	Business Junction
Victoria Carson:	Forum of Private Business
Sarah Tomas:	Association of Convenience Stores
Paul Rigby:	Small Business Service

Planning professionals seminar

The planning professionals seminar was attended by:

Gideon Amos:	Town and Country Planning Association
Margaret Baddeley:	Nathaniel Lichfield & Partners
David Hall:	Royal Institute of Chartered Surveyors
Clive Harridge:	Royal Town Planning Institute
Stewart Hylton:	Planning Officers Society
Kelvin MacDonald:	Royal Town Planning Institute
Geoff Millner:	Government Office for the East Midlands
Peter Studdert:	Cambridge Horizons
Christopher Tunnell:	ARUP
John Watson:	Corporation of London
Robert West:	London Borough of Camden
David Wood:	Sandwell Metropolitan Borough Council

MEETINGS WITH STAKEHOLDERS

In addition to the formal seminars, Kate Barker or a representative from the Review team held a number of stakeholder meetings to outline the purpose and process of the Review and take initial findings on the issues to be addressed.

One-to-one stakeholder meetings

Organisations met included:

Addison Associates
Advantage West Midlands
Argent Group
ARUP
Association of British Insurers
Barratts Development
The Barton Wilmore Planning Partnership
Berkeley Group plc
Berwin Leighton Paisner
Boots
British Property Federation
British Retail Consortium
Business in the Community
Cambourne Consortium
City of Westminster
Coin Street Community Builders
Commission for Architecture and the Built Environment (CABE)
Confederation of British Industry
Co-operative Group
English Heritage
Environment Agency
Gerald Eve
Government Office for London
Highways Agency
IKEA
Japanese Embassy
Land Securities
Leeds City Council
London First and delegates
Manchester City Council
Pfizer
Planning Inspectorate
Renaisi
Rippon Property Services
Royal Institution of Chartered Surveyors
Royal Town Planning Institute
Shell
South Cambridgeshire District Council
Stanhope plc
Transport 2000
The Westfield Group
Yorkshire Forward

Individuals met included:

Rod Eddington

Professor Jonathan Edwards:	Cass Business School, City University
Professor Malcolm Grant:	University College London
Professor Stephen Sheppard:	Williams College, Massachusetts
Gavin Cameron:	Oxford University
Julian McGill:	Oxford University
Professor James Simmie:	Oxford Brookes University
Jennifer Wood and Tim del Nero:	University of Oxford Estates

LOCAL AUTHORITY VISITS

Kate Barker and the Review team are very grateful to Bolton Borough Council, Oxford City Council and Richmond Borough Council for hosting members of the Review team for day visits which provided a first-hand experience of plan-making and development control.

REGIONAL VISITS

To perform the regional analysis of the report, the following areas were visited by Kate Barker or one of the Review representatives:

City of London

Malcolm Cooper:	Head of Research, Economic Development Office, City of London
Annie Hampson:	Planning Services Director, City of London
Malcolm Kerr:	DP9
Adrian Penfold:	British Land
Peter Rees:	Chief Planning Officer, City of London
John Watson:	Policy and Performance Director, City of London

Liverpool

Warren Bradley:	Leader of Liverpool City Council
Pauline Davies:	Housing Market Renewal Pathfinder – New Heartlands
Jenny Douglas:	Liverpool Vision
Jane Doyle:	Government Office for the North West
Peter de Figueiredo:	English Heritage
Hugh Frost:	Beetham Organization Ltd
Peter Glover:	downtownliverpool.com
David Guest:	Bruntwood Estates Ltd
Ian Hassall:	Liverpool Land Development Company
John Kelly:	Liverpool City Council
Nigel Lee:	Liverpool City Council
Michael Parkinson:	Liverpool John Moores University, European Institute of Urban affairs
Mike Taylor:	Business Liverpool

Alan Walker:	Jaguar
Hugh Jenkins:	Merseytravel
Steve Parry:	Neptune Developments
Ian Ray:	North West Universities Association
Peter Nears:	Peel Holdings

Newcastle

Harvey Emms:	Newcastle City Council
Professor John Goddard:	University of Newcastle upon Tyne
Jane McLoughlin:	University of Newcastle upon Tyne
Neil Murphy:	Newcastle City Council
Tony Pender:	University of Newcastle upon Tyne
Joe Place:	One Northeast
Paul Rubinstein:	Newcastle City Council

INTERNATIONAL VISIT

Kate Barker and the Review team undertook an international trip to Germany.

Individuals and organisations met included:

Hans-Dieter Collinet:	Ministry for Construction and Transport, State of North Rhine-Westphalia
Dr Thomas Rommelspacher:	Rühr Regional Union
Dr Ulrich Hatzfeld:	Ministry for Construction and Transport, State of North Rhine-Westphailia
Kirsten Kotter:	Ministry for the Economy, State of North Rhine-Westphalia
Dr Reimer Molitor:	Regionale 2010 Agentur
Ruth Orzessek-Kruppa:	Düsseldorf City Council
Mr Kampes:	Düsseldorf City Council
Dr Peter Tibber:	British Consulate-General Düsseldorf
Thomas Wittek:	British Consulate-General Düsseldorf
Dr Tobias Just:	Deutsche Bank
Dr Peter Jakubowski:	Federal Office for Building and Regional Planning, Bonn
Mrs M. Renner:	Federal Office for Building and Regional Planning, Bonn
Mrs E. Godebauer:	Federal Office for Building and Regional Planning, Bonn
Katrine Tilger:	Institute of Cultural Technology, University of Bonn
Muller Jokel and colleagues:	Frankfurt City Council
Elisabeth Heitfeld-Hagelgans:	Ministry for Construction and Transport, State of North Rhine-Westphailia
Klaus Austermann:	Ministry for Construction and Transport, State of North Rhine-Westphailia
Rainer Klenner:	Ministry for Construction and Transport, State of North Rhine-Westphailia
Nikolaus Wiesenberger:	Ministry for Construction and Transport, State of North Rhine-Westphailia

RESPONSES TO THE CALL FOR EVIDENCE

The Review received over 200 responses to the call for evidence issued on the 24th January 2006. These responses have been taken into account in the drafting of this report, and will be used to inform the final recommendations.

Accessible Retail
Advantage West Midlands
Aggregate Industries
Arlington Securities
Arnold Whites Estates Ltd
Association of London Government
Association of British Insurers
Association of Consultant Architects
Association of Convenience Stores
Association of Local Government Archaeological Officers
AUDE
B&Q
BAA
Balfour Beatty
Barratt
Bedfordshire County Council
Berkshire Unitary Authorities
Biffa
Birmingham City Council
BNFL Energy Unit
Bond Pearce LLP
Boots
Bourne Leisure
Bradford Chambers of Commerce
Brethrens Gospel Trusts
Brighton and Hove City Council
(The) Bristol Port Company
British Aggregates Association
British Chambers of Commerce
British Energy
British Holiday and Home Parks Association
British Land plc
British Property Federation
British Retail Consortium
British Urban Regeneration Association
British Wind Energy Association
Buckingham County Council
Business in Sport and Leisure
Cambridgeshire County Council
Campaign to Protect Rural England
Canary Wharf Group plc
Capital Shopping Centres
Cardiff University
Confederation of British Industry (CBI)
Centrica
CGMS Consulting
Chartered Institute of Housing
Chartered Institution of Water and Environmental Management
Cherwell District Council
Chester Civic Trust
Church Commissioners for England
City of London Law Society
City of Westminster
City of Worcester
(The) Civic Trust
Civil Mediation Council
Commission for Architecture and the Built Environment (CABE)
Community and Regional Planning Services
Construction Products Association
Cornwall County Council
County Surveyors Society
Country Land Business Association
Cranfield Parish Council
Devon County Council
Dorset County Council

East Hampshire District Council
East Midlands Regional Assembly
East Midlands Development Agency
East Sussex County Council
Emerson Group
Energy Saving Trust
English Heritage
English Historic Towns Forum
Council for National Parks
English Partnerships
English Regions Network
Environment Agency
Institute of Environmental Management and Assessment
Eon UK
Essex County Council
Exmoor National Park
Faith Based Regeneration Network
Freight Transport Association
Friends of The Earth
Gamesa Energy UK
GlaxoSmithKline
Government Office Network
Government Office for the North East
Government Office for the East of England
Greater London Authority (Mayor's response)
Greater London Authority (GLA Economics response)
Green Issues Communications
Hampshire and Isle of Wight Chief Planning Officers Group
Hampshire County Council
Heritage Link
Highways Agency
Historic Houses Association
Home Builders Federation
Horticulture Trades Association
House Builders Association
Housing Corporation
IKEA
Institute of Directors
Institute of Historic Building Conservation
John Lewis
Lambert & Foster
Land Securities
Landscape Institute
LaSalle Investment Management
Law Society
Lawrence Graham LLP Solicitors
Livework Network
Liverpool Land Development Agency
Local Government Association
London Borough of Croydon
London Borough of Hackney
London Borough of Harrow
London Borough of Merton
London Borough of Tower Hamlets
London First
London Green Belt Council
Manchester City Council
Marks & Spencer
Mayfair Chambers
Merseyside Travel
Miller Homes Ltd
Mitchells & Butlers
Mobile Operators Association
Moto Hospitality
Nathaniel Lichfield & Partners
National Association for Areas of Outstanding Natural Beauty
National Grid Property Holdings Ltd
National Housing Federation
National Park Authority
National Planning Forum
National Trust
Natural England
Norfolk County Council

North West Regional Assembly
Nuclear Industry Association Planning Services
Open Spaces Society
Orange
Passenger Transport Executives
Peterborough Friends of the Earth
Planning and Development Association
Planning and Environment Bar Association
Planning and Transport Department Norfolk
Planning Consortium
Planning Officers Society
Planning Inspectorate
Planning Mediation Ltd
Planning Summer School, University of Kent
Planning Officers Society
Prudential Property Investment
QPA
Quintain Estates and Development
Regional Development Agencies
Retirement Housing Group
Robert Hitchins Ltd
Roger Miles Planning Ltd
Royal Institute of British Architects
Royal Institute of Chartered Surveyors
Royal Society for the Protection of Birds
Royal Town Planning Institute
RPS Cambridge
Saffron & Walden Friends of the Earth
Salford City Council
School of Architecture Planning and Landscape, University of Newcastle
Scott Brownrigg
Scottish Power Energy Network
Shire Consulting
Small Business Council
Social & Environmental Partners of the South East Regional Assembly
South Bedfordshire Friends of the Earth
South East England Regional Assembly
South West of England Regional Development Agency
St George Regeneration Ltd
Surrey County Council
Sustainable Development Commission
Tarmac
Team Limited
Thames Valley New Homes Coalition
Thames Water
The Co-Operative Group
The Policy Partnership
The Theatres Trust
The Westfield Group
Thomas Holdings Ltd
UK Petroleum Industry Association
University College London
University of Cambridge
University of Essex
University of Newcastle
University of Warwick
URBED
Valuation Office Agency
Viridor Waste Management
Water UK
West Midlands Local Government Association
West Midlands Regional Assembly
West Sussex County Council
Wildlife and Countryside Link
Wildlife Trust
Wilson Bowden plc
Yorkshire and Humber Key Cities
Yorkshire Forward

Individual Responses

Simon Bashford
Peter Boam
Stephen Crow
Harry Deakin
John Dean
Alan W. Evans
R J Green
Patsy Healy
Graham King
Angus McIntosh
James Middleton
A J Morton
Simon Norton
Jane Piper and Nick Smith
Kay Powell
A. D. Robinson
John Schultz
Chris Stevenson
Nick Taylor
Dru Vesty
A Walker
Rohan Wilson

Annex B: Other consent regimes

OTHER CONSENT REGIMES

1.1 In addition to the main planning system legislated for under the TCPA 1990, there are a number of other consent regimes for certain developments. The main types of development affected are:

- harbour development under the Harbours Act 1964;
- heavy and light rail and inland waterways under the Transport and Works Act 1992;
- highways under the Highways Act 1980;
- electricity development under the Electricity Act 1989 (amended by the Utilities Act 2000);
- certain gas storage developments under the Gas Act 1965;
- the construction of pipe-lines under the Pipelines Act 1962;
- water infrastructure under the Water Industry Act 1991;
- marine works, under statutory controls; and
- listed building and conservation area development under the Planning (Listed Buildings and Conservation Areas) Act 1990.

Harbour development

1.2 Works relating to the construction or expansion of harbours below the low water line are subject to a special consent regime under the Harbours Act 1964. Developers can apply to the Secretary of State for Transport for either a harbour revision order (section 14) or harbour empowerment order (section 16) to be made. The Secretary of State must determine these applications himself – there is no equivalent of the call-in procedure under this regime. Where an objection is made to an application, a public inquiry must be held. Where an order is made, the development is deemed to have planning permission under the General Permitted Development Order 1995.

Rail and waterways

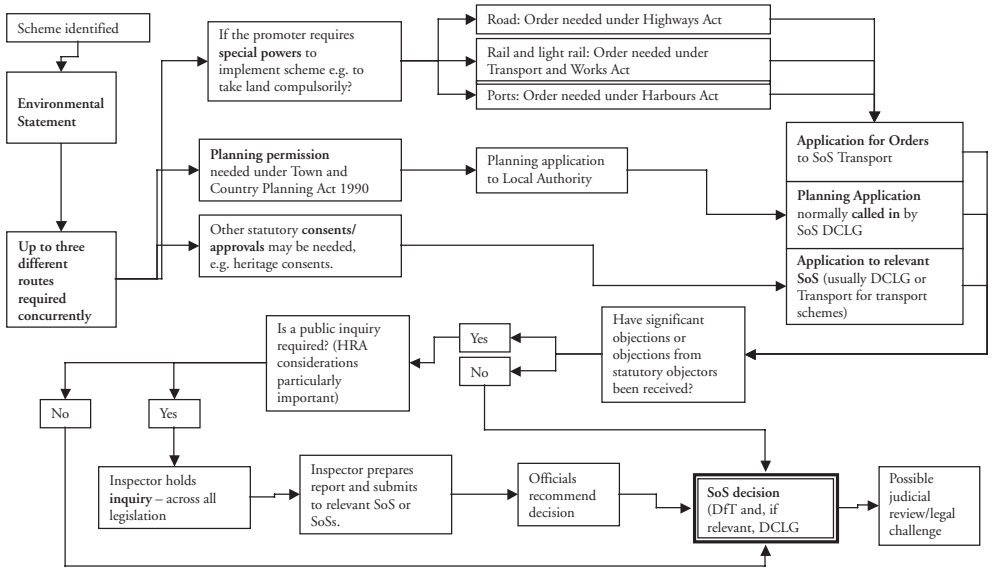
1.3 Under section 1 of the Transport and Works Act 1992, the Secretary of State for Transport can by order authorise the construction or operation of transport systems, including railways, tramways, and certain other modes of guided transport; under section 3, the relevant Secretary of State can authorise the construction or operation of inland waterways and the carrying out of works which interfere with navigation rights. Orders are used for the authorisation of major transport infrastructure works, such as the construction of the Docklands Light Railway, and can include a wide range of matters, including powers to purchase land compulsorily, to close or alter roads and paths and to make byelaws. When making an order under section 1 or 3, the Secretary of State may direct that the development shall be deemed to have planning permission.

1.4 Where an application attracts opposition, the Secretary of State must arrange for a public inquiry or other hearing, or for an exchange of written representations between the interested parties. The Secretary of State will then decide the application after consideration of the Inspector's report (if an inquiry or hearing is held) or after the close of written exchanges. Where the Secretary of State considers that a proposal is of national significance, he must refer the proposal to Parliament for approval in principle before detailed consideration at a public inquiry.

Highways

1.5 Powers to develop highways are granted through Highways Orders under the Highways Act 1980 – with different powers for trunk roads and motorways (sections 14 and 16 respectively). The Secretary of State for Transport determines these applications.

Statutory process for transport infrastructure



Source: Department for Transport

Power station and overhead lines

1.6 Under the Electricity Act 1989, developers must seek the consent of the Secretary of State for Trade and Industry for the construction or extension of onshore electricity generating stations whose capacity exceeds (or, when extended, will exceed) 50 megawatts or for the installation of overhead electric lines exceeding a specified voltage. Notice of application for consent must be served on the relevant planning authority and, if it objects, the Secretary of State must hold a public inquiry and consider the report of the planning inspector before reaching a decision. The Secretary of State may also decide to hold an inquiry following objections from other persons. When granting consent under section 36 or 37 in respect of any operation or change of use which constitutes 'development' under the TCPA 1990, the Secretary of State may direct that planning permission for the development shall be deemed to be granted. If an application for deemed planning consent is not made a separate application will have to be made to consider the planning merits of the proposal in addition to the consent made under the Electricity Act.

1.7 Associated compulsory wayleaves, giving rights of access to install, maintain, repair or remove existing and new electric lines, may also be sought by electricity companies under Schedule 4 to the Electricity Act 1989. The process allows for affected landowners and/or occupiers to be heard at a hearing.

Gas storage

1.8 Under section 4 of the Gas Act 1965 licensed gas transporters may apply for a storage authorisation order authorising them to store gas in natural porous strata such as depleted oil and gas reservoirs rather than in salt cavities which are dealt with under the normal planning regime. The procedure for making an order is a two-stage process involving a preliminary application and subject to the Secretary of State's consent, a full application. The Secretary of State has a discretionary power to hold a public inquiry to consider objections. When granting consent the Secretary of State may direct that the development shall be deemed to have planning permission.

Pipelines

1.9 The construction of a cross-country pipe-line (i.e. commercial pipelines above 16km) requires the authorisation of the Secretary of State for Trade and Industry under section 1 of the Pipelines Act 1962. The Secretary of State can reject an application out of hand or permit it to proceed, without prejudice to his final decision. Where the application is allowed to proceed, the applicant must publicise the application and serve notice on each relevant local planning authority. Where a planning authority (or other person) objects to the application, the Secretary of State must hold a public inquiry and consider the objection by way of written representations. Where the Secretary of State authorises a pipeline construction, he may direct that in so far as the works or any change of use involved in the construction amount to a development, planning permission shall be deemed to be granted (section 5). Licensed gas transporters are statutory undertakers for the purposes of the TCPA 1990 and have permitted development right in respect of pipelines.

Water infrastructures

1.10 Section 168 of the Water Industry Act 1991 allows a water company to seek approval from the Secretary of State for Environment, Food and Rural Affairs for a compulsory works order to permit them to develop major water infrastructure (e.g. new reservoirs). To date, these provisions have not been used.

Marine planning

1.11 DEFRA administers a range of statutory controls that apply to marine works in English and Welsh waters, including all constructions (including offshore wind farms and major ports), coastal defences, dredging and disposal of waste materials. It also advises DCLG on its controls over aggregate extraction from the seabed. Although not a formal planning system, these controls provide a robust system for determining the acceptability of marine works. The Government is currently consulting on proposals for a Marine Bill, which would include a new system of marine spatial planning.

Listed buildings and conservation areas

1.12 Section 1 of the Planning (Listed Buildings and Conservation Areas) Act 1990 requires the Secretary of State (DCMS) to compile or approve lists of buildings of special architectural or historic interest. Once a building is listed, consent is required for its demolition in whole or in part, or for its alteration or extension in any manner which would affect its character as a building of special architectural or historic interest (Section 7).

1.13 The procedure for obtaining listed building consent is modelled on that for planning permission. Applications are made to the local planning authority, although the Secretary of State (DCLG) may call-in an application for her own determination. Where consent is refused by the local planning authority, or granted subject to conditions, the developer may appeal to the Secretary of State. Where an appeal is made, and either party so wishes, the Secretary of State must hold a public inquiry or other hearing or determine the case by exchange of written representations. In practice, Planning Inspectors decide the majority of listed building appeals but they currently have no powers to determine appeals which concern Grade I or Grade II* listed buildings. The Secretary of State determines these.

1.14 In considering whether to grant listed building consent, or whether to grant planning permission for a development which affects a listed building, the local planning authority or the Secretary of State must have 'special regard to the desirability of preserving the building or its setting or any features of special architectural or historic interest which it possesses' (sections 16 and 66). In relation both to listed building consent and planning permission, the Act therefore creates a clear presumption in favour of the preservation of listed buildings. In addition, when exercising any functions under the planning acts in relation to buildings or other land in a conservation area, local planning authorities and the Secretary of State must 'pay special attention … to the desirability of preserving the character or appearance of that area' (section 72). Furthermore, no building in a conservation area may be demolished without the consent of the local planning authority or the Secretary of State (section 74).

Hybrid bills

1.15 Planning consent can be given by an Act of Parliament via a Hybrid Bill. This procedure is used occasionally to promote major infrastructure projects but pressure on Parliamentary time limits its use. The hybrid bill process was used, for example, for the main elements of the Channel Tunnel Rail link project.

1.16 It should be noted that while there are a number of separate planning regimes, major developments may have to make a number of applications simultaneously (see diagram for a transport related example). In these instances there are multiple decision makers, some at local authority level, others at national level.

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