

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 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:

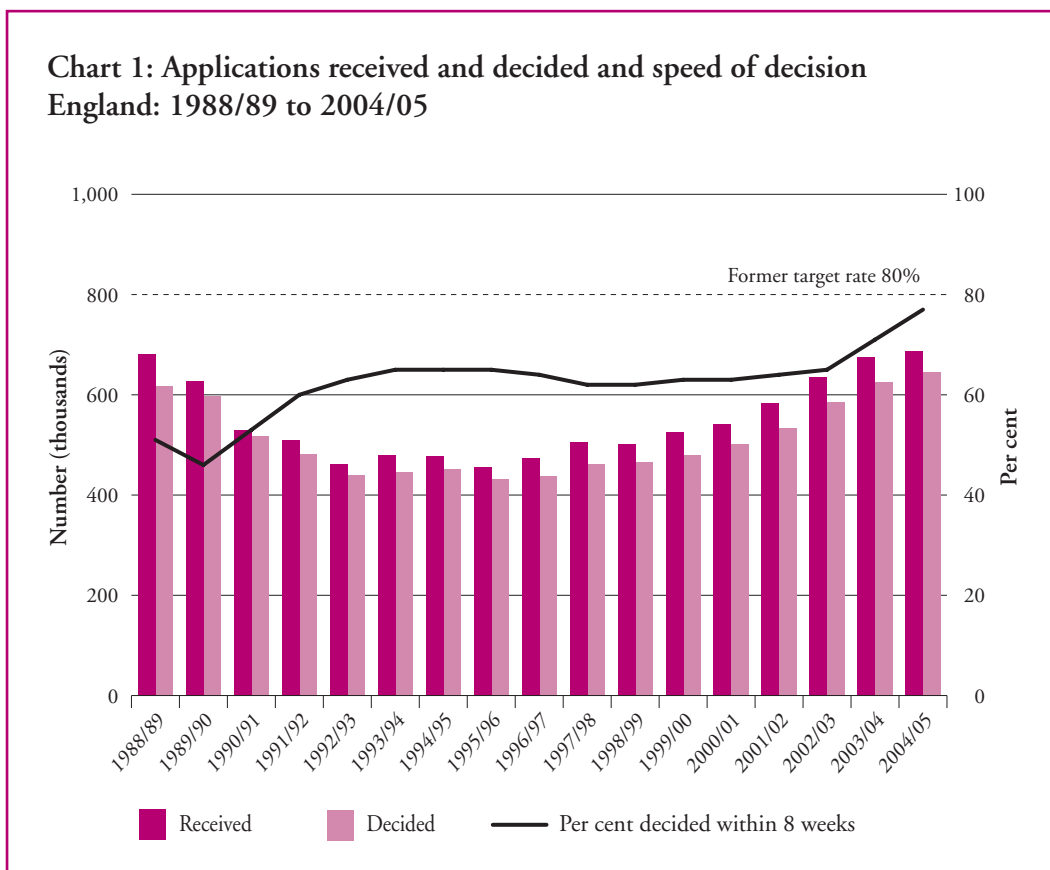
- the introduction of PCPA 2004, which aimed to create a simple, transparent, efficient and effective system of plan-making, aiming to halve the 5-7 years which local authorities previously took to update their plans. Reforms included the removal of one of the three tiers of plans and the introduction 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.



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 Revolution: 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

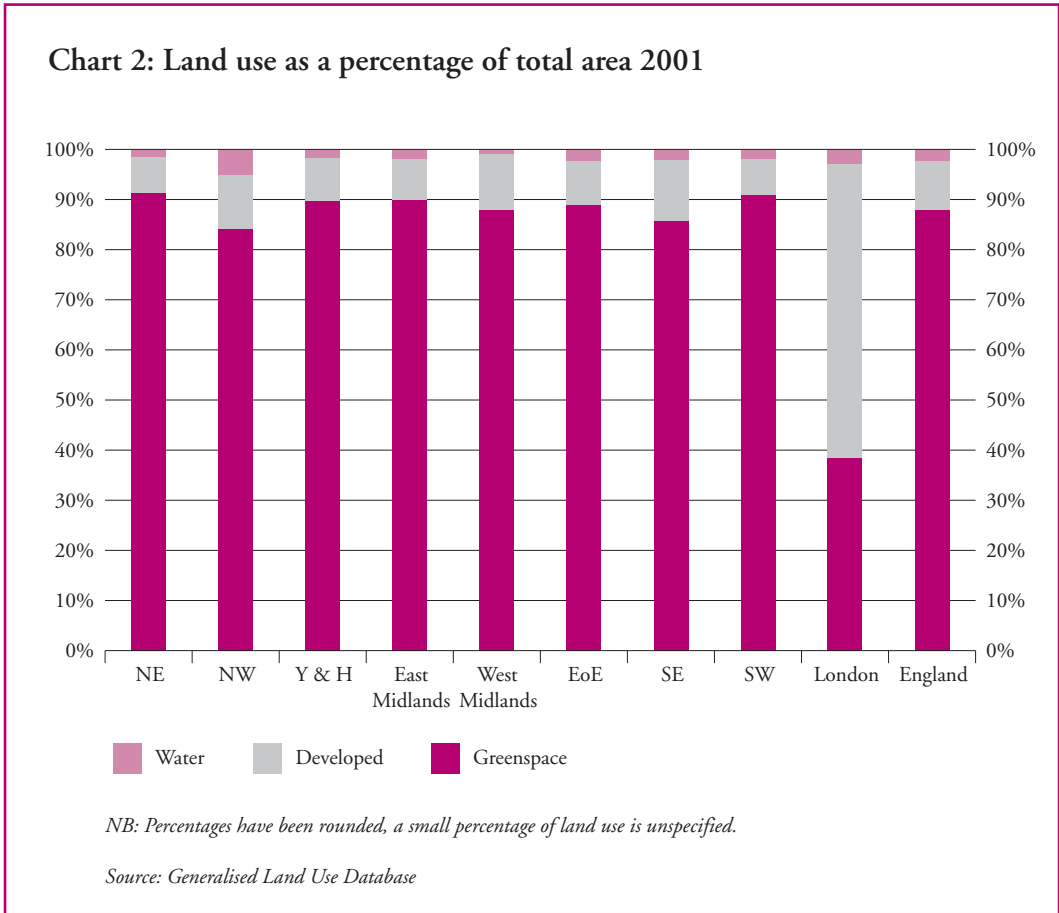
1.29 There are large differences in land values for different uses in England. For England and Wales (excluding London) the average value of mixed agricultural land is around £10,000 per hectare.²⁷ But land values for other uses with more limited supply (see Chart 2) are much higher. Average costs are £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*.



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 occur³⁰.”

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.