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Planning for Economic Development – Towards a New Technical Advice Note

November 2013

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CONTENTS

0	INTRODUCTION	1
1	OBJECTIVES	3
	What is economic development?	3
	High-level planning objectives	9
	Larger-than-local planning	18
2	PLANNING FOR ECONOMIC DEVELOPMENT	23
	Weighing economic benefit	23
3	THE RURAL ECONOMY	31
	Economic activities suitable for rural areas	31
4	PROMOTING THE LOW-CARBON ECONOMY, CLUSTERS AND SOCIAL ENTERPRISES	37
5	DEVELOPMENT PLANS AND THE ECONOMY	39
	Introduction	39
	Stakeholders	39
	The evidence base	40
	An economic vision	40
	Employment land provision	42
	Existing employment sites	44
	Criteria-based policies	45
6	DEVELOPMENT MANAGEMENT AND THE ECONOMY	47

APPENDICES

APPENDIX 1 THE RESEARCH STEERING GROUP

APPENDIX 2 THE ECONOMY EVIDENCE BASE: GUIDANCE MANUAL

0 INTRODUCTION

- 1.1 The latest edition of Planning Policy Wales (PPW) (November 2012) includes an updated version of Chapter 7: Economic Development, which was originally published as a consultation draft in November 2011. The aim of this new national policy is to ensure that the planning system does more to support economic growth. To help take it forward, the Welsh Government intends to produce a new Technical Advice Note (TAN), whose draft structure was consulted on at the same time.
- 1.2 The present study was commissioned by the Welsh Government to help inform this new economic development TAN. Its purpose is to identify the key issues on which local planning authorities need technical guidance and to advise on the content of that guidance.
- 1.3 The study follows from an earlier piece of research, *Planning for Sustainable Economic Renewal*, which was produced by the same team¹ for the Welsh Government and helped inform the new PPW Chapter 7. Like this earlier research, the study takes much of its supporting evidence from case studies of local planning authorities, which examine how planning for economic development is done in practice - this time focusing on technical issues. It is also based on a review of consultation responses relating to the draft PPW Chapter 7 and proposed TAN structure. To provide context for the study we have also reviewed other parts of PPW, other TANs and documents relating to planning reform in Wales, including the recent IAG and City Regions reports.
- 1.4 We suggest that the new TAN be presented as a companion document to PPW Chapter 7, structured in the same way. The remainder of this report follows the same order (also similar to the TAN structure consulted on in November 2011-April 2012):
 - Sections 7.1-7.4 of the updated PPW set out general objectives and guiding principles. Consultation and case studies suggest that these parts of Chapter 7 are not always well understood and need additional explanation. The new TAN must provide this explanation. Otherwise national policy will not be delivered as the Government intends.
 - Sections 7.5 and 7.6 of the PPW set out specific requirements, relating to development plans and development management respectively. The task of the new TAN is to help authorities deliver these requirements in practice.
- 1.5 Below, Chapters 1-6 of this report match sections 7.1-7.6 of PPW, and each chapter of the report is split into sections according to the main topics in PPW. Each section has three elements. Firstly we highlight those points in PPW Chapter 7 which in our view need to be supplemented by guidance. Secondly we discuss the issues on which guidance is needed, with reference to consultation and case studies. Thirdly we suggest content for the new TAN. **This suggested TAN content is in bold type.** We have aimed to keep it short and

¹ Roger Tym & Partners with Asbri Planning, *Planning for Sustainable Economic Renewal*, Research Report to the Welsh Government, June 2011
Roger Tym & Partners is now part of Peter Brett Associates and known as PBA.

practical. For a detailed account of the thinking behind it (and indeed PPW Chapter 7), future readers could be referred to this report and the earlier Economic Renewal report.

- 1.6 The study's Research Steering Group made a major contribution to this report. Group members are listed in Appendix 1 at the end of the report.

1 OBJECTIVES

What is economic development?

Chapter 7

- 1.1 PPW Chapter 7 begins with a new definition of economic development:

'7.1.1 For planning purposes the Welsh Government defines economic development as development of land and buildings for activities that generate wealth, jobs and incomes. Economic land uses include the traditional employment land uses (offices, research and development, industry and warehousing), as well as uses such as retail, tourism, and public services. The construction and energy sectors are also important to the economy and are sensitive to planning policies.'

- 1.2 The following paragraph explains the rationale for this definition: the planning system must provide for *'the needs of the entire economy'*, not just Classes B1-B8 of the Use Classes Order, which are traditionally called 'employment uses'. In effect, the new definition upgrades the status of the non-B economic land uses. Its central message is that planners should treat all economic land uses as important and valuable, not just the traditional employment (B-class) uses.

- 1.3 Consultation and case studies show that these two paragraphs need more explanation. Users of PPW raise many about the new definition, which we group into three topics:

- i The status of the 'non-B' economic land uses
- ii The two meanings of 'development'
- iii The exact scope of the new definition.

- 1.4 Below, we discuss these issues in turn, and then suggest how the new TAN can help clarify matters. It is important that local planning authorities and other stakeholders have a clear understanding the guiding principles of the new PPW. If they do not, the new national policies will not work in practice.

The non-B economic uses

- 1.5 In consultations and case studies, users of PPW are asking three main questions about the 'non-B' economic land uses, such as retail, tourism, public services and construction:

- Why are these non-B uses now considered part of economic development?
- Should planning still treat them differently from the traditional employment uses?
- So is Chapter 7 about economic development, or is it about the B class?

- 1.6 We address these questions in turn below.

Why all economic land uses are valuable

- 1.7 The first question is answered in the Economic Renewal report, which is the source of the new definition. As discussed in that report:

- The Welsh Government's key policy objectives for the economy are to raise the long-term sustainable levels of output (wealth creation, economic growth, GDP, GVA), employment and earnings.
- Different kinds of policy contribute to these objectives in different ways. Planning's main contribution is to help ensure that activities that create wealth, jobs and earnings have the land they need.
- Retail, tourism, public services and so forth contribute to output, employment and earnings just as the B-class economic activities do.
- Indeed these non-B sectors account for a high and growing share of output, employment and earnings, both nationally and in many local areas. Tourism, for example, is a non-B use, but in many rural areas it is a key driver of the local economy.
- Therefore, if planning is to support economic growth it should look favourably on all economic uses. It should aim to provide the land that these sectors need, just as it does for the traditional employment uses.

1.8 This chain of reasoning looks straightforward but it leaves some obvious questions unanswered. If planning should treat the B and non-B uses just the same, why has it traditionally focused on the B uses? And even in the new Chapter 7, why is much of the text devoted to 'employment land' – which means the B-class uses – rather than the whole economy?

1.9 The traditional planner's view of economic development is closely related to economic base theory, which was developed by regional economists from the 19th century onwards. In this theory, the economy is split into two kinds of industry or sector: basic (or export) industries such as manufacturing, and local (or non-basic) industries such as retailing. Economic growth is driven by the basic industries, while the local industries follow in their wake. The traditional planners' view follows a similar logic, equating the economic base with the B-class sectors and local industries with the non-B uses:

- In a non-basic (non-B) industry like retail, firms generally need to be close to their customers. Therefore the amount of retail in any area is driven by the number and spending power of the area's residents. If a given site is not allocated or permitted for retail development, the retail activity that would have located there will be diverted to another site not far away, still within reach of the same customers. By the same token, if the site is developed for retail, the resulting jobs will be offset by jobs lost in the area's other retail locations. So the amount of retailing in the area will be the same regardless of planning policy.
- By contrast, a basic (B-class) industry like manufacturing is less tied to particular locations, because firms may locate a long way from their customers; indeed some have customers all over the world. If a given site is not allocated or permitted for manufacturing, its would-be occupants may locate elsewhere, possibly a long way away. By the same token, if the site is developed for manufacturing the jobs it accommodates will be a net gain to the area. If there are offsetting job losses in competing firms, they will probably be in other places. So the amount of manufacturing

in an area depends (among other things) on planning policy: providing more land can lead to more jobs in the area.

- In short, in the traditional view planning policies and decisions can produce 'additional' economic activity and jobs in the basic sectors, but not the non-basic sectors. Further, it is assumed that basic sectors mainly operate in B-class space, while non-basic sectors occupy non-B premises, such as shops, hospitals, schools and so forth. Therefore, if planning is to support economic growth, it should focus on meeting the needs of the B-class sectors.

- 1.10 Economic base theory has been hotly debated by economists. Many consider that the theory's focus on export industries ignores other factors that are important drivers of local and regional growth, especially over the long term. But even if the theory is good in parts, it should not be applied to planning in the way we have described, because in modern economies the boundary between local and basic activities does not remotely match the boundary between B and non-B sectors. To pick a few counter-examples among many, tourism is largely an export industry, yet it does not operate in B space. Conversely, many services, such as building maintenance, and even some light manufacturing activities such as jobbing engineers, are local industries that do occupy B-class space.
- 1.11 There is a second important reason why it is wrong to dismiss the non-B sectors as not basic or not additional. Additionality depends on the geography being considered and the details of the proposed development, not just the sector or Use Class it belongs to.
- 1.12 Thus, at the regional or national scale a major shopping centre will generally not be additional. If one local authority does not provide land for it, the centre – or maybe the same amount of retail differently arranged – will go elsewhere, usually in the same region. But at the local scale, a planning authority that provides a site for a major shopping centre will be adding to the amount of retail activity in its area; if the centre is not built on that site, the associated retail activity will go to another authority.
- 1.13 Similarly, providing a site for a university, a major hospital or a high-profile museum will usually result in additional employment for the local authority, the region or even the national economy. In contrast, a primary school, a GP surgery or a village cultural centre is unlikely to be additional in this sense.
- 1.14 In summary, there is no reason why planning should value the traditional employment (B-class) uses above other economic land uses. The economic contribution of different types of development depends on their specific features and the wider context, not just their Use Class (see more detailed discussion in Chapter 2 below).

How the B uses are different

- 1.15 In some respects, however, different economic land uses call for different ways of planning. As we show later in this report, in order to support economic growth planning should follow certain general objective, principles and methods which cut across all economic land uses. But other policy considerations and planning methods are specific to particular land uses.

- 1.16 Planning for retail and leisure, for example, is largely driven by the objective to put town centre first. In relation to energy and waste, the dominant issues relate to environmental and amenity impacts. In planning for the B-class uses, one key consideration is that industrial and related uses generally conflict with other uses, especially housing. To operate effectively, these activities need dedicated industrial areas, where they can be confident that they will not be a bad neighbour to anyone. In many places this will be a strong rationale for safeguarding industrial land from encroachment by other uses – not because industry is necessarily more valuable than other uses (it is not), but because it has certain special needs.
- 1.17 Another distinctive feature of the B use classes is that they tend to generate lower land values than many other land uses, especially housing and retail. Because of this, any land lost to these uses is often very difficult to replace. This can also provide a rationale for safeguarding employment land, where there are market pressures to release sites for other uses which in the longer term will be needed for employment.
- 1.18 Yet another area of difference between the economic land uses relates to the evidence bases that inform plan-making. Employment land evidence bases, use a toolkit of specialist methods that are described in Appendix 2 of this report. One key task for these studies is to recommend land provision targets for the B-class uses, based on evidence that includes employment forecasts and property market analysis. For other economic land uses, land provision is set in quite different ways:
- For retail and some leisure uses, the assessment of future demand is based on population and consumer expenditure rather than jobs.
 - For many local services, such as schools and GP surgeries, there is no need for an authority-wide land provision target, as the necessary sites are provided as part of housing developments.
 - Other types of development are less homogenous and best dealt with on a one-off basis. Examples include universities, major hospitals and large-scale developments relating to tourism, leisure and energy generation.

What Chapter 7 is about

- 1.19 To sum up the above discussion, if planning is to support economic growth it should look favourably on all economic land uses, whether part of the B class or not. But this does not mean that all economic land uses should be planned for in the same way. Different uses raise specific policy issues and need specific techniques, which are covered by Chapters 10-12 of PPW and a number of TANs. The new Chapter 7 and the forthcoming TAN aim to provide what is missing from these documents:
- Firstly, general objectives, principles and methods relating to planning for the whole economy;
 - Secondly, specific policy and technical guidance on planning for the B-class ('employment uses').
- 1.20 Chapter 7 does not separate these two topics into separate sections, and we think the new TAN should not either. But it is important that users of both documents understand which

parts relate to the whole economy and which parts focus on the B-class uses. In the present report we aim to be very clear about this.

Two meanings of 'development'

- 1.21 The word 'development' means different things in different contexts. For planning purposes, it is a technical term, defined in statute as

*'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.'*²

- 1.22 In everyday English, 'development' has a much wider meaning, relating broadly to growth and advancement.

- 1.23 The same dichotomy applies to the phrase 'economic development':

- For planning purposes, 'economic development', as defined in PPW 7.1.1, means erecting buildings, or changing the use of land and buildings, to provide space for economic land uses. It is a near-synonym of 'commercial property development'.
- In other contexts it has a much broader meaning, referring to economic (output) growth or economic well-being.

- 1.24 As paragraph 7.1.1 makes clear, PPW Chapter 7 is about economic development in the first sense. It sets out how planning should deal with the economic land uses, not what planning should do to improve the economy overall. The latter is a larger question, which may relate to all land uses and certainly relates to housing, because housing supply has major – though indirect – impacts on the economy. Chapter 7 does not aim to provide a complete answer to this larger question; the answer is spread across the whole of PPW.

- 1.25 The above discussion may look slightly academic. But it makes a difference in practice, because people who interpret 'economic development' in its wider sense also think that Chapter 7 should cover a wider range of land uses, including housing. To resolve this misunderstanding, the TAN should make it clear that the Chapter 7 is purely about the development of land and buildings whose end user is an economic activity.

What exactly does 'economic development' cover?

- 1.26 Aside from the large issues discussed above, consultation and case studies have raised a few more detailed questions about what exactly PPW 7.1.1 covers. We paraphrase these questions below, followed by our suggested answers.

- Many or land uses generate wealth (output), jobs and incomes. For example, building new houses brings in new people, which creates jobs in shops and schools; new open spaces create jobs in maintenance and management; and so forth. Does this mean that building housing and laying out a park is economic development?

² *Town and Country Planning Act 1990*

No. Economic land uses are activities that *directly* generate output, jobs and incomes. Economic development is the provision of spaces whose end user will be an economic activity.

- Construction always generates output, jobs and incomes. Does this mean that all building sites are economic development, regardless of what is being built?

No, see above. An office or workshop belonging to a construction site is an economic land use, because it is the permanent 'home' of the output, homes and incomes generated. The land use of a site under construction is the land use of its expected end user³.

- What about development that meets the definition but is not specifically named in paragraph 7.1.1? Is agriculture an economic land use?

Strictly speaking yes. But agriculture has a special status in the planning system, so the general principles in Chapter 7 may be of limited relevance to it.

- And infrastructure and services such as the electricity grid, telecom masts, railways, roads?

Strictly speaking yes. But Chapter 7 may be of limited relevance to these land uses, because the general principles it sets out may be outweighed by the sector-specific advice in Chapters 8 and 12.

- Does 'generate jobs' just refer to creating new jobs, or does it include sustaining existing jobs?

It includes existing jobs.

- Do economic activities include non-profit operations such as charities and social enterprise)?

Yes.

The new TAN

1.27 **Based on the above discussion, we suggest that the TAN open with a section headed 'What is economic development?', which clarifies and explains the new definition. This, and all sections of the TAN, would first reproduce key extracts from Chapter 7 as quoted in this report, and then provide supporting guidance relevant to these extracts. In relation to the definition of economic development, this guidance should include the following points:**

- **PPW (7.1-7.2) introduces a new definition of economic development. Its key point is that the traditional employment (B-class) uses, comprised under Parts B1-B8 of the Use Classes Order, are not necessarily more important or more valuable than other economic activities. Planning should not automatically give priority to any category of economic activity over any other.**

³ Stephen Godfree, *Land Use Gazetteer 3rd edition*, Leaf Coppin Publishing 2005 notes that the land use of a building under construction is 'the use for which planning permission has been granted or for which the building has been designed'.

- **PPW uses the phrase ‘economic development’ in a specialist sense. In everyday language, the phrase refers to economic growth and more general economic well-being. For planning purposes, PPW definition is based on the statutory definition of development, as ‘*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.*’**
- **For planning purposes, therefore:**
 - **Economic development is development (construction or change of use) where the resulting space will be occupied by economic activities.**
 - **An economic activity, or economic land use, is an activity which directly generates wealth (output), jobs and income.**
 - **For the avoidance of doubt, ‘generating jobs’ includes providing or sustaining existing jobs as well as creating new jobs. Economic activity may be in the private (market) sector, the public sector or non-profit ‘third arm’ sectors such as charities and social enterprise.**
 - **PPW (7.1.1) advises that economic land uses included the traditional employment uses (Class B in the Use Classes Order) as well as retail, tourism and public services. This list is not exhaustive. Among other activities, economic land uses also include agriculture, energy generation and other infrastructure. But these activities are subject to many separate policies and considerations, which in some case will override the more general principles in PPW Chapter 7 and in this TAN.**
 - **Economic land uses also include construction, including housebuilding. Hence an office, workshop or warehouse of a construction firm is an economic land use.**
 - **However, housing is not an economic land use, and sites under construction for housing do not constitute economic development. The land use of a site under construction is the land use of its expected end user.**
- **Parts of PPW Chapter 7 relate to planning for economic development generally, providing policies that applies across economic land uses. Other parts of Chapter 7 relate specifically to the traditional employment (B-class) uses. Specific policy for other economic land uses is provided in other chapters of PPW, listed at paragraph 7.1.2 of PPW.**
- **Similarly this TAN deals partly with economic development in general and partly with the B-class uses specifically. Specific technical guidance on other employment land uses is found in TANs 4, 7, 8, 13, 18 and 19.**

High-level planning objectives

- 1.28 Paragraphs 7.1.3 and 7.1.4 of PPW set out high-level objectives, or considerations, that should drive planning for economic land uses. The text first shows how planning should respond to market demand and then deals with other considerations that planning policy and decisions should have regard to. Below, we consider these two issues in turn.

Meeting market demand

Chapter 7

- 1.29 The first part of PPW 7.1.3 reads:

'The planning system should support economic and employment growth alongside social and environmental considerations within the context of sustainable development. To this end, the planning system, including planning policies, should aim to ensure that the growth of output and employment in Wales as a whole is not constrained by a shortage of land for economic uses. Local planning authorities should aim to facilitate the provision of sufficient land [as] required by the market, except where there are good reasons to the contrary

- 1.30 In consultation and case studies, the first two sentences of PPW 7.1.3 are readily understood and widely welcomed. But there are questions and debate around the third sentence, which advises that local planning authorities should aim to meet the market demand for land unless there are good reasons to the contrary. The key issue is the priority that planning should give to economic growth against social and environmental objectives.
- 1.31 In the next few pages we seek to throw light on this issue, which requires a fairly abstract discussion. This provides the essential underpinnings for the practical guidance that follows. Readers who prefer to take a shortcut should skip to paragraph 1.59.

Misunderstandings

- 1.32 In the third sentence of PPW 7.1.3, a number of consultees see a re-balancing of policy priorities, whereby market requirements and economic objectives weigh more heavily than economic and social ones. These comments are based on misunderstandings, which relate to PPW 7.2.2 as well as PPW 7.1.3. If the new national policies are to be delivered successfully, it is important that the TAN clear these up.
- 1.33 PPW 7.1.3 says that market requirements should provide a first-stage draft, so to speak, of planning policies and decisions. In subsequent stages, this draft should be amended in the light of other considerations, including social and economic objectives.
- 1.34 This does not mean that the market should dictate planning decisions, or that economic considerations are more important than social and environmental ones. Rather, the key message is about the 'division of labour' between the market and public policy. It says that market signals tell us something important about the economic benefits of development, which planning ignores at its peril. To clarify this, we need briefly to engage with basic economic theory.

Economics

- 1.35 In a command economy⁴, government (central or local) determines the most efficient use of land – that is, the use which delivers the greatest economic benefit. Within government, the

⁴ A command economy is 'an economy in which business activities and the allocation of resources are determined by government order rather than market forces' (Collins Dictionary). North Korea may be the only example currently in existence.

task is carried out by a range of people, individually using specialist knowledge of various industries, and mutually coordinated through administrative mechanisms.

- 1.36 But in our mixed market economy, task is performed by the market – that is, by the businesses and other bodies that use, develop and own land. It is a widely distributed task, in which many participants make separate decisions, individually informed by specialist knowledge and mutually coordinated by the price mechanism. In simple economic theory:
- The land values that result from this process are a measure of the economic benefit of a given land use or development – albeit a very imperfect measure, owing to distortions known as market failures. For example, market forces do not work well to align development with infrastructure or control the relationships between incompatible uses.
 - Land values also determine the market demand for land, because landowners will normally provide their land for that use that produces the highest value.
 - Therefore, provided that market failures are corrected, the arrangement of land uses that meets market demand should also deliver the greatest economic benefit (the highest level of output and employment, the most economic growth).

Planning

- 1.37 Reality does not quite match this theory, mainly because market failures are very widespread, very large and not always easily corrected. But, however imperfect the market mechanism, in the UK the government is not equipped to take its place. Neither national government nor local planning authorities have the specialist knowledge or co-ordination mechanisms to determine the arrangement of land uses that would contribute most to economic growth. Nor would they have the powers to deliver this arrangement in practice, given that the ownership, development and occupation of land are spread across countless bodies, most of them operating in the market sector.
- 1.38 In contrast, government, including local planning authorities, is generally well equipped to diagnose market failure, and also to assess the social and environmental impacts of development - which the market does not deal with. Government uses professionals to measure these impacts, applying specialist expertise and agreed methods, and mutually coordinated through carefully designed administrative mechanisms. It is also well placed to translate these assessments into reality, because it has extensive powers to control the development and use of land. Therefore, in relation to land use as in many other areas, the role of the government is to correct the market rather than replace it.
- 1.39 This is why the third sentence of PPW 7.1.3 implies a sequential process:
- To determine what land it should provide for the various economic uses, the local planning authority should first assess effective demand – the amount and nature of development that would happen if it provides the land that the market wants. When the authority is determining an individual planning application, the answer of course will be in the application itself. When it is setting long-term provision targets for the development plan, it should form an evidence-base view of future demand across its area.

- In a second step, the authority should correct this market-driven outcome, to take account of social and environmental factors and market failure.

1.40 There is no suggestion in PPW that the first stage should be more important than the second. Depending on the circumstances, the corrections made in the second stage may be very large – for example when an application is turned down, or the development plan makes no provision at all to meet certain kinds of demand.

1.41 But if market demand is not taken as the starting point, the economic benefits of development will not be merely undervalued. They may not be weighed in the balance at all, simply because there is almost no other way of assessing them – unlike social and (especially) environmental impacts, for which planning has sophisticated measuring instruments. This is best illustrated through a simple example.

An example

1.42 Consider a planning application, or proposed land allocation, for a strategic warehouse park to support national or regional distribution facilities.

1.43 Given that occupiers and developers are choosing to invest in this new facility, we would expect it to produce net economic benefits, for example through lowering costs, increased throughput or improved consumer choice. These impacts will occur over a large geographical area, benefiting large numbers of people, who gain a small amount each and mostly know nothing about the new warehouse. In contrast, any congestion or visual intrusion associated with the development will affect much smaller numbers of people. These people will be concentrated in the vicinity of the development and individually may experience significant harm, which they can easily see is due to the development.

1.44 So there is a bias in the system against the development, especially because it is a strategic facility, and consequently its benefits are thinly spread – whose and hard to trace, while its adverse effects are obvious and spatially concentrated.

1.45 An enlightened government or planning authority might be aware of this bias and try to correct it, by commissioning an economic impact study to assess the true economic benefits of the proposed development. In this study, the first step will be to estimate the scheme's gross contribution to the economy – that is, the output and employment that the development will house. This is a reasonably straightforward piece of analysis. But it will not remotely answer the question, because of an important fact which is often overlooked.

1.46 This fact is that, if the proposed distribution park is not built at the subject site, some or all of the economic activities it would accommodate will still happen, albeit not in the same place and often not in the same firms. This is because the demand for distribution is largely driven by macroeconomic factors beyond the scope of land-use planning. If the sites is not allocated or permission is refused, some of the park's would-be occupiers might stay put at their existing locations, perhaps expanding or intensifying existing sites. Others would still look for new warehousing, creating demand for strategic distribution development at another site or sites. Others might forego their expansion or relocation plans, opening up market opportunities for competing businesses, which in turn would generate demand for

land and property. Some would-be occupiers might even close down, vacating sites that competitors could re-use.

- 1.47 If it is to provide useful intelligence, therefore, the assessment study would have to go to a second step – comparing the proposed development with a base case, or counterfactual scenario. The base case would show where and how the demand associated with the proposal would otherwise be met. The study would then compare the two scenarios in terms of the output and jobs they would generate.
- 1.48 This second step is exceedingly difficult. Part of the problem is that we do not have the necessary information to build a reasonable base scenario. But comparing economic benefits across the two scenarios is even more challenging:
- In terms of immediate demand effects – the total output and jobs accommodated – the two outcomes may be similar, provided the study area is large enough to capture the displaced demand.
 - Indeed, in terms of immediate demand effects, if the planning system is working well the two outcomes *should* be similar. This is because, as discussed elsewhere in this report, planning should not constrain the national total of economic activity and jobs; it should only shift activity to more sustainable places.
 - The main differences between scenarios will likely relate to supply-side effects - which means impacts on economic efficiency. As noted earlier, investment in modern strategic distribution is likely to make the industry more efficient, through higher output, wider consumer choice and lower unit costs.
- 1.49 These supply-side benefits are very difficult to measure. In our mixed economy, they come about through complex and decentralised market processes that are largely hidden from view. To measure them for two or more alternative scenarios and compare these alternative outcomes is beyond the realm of possibility, because margins of error are too wide.
- 1.50 Yet in the long term, and for the nation as a whole, it is supply-side benefits that matter. In the long term, provided that national governments are reasonably competent in managing demand, the nation's economic growth should be driven by the capacity and competitiveness of the economy – that is, by supply-side effects. If it is to support economic growth, planning should give economic efficiency significant weight in land allocations and development management decisions.
- 1.51 In our example, the main economic benefit of the proposed development for the nation as a whole will come from faster, cheaper and more responsive distribution. Other things being equal, the planning authority should favour a development scenario that maximises these economic benefits. But this most efficient scenario cannot be determined through analytical study. It can only be reached through market mechanisms, and even so the outcome will be imperfect.
- 1.52 Fortunately these imperfections are understood and can be corrected for. Thus, it may be that development at the proposal site would overload the infrastructure and cause traffic congestion – a problem which the market does not deal with satisfactorily. Even in narrowly

economic terms – leaving aside environmental considerations – it would be more efficient to shift the demand to alternative locations, which provide the same advantages but are better served by transport infrastructure.

- 1.53 In summary, other things being equal, planning should aim to locate development in those places where it produces the greatest economic benefit. It generally cannot tell what these places are, except by reference to market demand.

The Barker reports

- 1.54 Similar points are made in the 2006 Barker reports⁵, which were published in 2006 but are still essential reading on the economics of planning. Barker notes that planning has a key role in sustainable development through correcting market failure and promoting social and environmental objectives, and *'it is right that [it] turns down inappropriate proposals or imposes necessary conditions'*. She adds that certain factors bias the planning system against development, and in particular:

- *'...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...*
- *... 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...*
- *... 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.'*

- 1.55 Barker's analysis concludes that planning should pay more attention to the market – while reminding us that other considerations may be as important as or more important than the market. Her recommendations include:

- *'Updating national policy on economic development to... ensure that all direct and indirect benefits of development are fully factored into plan-making and decision-taking. This new Planning Policy Statement on Economic Development should stress the*

⁵ Barker Review of Land Use Planning, *Interim Report – Analysis*, July 2006; *Final Report, - Recommendations*, December 2006, published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office, Crown copyright 2006

importance of taking account of market signals... Plans should, of course, continue to make clear where it is inappropriate for development, or certain types of development, to occur, in order to protect the environment and deliver social goals...'

- *Ensuring that planning is based on the consideration of spillover effects [a species of market failure], rather than trying to predict market demand. Planners should not be attempting to determine if there is sufficient 'need' for a given application – rather the applicant, who is bearing the risk, should be responsible for assessing that likely demand is sufficient to make the development viable...'*

Conclusion

- 1.56 To summarise the above discussion, PPW 7.1.3 does not imply that economic growth outweighs other policy objectives, or that the market tells us all we need to know about the economic impacts of development. Rather, its point is that planning carries important messages for planning, which are otherwise not available. The TAN needs to clarify this important point.
- 1.57 Planning authorities are not in a position to measure the economic impacts of given planning policies or development management decisions, nor can they determine where development should be located in order to maximise economic benefits. Therefore it is not the job of planning authorities directly to work out how best development can contribute to economic growth, enhanced competitiveness or greater productivity. Planning authorities can and should contribute to these objectives indirectly, by providing land to meet market demand, unless material considerations indicate otherwise.
- 1.58 In Chapter 2 below, we provide more guidance on how this can be done, and in particular how to weigh market demand and benefit against other considerations.

Planning considerations

Chapter 7

- 1.59 Following the advice on market demand discussed above, PPW goes on to consider other planning considerations as follows:
- '7.1.3 ... In addition, wherever possible local planning authorities should seek to guide and control economic development to facilitate regeneration and promote social and environmental sustainability. In so doing, they should aim to:*
- *co-ordinate development with infrastructure provision;*
 - *support national, regional, and local economic policies and strategies;*
 - *align jobs and services with housing, wherever possible, so as to reduce the need for travel, especially by car;*
 - *promote the re-use of previously developed, vacant and underused land; and deliver physical regeneration and employment opportunities to disadvantaged communities.*
- 7.1.4 In applying these and other considerations, local planning authorities should aim to steer economic development to the most appropriate locations, rather than prevent or discourage such development.'*

1.60 With reference to our earlier discussion, this advice should help authorities take the second step at paragraph 1.39 above. It advises on how planning should alter market outcomes to correct market failure and promote social and environmental objectives.

Is the list incomplete?

1.61 A number of consultees and case study authorities comment that the bullet-point list of planning considerations is very incomplete. Important factors which are not mentioned include conservation of natural and heritage assets, reducing carbon emission, prevention and mitigation of major accidents and safeguarding against flood risk.

1.62 The simple answer to these comments is that the list is not exhaustive. Rather, it is restricted to those considerations which apply especially to economic land uses. Planning of course should have regard to many other objectives, which are subsumed under the general advice that '*authorities should guide and control development to facilitate regeneration and promote social and environmental sustainability*' and set out elsewhere in PPW, especially in Chapter 4 (general considerations applying to all land uses) and Chapters 8, 10, 11 and 12 (considerations relevant to specific economic uses).

Steering development to the right places

1.63 With regard to PPW 7.1.4, it will be useful to the TAN to explain the practical implications of the principle set out. 7.1.4 follows directly from the earlier observation that planning should not constrain economic growth *for Wales as a whole*. These last few words are important.

1.64 In line with the principles discussed earlier, there will be many instances in which planning, quite rightly, does not provide the land the market demands, in the places where the market demands it. Many proposed developments or site allocations will be resisted by planning authorities – for example because they would have unacceptable environmental impacts, divert demand from town centres or would go against agreed spatial strategies. In these cases, the key message of Chapter 7 is that planning should aim to accommodate the equivalent demand on alternative sites:

- Such alternative sites may not be in the same settlement or the same local authority area; it is perfectly reasonable for planning to constrain the economic growth of particular towns or districts, perhaps because they are environmentally sensitive or not readily accessible by sustainable means.
- Nor do alternative sites need to accommodate the same occupiers or the same developers. If, for example, a proposed shopping centre is rejected by the planning authority, the same consumer demand may be fulfilled by different retailers, using space built by other developers.

1.65 What is important is that, where development is steered to alternative sites, these sites still offer the features that businesses are looking for. Demand for large-scale office development, for example, is focused on high-quality environments that are accessible to a large labour force. If the land provided by planning authorities does not meet these requirements, those occupier businesses which have a wide choice of locations may avoid Wales altogether. Other businesses, which are tied to Wales or particular regions, might

have no choice but to accept sub-optimal locations; but the result may be that they are less efficient and less competitive.

- 1.66 Either way, identifying the wrong sites for employment would constrain economic growth in Wales, contrary to PPW. To avoid this, so far as possible planning should steer development to sites which are close and similar to those where it would ideally want to go. For this, planning authorities need to understand the commercial property market, so they know what occupiers are looking for and what features make sites commercially attractive and viable.

The new TAN

- 1.67 **It is important that paragraphs 7.1.3-4 of PPW be understood correctly, because they provide basic principles that underpin much of the advice that follows. Therefore the TAN should clarify these principles and their implications. We suggest it make the following points, under the heading 'High-level planning objectives':**

Planning and the market

- **Past planning policy has not always given due weight to the economic benefits of development. This is partly because such benefits may be geographically spread out, far beyond the areas where development is located, and they are very difficult to measure directly.**
- **PPW 7.1.3 advises that planning for economic land uses should aim to provide the land that the market requires, unless there are good reasons to the contrary. Where markets work well, this will help maximise economic efficiency and growth.**
- **Such reasons to the contrary apply where market forces go against environmental and social objectives, or indeed against economic efficiency.**
- **These 'market failures' are extremely widespread and planning should work to correct them.**
- **PPW Chapter 7 discusses the corrections in many places. Aside from paragraph, 7.5.1, these include paragraph 7.1.3 and the whole of section 7.4. Among other things, the policies advise that planning should guide development so that it benefits disadvantaged communities, concentrates people-intensive activities in town centres and aligns jobs with housing and infrastructure. Market forces on their own cannot deliver these objectives.**

Planning considerations

- **Where planning authorities intervene to correct market outcomes, they should have regard to the considerations listed at PPW 7.1.4 - which are listed there because they are particularly relevant to economic development. They should, of course, also have regard to the objectives and considerations set out elsewhere in PPW, especially in Chapter 4 (general objectives relevant to all land uses) and Chapters 8, 10, 11 and 12 (considerations relevant to specific economic uses).**

- In line with these principles, in many instances planning will not provide the land the market demands, in the places where the market demands it. Many proposed developments or site allocations will be resisted by planning authorities – for example because they would have unacceptable environmental impacts, divert demand from town centres or would go against agreed spatial strategies. In these circumstances, so far as possible planning should provide alternative sites which offer the same advantages.
- In later sections, we will build on these principles to provide more detailed practical guidance.

Larger-than-local planning

Chapter 7

1.68 PPW 7.1.5 reads:

‘Effective planning for the economy requires local planning authorities to work strategically and co-operatively steering development and investment to the most efficient and most sustainable locations, regardless of which local authority area they are in. In addition, travel-to-work patterns do not necessarily respect local authority boundaries and it is essential that local planning authorities identify and make adequate provision for their role in the regional and sub-regional economies of Wales.’

1.69 PPW 7.2.2 adds:

‘... In line with the Welsh Government’s policies for encouraging co-ordination and joint working between local authorities, local planning authorities should work with each other and with relevant economic fora in order to prepare Employment Land Reviews on a sub-regional basis, but in a way which allows individual local planning authorities to identify their own land banks.’

Strategic planning in practice

1.70 Paragraph 7.1.5 follows logically from the planning objectives mentioned earlier. As a general principle it is largely self-explanatory, and it is widely welcomed by consultees. But, as a number of these consultees point out, its practical application will not be straightforward.

1.71 To identify their particular roles regional and sub-regional economies, individual authorities would ideally refer to wider strategic frameworks, but at present no such frameworks are available. To work together in regional or sub-regional groups, they would ideally need a geographical definition of these groups and clear institutional arrangements. One authority comments:

‘National policy requiring authorities to work jointly together on transport, waste and minerals appears to have been successful... We consider that the regional dimension provided for Local Development Plans in the policy areas of transport, waste and minerals is missing for housing and economic development, probably the most important parts of every development plan..’

- 1.72 These gaps will be filled in due course, further to the report of the Independent Advisory Group on the proposed Planning Act⁶. The IAG report concludes that the lack of strategic planning arrangements is a general failure of the planning system, both at national lower levels. At national level, it recommends that under the New Planning Act Welsh Ministers be empowered to prepare a National Development Framework (NDF), which will be independently examined and scrutinised by the National Assembly. The report makes a powerful case on the economic benefits of an NDF:

[The NDF]... would be essentially spatial in content, setting national land-use development priorities and avoiding the needless and damaging competition for strategic investment that can and has occurred between regions and Councils. It has considerable potential to benefit the economy. A national approach, subject to regular review, would allow for a wider perspective to be adopted and therefore a cohesive package of sites identified to provide a more comprehensive portfolio than it is possible for a single local authority to supply. The long term investment required to promote and service certain sites can be threatened in the short term by the cyclical nature of the economy. However, a national strategy should allow for long term decisions to be made and local planning authorities to deflect potential criticism arising from allocated sites not being developed. In addition, a strategy which considers the demand perspective and identifies key location and property criteria for existing and emerging industries will allow for limited public sector investment in infrastructure and services to be targeted on a limited number of strategic sites, potentially also allowing for surplus sites to be released from employment allocations. Finally, a wider property strategy for employment in Wales would help inform policy in other areas, from transport and infrastructure to housing.

- 1.73 At the regional / sub-regional levels, the IAG report quotes a range of evidence, including our 2011 Economic Renewal study, to conclude that ‘value would be added by LPAs working collaboratively to address common policy topics on a regional basis’. It advises that the Planning Act should introduce a regional tier of planning, covering selected areas to be determined. It also recommends the creation of a national support structure to provide the necessary skills and knowledge for strategic planning.

- 1.74 The Group comments on the economic benefits of regional planning as follows:

‘A ‘larger than local’ approach to economic spatial planning could allow for a balanced portfolio of more significant employment sites and buildings to be identified and promoted. Wales should maximise its economic impact by making the most effective use of public and private sector resources to deliver economic policy objectives and therefore to fulfil market demand. A property strategy for employment in Wales could focus on higher level and more specialist employment sites. It could ensure that sufficient sites and locations are adopted to cater for the retention of our existing industries and businesses, as well as true inward investment.’

⁶ *Toward a Welsh Planning Act: Ensuring the Planning System Delivers*, Report to the Welsh Government by the Independent Advisory Group, June 2012

1.75 The Welsh Government has accepted the IAG's recommendations for strategic planning. But they will not be implemented for some time, because they require new legislation. The Group considers that this is too long to wait for practical action:

'The Planning Bill and its

Commencement will take time that some say is not available if the planning system is to stimulate economic growth in the present'

1.76 Therefore it recommends that interim measures be adopted in advance of the new legislation, as follows:

- At national level:

- A Ministerial Statement to say that informal regional strategies and LDPs should have regards to the national priorities in the Wales Infrastructure Investment Plan and Natural Resource Management Plan;
- *'Over-arching strategies in a number of areas, including the provision of strategic employment sites, which will allow Wales to maximise economic impact by making the most effective use of limited public and private sector resources'*

- At sub-national level, while regional arrangements are consulted on, that the Welsh Government encourage local planning authorities to make voluntary arrangements for strategic cross-boundary planning. One such arrangement, recommended as a 'quick-win' measure, is that

'The government should encourage groups like SEWSPG to prepare informal documents that cover strategic and cross boundary matters in complex areas. These should be based on national forecasts where available and should be transparent, inclusive and democratic in process. If there is a move towards economic planning on a City Region basis, strategic land use documents should be aligned with these areas. The Welsh Government may wish to consider whether to appoint an Inspector or independent group to scrutinise these documents.'

1.77 In relation to economic land uses, we would suggest that these informal documents comprise regional evidence bases (Employment Land Reviews), feeding into non-statutory economic spatial strategies.

1.78 As recommended by the IAG, these documents should focus on identifying strategic sites of national and regional importance, both for the traditional employment uses and other economic activities. They should also provide agreed land provision targets for the B-class uses, showing how development is to be distributed across local authority areas. Depending how the wider IAG recommendations are implemented, economic spatial strategies could be either free-standing documents or part of wider regional strategies that also cover other land uses.

1.79 We suggest that the Welsh Government define three regions for the purpose of these strategies, comprising South East Wales and Swansea Bay city regions and the North East

Wales area, as defined in the City Regions report⁷. In these areas, authorities should be strongly encouraged to start work on the new evidence bases immediately.

- 1.80 For reasons discussed in that report, in other parts of Wales the case for regional economic planning seems less compelling, and the boundaries of possible regions are less clear.
- 1.81 As previously discussed in our Economic Renewal report, and as a precursor of the 'support structure' proposed by the IAG, we also suggest that the Welsh Government provide two central pieces of evidence to help inform planning for economic land uses:
- Baseline economic forecasts for districts, including output and employment by sector and consistent with the population, household and workforce projections which the Government publishes separately;
 - A national property market review of the office and industrial / distribution sectors, providing broad assessments of demand, supply, market balance and development opportunities across Wales.
- 1.82 In making the first of these suggestions, we do appreciate that forecasts are highly uncertain, especially for small areas such as local planning authorities. We also bear in mind that econometric forecasts do not take account of changes in local supply factors such as planning policy and the development capacity of different areas; in effect, they broadly assume that these factors will not change in the future.
- 1.83 Accordingly, it is entirely legitimate for planning authorities to amend the forecasts provided by the Government. They could do this because they think the forecasts are misleading – for example, they may not 'know' about local factors such as a major inward investment. Alternatively, the forecasts may be technically correct as a 'policy-as-usual' view of the future, but authorities may decide to change that future by implementing new policies.
- 1.84 The purpose of centrally provided forecasts, therefore, is not to impose a rigid view of local economic futures. Rather, it is to provide a starting point which is shared across regions and the nation. Especially, centrally prepared forecasts provide national and regional totals, which should be considerably more robust than the figures for individual local authorities. Regional groupings and the Welsh Government should use these totals as controls. If local growth expectations add up to significantly more jobs and greater land requirements than the control totals, these local figures should be tested for technical soundness and realism. The tests should question what policy and supply-side changes are expected to bring about the above-forecast growth, and which other places this 'supergrowth' is expected to be displaced or diverted from.
- 1.85 We add detail to all the above suggestions in later in this report.

⁷ Task and Finish Group, *City Regions Final Report*, July 2012, Supported by Welsh Government

The new TAN

- 1.86 Based on the above discussion, the TAN should include a section headed 'Larger than local planning', which makes the following key points:
- As part of the new Planning Act, and as recommended by the Independent Advisory Group, the Welsh Government intends to introduce a National Development Framework and strategic regional plans for selected areas, together with a national support structure to provide the necessary knowledge and skills.
 - More strategic economic planning is needed urgently, to ensure that Wales provides the best possible portfolio of strategic sites, without wasteful oversupply or counter-productive competition. Therefore the Welsh Government is adopting interim measures in advance of the new legislation.
 - Local planning authorities should work jointly in regional groups to prepare regional economy evidence bases, followed by economic spatial strategies.
 - These documents should focus on identifying strategic sites of national and regional importance, both for the B-class uses and other economic activities. They should also provide agreed land provision targets for the B-class uses, showing how development is to be distributed across local authority areas.
 - The Welsh Government considers that there is pressing need for strategic economic planning in South East Wales and Swansea Bay city regions and the North East Wales area [add map and list of authorities]. In these areas, local planning authorities should start work on the new evidence bases immediately.
 - Detailed guidance on these documents is provided at X-REF below.
 - As an early element of the proposed support structure for strategic planning, the Welsh Government will provide by DATE [within 6 months of the new TAN]:
 - Baseline economic forecasts for districts, including output and employment by sector and consistent with the population, household and workforce projections which the Government publishes separately;
 - A national property market review of the office and industrial / distribution sectors, providing broad assessments of demand, supply, market balance and development opportunities across Wales.
 - Sections XXX-XXX [on plan-making and evidence bases] provide more practical advice on larger-than-local planning.

2 PLANNING FOR ECONOMIC DEVELOPMENT

Weighing economic benefit

Chapter 7

2.1 Section 7.2 of PPW is mostly self-explanatory. It needs to be supported by more detailed guidance on just three points: Employment Land Reviews, which we deal with in Appendix 2 of this report; Simplified Planning Zones and Local Development Orders, on which separate guidance is already provided; and the weighing of economic benefits, which is discussed below.

2.2 On this topic, PPW 7.2.2 says:

‘Local planning authorities are required to ensure that the economic benefits associated with a proposed development are understood and that these are given equal consideration with social and environmental issues in the decision-making process, and should recognise that there will be occasions when the economic benefits will outweigh social and environmental considerations.’

2.3 In its broad intent, this paragraph is similar to PPW 7.1.3, which we considered in Chapter 1 above. Both seek to balance policy priorities, so that economic objectives are properly weighed in alongside social and environmental ones. The underlying principles were discussed at length in Chapter 1. Here, we focus on how they should be applied in practice, both in making site allocations and development management decisions.

Principles

2.4 Stakeholders make three important comments on PPW 7.2.2, which we suggest be included in the TAN as points of clarification:

- It would be wrong to assume that economic objectives are necessarily in conflict with social and environmental ones. Often these different dimensions point in the same direction. Planning should positively and imaginatively seek such ‘win-win’ outcomes, where development contributes to all three dimensions of sustainability.
- Where economic development would cause environmental or social harm which cannot be fully mitigated. PPW does not imply that the economy should always, or even often, take precedence. There will of course be occasions when social and environmental considerations will outweigh economic benefit. The right decision in each case will depend on the circumstances and the planning authority’s priorities.
- It is a central objective of the planning system to steer development to sustainable locations, as mentioned earlier at PPW 7.1.4. Therefore, where a proposed development would cause significant environmental or social harm, demand should be steered to alternative locations, unless the harm is outweighed by the additional benefit of development at the site originally proposed. Such alternative locations will not necessarily be in the same local authority area.

Making decisions in practice

The question

- 2.5 Stakeholders also ask a question arising from PPW 7.2.2: where economic objectives do clash with environmental and social ones, how should local planning authorities go about finding the right balance? This is an important practical question, which applies both to land allocations and development management decisions. The TAN needs to advise on it.
- 2.6 In relation to environmental damage, one consultee proposes a definite answer. They say the TAN should provide a rigorous method for measuring the long-term economic impacts of development. Based on the resulting scores, development schemes would be classified to a hierarchy, from high to low or nil economic benefit, which would parallel the existing hierarchy of environmental designations (see PPW Chapter 5 and TAN 5). 'Exchange rates' would be set between the two hierarchies, providing clear and transparent value judgments on the relative weight of economic benefit and environmental damage. The system would produce a ready verdict on any proposed or potential development scheme, showing if the scheme's economic benefits outweigh the damage it would cause. If the exchange rates were set centrally, these verdicts would be mutually consistent across Wales.
- 2.7 In our view, this approach it is very attractive in theory but not feasible in practice, because government (central or local) is not in a position to measure the economic impacts of given planning policies or development management decisions, nor can it determine where development should be located in order to maximise economic benefits.

A suggested answer

- 2.8 As discussed in Chapter 1 above (see paragraph 1.42 onwards), to measure the economic benefit of a proposed development we would need firstly to determine where the associated economic activity would go if the development does not happen, and secondly to compare the consequences of these two alternatives for output and employment, focusing on economic efficiency (unit costs, productivity, competitiveness) over the long term.
- 2.9 This is not feasible in practice, and therefore we cannot propose a formal, mechanical method for weighing economic benefit against social and environmental damage. Instead, we suggest a more qualitative, criteria-based approach.
- 2.10 Where a planning authority is considering a site allocation or planning permission that would cause significant harm to the environment or social cohesion, even after any mitigation measures, it should ask three questions:
- i *Alternatives: if the land is not made available (the site is not allocated, the application is refused), is it likely that the equivalent demand could be met on a site where development would cause less harm, and if so where?*

This test follows from the principle in PPW 7.1.4, that planning should steer development to the most sustainable locations. It also follows from the point made earlier in Chapter 1, that when a proposed site allocation or development scheme is rejected the associated economic activity – or similar activity – will normally be

displaced to another site. To gauge the benefit of the proposal, therefore, we have to compare it with the 'base case' in which the proposal does not go ahead.

The answer relates partly to economic sectors. As discussed earlier, for retail and local consumer services it is likely that demand can be readily steered to alternative sites within the local authority area or sub-region. At the other extreme, some internationally footloose operations may not locate in Wales, or remain in Wales, at all unless they secure a particular site. Similarly some existing firms may not be able to grow unless they are allowed to expand on their existing site, or close to it. Even so, before concluding that 'there is no alternative' we need to consider whether competing firms, serving the same markets, could generate the same development and jobs.

The answer also depends on the availability of close and similar alternative sites. If the subject site is unexceptional, so there are many others like it, and these other sites have spare capacity, it may be easy to find substitutes. Conversely, there may be few substitutes or none if the subject site has unusual advantages, such as very large size, outstandingly good accessibility, or specialist features that certain industries need. But unusual characteristics only matter if they match market requirements. If large single-user sites or prestige office parks, for example, are chronically oversupplied, it would be wrong to sacrifice environmentally sensitive land for the sake of increasing supply even further.

ii *Jobs housed: how many direct jobs will be based at the site?*

This number provides a rough-and-ready measure of a development's contribution to the wider economy. As discussed early, more accurate measures are not readily available.

The question at this stage does not refer to new jobs, jobs for local people (however defined), or jobs in new businesses or local businesses (again, however defined). As discussed earlier in this report, in line with national policy economic growth is worthwhile wherever it is located, and in the interests of economic growth the planning system should generally aim to provide land where there is demand for it.

There are, of course, good reasons why jobs in some places are even more worthwhile than in other places. The third test below deals with this.

iii *Special merit: would the development make any special contribution to policy objectives?*

Such policy contributions may relate to the objectives listed at PPW 7.1.3, or to more general policy objectives set out elsewhere in PPW. For example, a major employment site may be a key element of a wider spatial strategy which aligns jobs, development and infrastructure. The office or production plan of a high-technology firm could bring supply-side benefits by raising skills and introducing innovation. An industrial estate in a disadvantaged area could help fight social exclusion, improving run-down places and creating job opportunities for people at high risk of unemployment.

Section 7.4 of PPW advises that planning should particularly support the low-carbon economy, innovative business / technology clusters and social enterprises – defined as businesses that are particularly important in providing opportunities for social groups disadvantaged in the labour market. Developments that will provide space for these categories of businesses count as making special policy contributions.

As discussed earlier, the assessment of special policy contributions has to be largely qualitative. But still it can, and should, be rigorous, including critical review of applicants' claims. In particular, claims about jobs and physical regeneration for disadvantaged communities need careful auditing, taking account of deadweight and displacement. If jobs housed in new development displace jobs that are or close to the disadvantaged area, then there is no employment benefit to the community concerned. As mentioned earlier this is typically the case for economic activities that serve local or sub-regional markets, such as retail, leisure, local services and even some manufacturing.

- 2.11 The planning authority should use these criteria comparatively. It should assess the additional benefits of development at the subject site (if any) against those of meeting demand in locations where the development would cause no harm (if any). For example:
- A greenfield development, perhaps in a designated nature conservation area, could attract high-value, high-skill businesses - which arguably would not be interested in a lower-quality environment. In assessing the development, the key question is whether an equally attractive setting could be created in places that are less environmentally sensitive.
 - Conversely, an urban brownfield redevelopment might create local jobs and physical regeneration in an area of need, at the cost of traffic congestion and bad neighbour nuisance. Located in a sustainable urban extension a short distance away, the development could be environmentally benign, but may be socially less useful.
- 2.12 To take a decision on the proposed development, the planning authority should compare the additional benefit of developing at the subject site with the harm the development would cause. Inevitably the final verdict will be based on judgment as well as analysis.

The new TAN

- 2.13 **We suggest that the TAN expand on PPW 7.2.2, under the heading 'Weighing the benefits of economic development'. The guidance should include the following.**
- **It would be wrong to assume that economic objectives are necessarily in conflict with social and environmental ones. Often these different dimensions point in the same direction. Planning should positively and imaginatively seek such 'win-win' outcomes, where development contributes to all three dimensions of sustainability.**
 - **Where economic development would cause environmental or social harm which cannot be fully mitigated. PPW does not imply that the economy should always, or even often, take precedence. There will of course be occasions when social and environmental considerations will outweigh economic benefit. The right**

decision in each case will depend on the circumstances and the planning authority's priorities.

- It is a central objective of the planning system to steer development to sustainable locations, as mentioned earlier at PPW 7.1.4. Therefore, where a proposed development would cause significant environmental or social harm, demand should be steered to alternative locations, unless the harm is outweighed by the additional benefit of development at the site originally proposed. Such alternative locations will not necessarily be in the same local authority area.
- The economic impacts of development cannot be accurately measured. To assess these benefits and weigh them against any social or environmental damage that development may cause, local planning authorities should use a qualitative, criteria-based approach as set out below.
 - Where a planning authority is considering a site allocation or planning permission that would cause significant harm to the environment or social cohesion, even after any mitigation measures, it should ask three questions:
 - i *Alternatives: if the land is not made available (the site is not allocated, the application is refused), is it likely that the equivalent demand could be met on a site where development would cause less harm, and if so where?*

This test follows from the principle in PPW 7.1.4, that planning should steer development to the most sustainable locations. It also follows from the point made earlier in Chapter 1, that when a proposed site allocation or development scheme is rejected the associated economic activity – or similar activity – will normally be displaced to another site. To gauge the benefit of the proposal, therefore, we have to compare it with the 'base case' in which the proposal does not go ahead.

The answer relates partly to economic sectors. As discussed earlier, for retail and local consumer services it is likely that demand can be readily steered to alternative sites within the local authority area or sub-region. At the other extreme, some internationally footloose operations may not locate in Wales, or remain in Wales, at all unless they secure a particular site. Similarly some existing firms may not be able to grow unless they are allowed to expand on their existing site, or close to it. Even so, before concluding that 'there is no alternative' we need to consider whether competing firms, serving the same markets, could generate the same development and jobs.

The answer also depends on the availability of close and similar alternative sites. If the subject site is unexceptional, so there are many others like it, and these other sites have spare capacity, it may be easy to find substitutes. Conversely, there may be few substitutes or none if the subject site has unusual advantages, such as very large size, outstandingly good accessibility, or specialist features that certain industries need. But unusual characteristics only matter if they match market requirements. If large single-

user sites or prestige office parks, for example, are chronically oversupplied, it would be wrong to sacrifice environmentally sensitive land for the sake of increasing supply even further.

ii ***Jobs housed: how many direct jobs will be based at the site?***

This number provides a rough-and-ready measure of a development's contribution to the wider economy. As discussed early, more accurate measures are not readily available.

The question at this stage does not refer to new jobs, jobs for local people (however defined), or jobs in new businesses or local businesses (again, however defined). As discussed earlier in this report, in line with national policy economic growth is worthwhile wherever it is located, and in the interests of economic growth the planning system should generally aim to provide land where there is demand for it.

There are, of course, good reasons why jobs in some places are even more worthwhile than in other places. The third test below deals with this.

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Such policy contributions may relate to the objectives listed at PPW 7.1.3, or to more general policy objectives set out elsewhere in PPW. For example, a major employment site may be a key element of a wider spatial strategy which aligns jobs, development and infrastructure. The office or production plan of a high-technology firm could bring supply-side benefits by raising skills and introducing innovation. An industrial estate in a disadvantaged area could help fight social exclusion, improving run-down places and creating job opportunities for people at high risk of unemployment.

Section 7.4 of PPW advises that planning should particularly support the low-carbon economy, innovative business / technology clusters and social enterprises – defined as businesses that are particularly important in providing opportunities for social groups disadvantaged in the labour market. Developments that will provide space for these categories of businesses count as making special policy contributions.

As discussed earlier, the assessment of special policy contributions has to be largely qualitative. But still it can, and should, be rigorous, including critical review of applicants' claims. In particular, claims about jobs and physical regeneration for disadvantaged communities need careful auditing, taking account of deadweight and displacement. If jobs housed in new development displace jobs that are or close to the disadvantaged area, then there is no employment benefit to the community concerned. As mentioned earlier this is typically the case for economic activities that serve local or sub-regional markets, such as retail, leisure, local services and even some manufacturing.

- **The planning authority should use these criteria comparatively. It should assess the additional benefits of development at the subject site (if any) against those of meeting demand in locations where the development would cause no harm (if any). For example:**
 - **A greenfield development, perhaps in a designated nature conservation area, could attract high-value, high-skill businesses - which arguably would not be interested in a lower-quality environment. In assessing the development, the key question is whether an equally attractive setting could be created in places that are less environmentally sensitive.**
 - **Conversely, an urban brownfield redevelopment might create local jobs and physical regeneration in an area of need, at the cost of traffic congestion and bad neighbour nuisance. Located in a sustainable urban extension a short distance away, the development could be environmentally benign, but may be socially less useful.**
- **Sections XXX-XXX [on plan-making and evidence bases] provide more detailed guidance on the practical application of these principles.**

3 THE RURAL ECONOMY

- 3.1 We consider that section 7.3 of the updated PPW, *Promoting diversification in the rural economy*, needs supporting guidance on two issues: the nature of economic activities suitable for rural areas, and development outside settlement boundaries. We discuss these issues in turn below.

Economic activities suitable for rural areas

Chapter 7

- 3.2 PPW 7.3.1 reads in part:

'Many commercial and light manufacturing activities can be located in rural areas without causing unacceptable disturbance or other adverse effects [footnote refers to TAN 6]. Small-scale enterprises have a vital role in promoting healthy economic activity in rural areas, which can contribute to both local and national competitiveness...'

- 3.3 A number of stakeholders comment that in addition to light manufacturing there are many other economic activities that can be located in rural areas without causing unacceptable harm. The word 'commercial' does not necessarily cover all these activities, because its meaning is not clear. Nor does TAN 6, to which the test refers, provide a list of activities that are suitable for rural areas.
- 3.4 More specifically, some stakeholders argue that tourism deserves specific mention in this regard. They say that tourism relies for its success on the country's natural and cultural assets. It also helps protect and enhance such assets, through financial contributions and by creating high-quality managed natural environments, for example in holiday parks. Thus, tourism can generate 'win-win' developments, where economic and environmental benefits coincide. Furthermore, some types of tourism-related development almost by definition are located in the open countryside without public transport access, but nevertheless make an essential contribution to local economies.

The new TAN

- 3.5 **Bearing in mind these comments, we suggest that the new TAN provide additional advice on PPW 7.3.1. The TAN should say that a wide range of economic activities may be sustainably accommodated in rural areas, and quote tourism as one important example. (TAN 6 already makes a small step in this direction at paragraph 4.3.2, which defines 'rural enterprise' for the purpose of housing policy, and includes tourism and leisure in that definition.)**

Settlement boundaries and unallocated sites

Chapter 7

- 3.6 PPW 7.3.2 reads in part:

'New development sites are likely to be small and, with the exception of farm diversification and agricultural development, to which separate criteria apply, should generally be located within or adjacent to defined settlement boundaries, preferably where public transport

provision is established. However, some industries may have specific land requirements which cannot be accommodated within settlements. The absence of allocated employment sites should not prevent authorities from accommodating appropriate small scale rural enterprises in or adjoining small rural settlements. The expansion of existing businesses located in the open countryside should be supported provided there are no unacceptable impacts on local amenity.'

- 3.7 The above paragraph makes no clear distinction between different types of 'exception', such as development just outside settlement boundaries, development in the open countryside, development not served by public transport, development on unallocated sites and development in small settlements. In effect it mixes three separate issues: built-up areas versus the countryside, plan allocations versus windfall proposals, and public transport access. We suggest that the new TAN's discussion of PPW 7.3.2 focus on the first two of these issues. The relationship of development to public transport is discussed at length in other parts of PPW and does not need further explanation.

Issues

- 3.8 In consultation and case studies, a number of consultees welcome PPW 7.2.3. They say that policies restricting development to settlement boundaries and allocated sites are too rigid, especially for established local businesses, who often cannot afford the cost and disruption of moving to an industrial estate or other allocated site. Smaller businesses especially, if they are not allowed to expand or modernise in situ, may be unable to grow or even forced to close. Consultees also say that some activities are not environmentally acceptable within settlements. One example quoted relates farm buildings which were unwelcome in a village, due to 'large smelly vehicles constantly in the village'; so the proposal to relocate them to a greenfield site at the centre of the agricultural holding was welcomed by the local community.
- 3.9 Other stakeholders express concern that PPW 7.3.2 could lead to unnecessary urban sprawl. They fear that the policy will be used to justify economic development in the countryside even when existing settlements have plentiful development capacity and are readily available to rural residents. One local authority comments:
- 'More emphasis should be placed on the developer to prove the need for a countryside location, perhaps through a sequential approach to site selection. This would encourage developers to consider urban and brownfield areas before choosing a countryside location, especially where there is a significant employment land bank, and where such land is relatively close to, or within, rural settlements.'*
- 3.10 Another point made in consultation (and also in the 2011 Economic Renewal report) is that the development plan allocations are not always the best way of managing land supply for economic uses. In rural areas especially, criteria-based policies may be a more effective tool, because sites are generally smaller and market requirements more often one-off.
- 3.11 We consider that these points are helpful and the new TAN should respond to them, through clarification to PPW 7.3.2. This clarification should also build on TAN 6, *Planning for Sustainable Rural Communities*, which provides useful guidance on the same issues.

Thus in its Section 2, which deals with the location of development generally, TAN 6 advises:

‘2.2.1 Development plans should set out the spatial vision for rural communities. This should be based on a sound understanding of the functional linkages within the area and the potential for improving the sustainability of the existing settlement pattern. Many rural communities can accommodate development, particularly to meet local needs. New development can help to generate wealth to support local services, ensuring that communities are sustainable in the long term. A key question of the planning authority, when identifying sites in the development plan or determining planning applications, is whether the proposed development enhances or decreases the sustainability of the community. In particular, planning authorities should support developments that would help achieve a better balance between housing and employment, encouraging people to live and work in the same locality...’

2.2.2. ‘Development plans should define local need taking into account the social, economic and environmental characteristics of the area... where possible existing definitions of local need, for example affordable housing to meet local need, should be adopted, or if necessary modified, to include other land uses.’

‘2.2.4 ... In smaller settlements, planning authorities should consider including criteria based policy against which planning applications can be assessed, rather than identifying settlement boundaries.’

3.12 In its Section 3, which focuses specifically on the economy, TAN 6 adds:

‘3.1.3 ... Where possible, sites [identified for future employment use] should be located within or adjacent to settlements. Planning authorities should consider the need for a rural employment exception site policy that sets out the criteria against which planning applications for employment use on the edge of settlements, on sites which are not specifically allocated in the development plan, will be assessed. They should also promote the expansion of established businesses by setting out in the development plan the criteria against which planning applications for employment uses will be assessed. This should include supporting the expansion of businesses that are currently located in the open countryside provided there are no unacceptable impacts on local amenity. Where employment sites and premises are in short supply planning authorities should resist development proposals that could result in their loss, unless provision of equivalent or greater employment value is made in the locality.’

The new TAN

3.13 **Having regard to the above, and following the principles established earlier at paragraph 2.10 of this report, we suggest new guidance to clarify PPW 7.3.2 make the following points.**

- **When identifying land for economic uses in development plans, local planning authorities should use a sequential approach. Other things being equal, they should give first preference to sites within the boundaries of settlements**

(including planned new settlements and urban extensions). As a second preference, they should consider amending these boundaries to include edge-of-settlement sites. As a third preference, they should consider identifying land in the open countryside.

- Land may be identified in less preferable locations if the resulting benefits outweigh any adverse impacts of the development. In judging these benefits, authorities should have regard to the following considerations:

a) *Jobs housed: the expected number of direct jobs based at the site*

As discussed earlier, this provides a rough measure of the scale of the development's contribution to the wider economy.

b) *Alternatives: if the land is not identified at this location, is it likely that the equivalent demand could be met at sequentially preferable locations, and if so where?*

For example, if land supply within is already enough to meet demand, then other things being equal it will be wrong to identify sites in the countryside. However, other things may not be equal, if development in sequentially inferior locations deliver additional economic benefits, as discussed under c) below.

Any alternatives considered need not be in the same local authority area.

c) *Special merit: would the development make any special contribution to policy objectives?*

At X-REF above we provided examples of such special contributions, all of which may apply in rural areas as well as anywhere else. But two kinds of special contribution are particularly relevant to rural development.

Firstly, an economic development could make communities more sustainable, by improving the alignment of housing and jobs, encouraging people to work close to home. The equivalent economic development in an existing settlement may not deliver this benefit, depending on specific geographies and settlement strategies.

The second kind relates to the needs of established businesses or clusters, which generate much of the demand for out-of-settlement development. When businesses expand or modernise, they may need to do so in situ; it may be highly inefficient or impracticable for them to relocate to a sequentially preferable site. Similarly new members aiming to join existing clusters may need to be close to existing members if they are to derive the benefits.

- As discussed earlier, planning authorities should use these criteria comparatively. They should assess the additional benefits of development at the subject site (if any) against those of meeting demand in a preferable (less rural) location.
- Development plans should also include criteria-based policies to deal with proposed developments on land not allocated in the plan. Such policies are

needed everywhere, not just in rural areas. But they will be especially important in rural areas, where sites are generally smaller and market requirements more often one-off.

- Other things being equal, allocated sites should be given priority, but development on unallocated site should be permitted if the resulting benefits outweigh any adverse impacts of the development. To assess these benefits, authorities should use the same considerations a-c above, together with criteria reflecting specific geographies and settlement strategies.
- Proposals on land not identified in the plan will often come from established businesses wishing to expand or modernise. Such individual businesses are unlikely to submit candidate sites when development plans are being prepared, because few can foresee their land needs years in advance and few are familiar with the planning system. If planning prevents such firms from expanding or modernising in situ, significant economic benefits may be foregone.
- Development on land not allocated in the development plan should only be permitted on small sites or in exceptional circumstances. The definition of small is subjective and dependent on the scale and function of the area or settlement in question. It is up to the plan maker to define this further.
- Section 7.3 of PPW should be read alongside TAN 6, *Planning for Sustainable Rural Communities*. Key sections of TAN 6 are 3, *Sustainable rural economies*; 2.2, *Location of development*; and 5, *Sustainable rural services*.

4 PROMOTING THE LOW-CARBON ECONOMY, CLUSTERS AND SOCIAL ENTERPRISES

4.1 PPW Section 7.4 advises that local planning authorities should:

- *'Support the shift towards a low carbon economy, for example by encouraging the development of clusters of industrial and commercial uses deriving environmental benefit from co-location, especially through the development of waste stream technologies and practices (i.e. eco-industrial networks)';*
- *'Look favourably on proposals for new on-site low carbon energy generation including, for example, high efficiency energy recovery from waste, as well as generally facilitating the provision of an integrated network of waste facilities, provided that there are no unacceptable impacts on local amenity';*
- *'Support the development of innovative business and technology clusters';*
- *'Take into account the possibility that certain kinds of businesses may be especially important in providing opportunities for social groups disadvantaged within the labour market [and by implication encourage the development of these businesses]'*.

4.2 These considerations in effect expand paragraph 7.1.3 of PPW, providing objectives, or considerations, that plan-making and development management should have regard to. In relation to the assessment of economic benefit (paragraphs 2.10 and 3.13 above), they should count as special policy contributions.

4.3 In consultations and case studies, three main issues are raised about Section 7.4 of PPW. Some users seek to expand on the description of the low-carbon economy, suggesting additional examples of 'green industries'. Others ask for a definition of 'groups disadvantaged in the labour market' and specific advice on how these groups may be helped. There are also requests for advice on the management on business and technology clusters, and specifically the use of occupancy restrictions.

4.4 These of course are valid and important questions, but in our view they lie beyond the scope of planning guidance. Therefore we suggest that the new TAN does not need to provide additional advice on Section 7.4 of PPW.

5 DEVELOPMENT PLANS AND THE ECONOMY

Introduction

- 5.1 Section 7.5 of PPW, headed *Development Plans and the economy*, sets out requirements concerning development plans in 14 bullet points. Below, we discuss those points on which we think further guidance is needed, in the order in which they appear. In relation to each point, we first quote or paraphrase the text of PPW, then briefly discuss the issues that arise, and finally suggest what the TAN should say. Those points not mentioned below are either covered earlier in this report or in our view require no additional guidance.

Stakeholders

- 5.2 PPW advises:

'Development plans should... reflect work with neighbouring authorities and other relevant stakeholders to plan strategically for employment land provision.'

- 5.3 In consultation and case studies, some users of PPW ask for clarification or make suggestions on the *'other relevant stakeholders'* who should be consulted. Others say that the requirement to plan strategically should relate to all economic land uses, not just *'employment'*, which they understand to mean the B-class uses. Finally there are many questions and comments on the wider issue of strategic (larger-than-local) planning.

- 5.4 This wider issue of strategic planning is discussed elsewhere in this report. **With regard to the first two questions, we suggest that the new TAN make the following points:**

- **As well as neighbouring local authorities, relevant stakeholders who should be consulted may include:**
 - **The property industry**
 - **Commercial agents / surveyors active in the area**
 - **Commercial developers / promoters active in the area**
 - **Landowners, both of existing and proposed sites**
 - **The authority's economic development team – who has a key role in plan-making as well as development control**
 - **Other economic development agencies**
 - **Environmental bodies**
 - **Business representative bodies**
 - **Key individual businesses**
 - **Infrastructure providers**
- **It is important to involve commercial property agents, because of their understanding of demand and supply. From their day-to-day work, they know what occupiers want, what is viable to develop, which land is in demand and which is surplus to requirements.**

- **Further guidance on consultation is in the section relating to evidence bases.**

- **Authorities should plan strategically for all employment land uses, not just the traditional employment uses. This is confirmed at paragraph 7.1.5 of PPW.**

The evidence base

- 5.5 PPW 7.5 says that development plans should be *'underpinned by an up-to-date and appropriate evidence base to support policy choices and land allocations for economic development'*. As we noted earlier, evidence is also discussed earlier in PPW, at paragraph 7.2.1. That paragraph advises that as part of the evidence base authorities should *'undertake and keep under review an Employment Land Review'*, and that the new TAN will provide further guidance on this and on the evidence base generally.
- 5.6 As we discussed in Chapter 1 above, some of the policies in PPW Chapter 7 are about economic land uses generally and others are about the B-class ('employment') uses specifically. Specific policies on other economic land uses are in other chapters of PPW. Similarly, the planning evidence that informs delivery of Chapter 7 should cover economic land uses generally and the B-class uses specifically. It does not need to look closely at other specific uses, which are covered by other TANs.
- 5.7 **Accordingly, the TAN should advise that the economy evidence base be in two parts:**
- **A broad overview of the whole economy, to inform the development plan's economic vision for the area and the spatial expression of that vision**
 - **Closer analysis on the B-class uses, to inform detailed policies and development management.**
- 5.8 **The second part in effect will be the Employment Land Review that is mentioned at paragraph 7.2.1 of PPW.**
- 5.9 **Based on the discussion of strategic planning in Chapter 1 above, in selected areas the evidence base should comprise two tiers:**
- **A regional study, to inform policies on aggregate numbers and strategic sites**
 - **A local study, to inform finer-grained policies and development management decisions.**
- 5.10 **Detailed step-by step guidance on evidence bases is provided in the technical manual at Appendix 2 of this report.**

An economic vision

- 5.11 PPW advises that development plans should *'Using this evidence base, as far as is practicable set out an economic vision for the area, including a broad assessment of anticipated employment change by broad sector and land use'*.
- 5.12 In consultation and case studies, most comments on this point are suggestions about various factors, considerations and documents that the economic vision should take into

account. Most of these are mentioned elsewhere and do not need repeating at this point. But **three additional points should be mentioned in the TAN at this point:**

- **The economic vision should begin by placing the local authority in its wider regional / sub-regional context. Authorities should ensure that economic visions are mutually consistent and complementary across neighbouring authorities. This may be done through joint regional or sub-regional evidence bases.**
- **Where authorities opt against a joint evidence base, they should consult with neighbours as part of preparing their individual evidence bases.**
- **Where there is a joint evidence base, it should recommend an apportionment of long-term employment forecasts across local authorities. The evidence base manual provides guidance on this.**
- **In developing an economic vision, authorities should bring together studies and strategies on all sectors of the economy, including non-B sectors such as retail and tourism.**
- **In areas where there is an up-to-date economic development strategy, the development plan's vision should be aligned with that strategy. However, many areas will not have up-to-date economic development strategies, because local authorities are no longer required to produce them. In those cases, the vision in the development plan could do much of the work that the economic development strategy used to.**

5.13 Based on the case studies and our general experience, we also believe that the TAN should provide more general advice on the relationship between planning strategies and market forces.

5.14 Earlier in this report we stressed that planning should aim to meet market demand, so that economic growth is not constrained by lack of land. But for many local planning authorities the problem is too little demand rather than too much, especially in the current economic climate. Many respond by oversupplying employment land, far in excess of the demand that can reasonably be expected, especially for prestige schemes. The hope is that 'supply will create its own demand' as high-quality development sites attract occupiers and developers. The outcome is typically large tracts of vacant employment land and wasteful territorial competition between neighbouring authorities. This approach is seriously harmful and the TAN should warn against it.

5.15 On the other hand, the TAN should not encourage planning authorities to take a passive role in economic development. Meeting the visible market demand for land is a minimum standard that planning should deliver. But planning can and should do more, because the property market, left to its own devices, will not create the best possible business locations. This is partly due to failures of information and co-ordination relating to land ownership and infrastructure provision, and partly because commercial time horizons may be too short. Planning should help correct these failures, so that Wales offers more efficient and more competitive business locations, better matched to business requirements. This in turn should result in higher demand for land than one would otherwise expect.

5.16 To help planning authorities in this, **we suggest that the TAN make the following points:**

- **In developing their economic visions, local planning authorities should assess current and future business requirements, considering potential in-movers and new start-ups as well as established local firms. They should search for opportunities to create better and more competitive business locations, responding to business requirements and filling any gaps in supply.**
- **PPW 7.5 requires that the economic vision include ‘a broad assessment of anticipated employment change by broad sector and land use.’ The starting point for this assessment should be the baseline economic forecasts provided by the Welsh Government.**
- **Forecasting is an imperfect tool. Forecasts are surrounded by a larger margin of uncertainty, and more so for individual local authorities than for larger areas. Furthermore, economic forecasts generally do not take account of future changes in planning policy and the development capacity of different areas.**
- **Therefore authorities may alter the forecasts provided by the Welsh Government. This may be, for example, because the baseline forecasts seem wrong in the light of market signals or other local evidence, because authorities working jointly have agreed to re-distribute regional totals across districts, or because they consider that policy will alter expected trends in other ways.**
- **Where predicted growth differs from the forecasts, the authority should provide an evidence-based justification for these differences.**
- **Predicted employment figures may be a range rather than a single scenario. The range may include an ‘upside’ or ‘policy-on’ scenario, to reflect the authority’s aspirations and the expected impact of policy intervention.**
- **Such scenarios may be optimistic, but they should not show growth beyond what is reasonably likely to be achieved.**
- **The evidence manual [at Appendix 2 below] provides detailed guidance on the use of forecasts and other evidence.**

Employment land provision

5.17 PPW 7.5.1 advises:

‘Development plans should...

- *... Provide targets on land provision for the employment uses (classes B1-B8), showing net change in land / floorspace for offices and industry / warehousing separately, and protect these sites from inappropriate development.*
- *‘Seek to provide the right amount of land and qualitative mix of sites to meet the market demand for economic land uses’.*

5.18 Consultation comments on these points mostly relate to issues we discussed earlier, such as the distinction between the B class and other economic land uses. Nevertheless, based

on the discussion in the last section, as well as the study's Steering Group, we think that this policy does need supporting guidance. **We propose the TAN include**

- **Land provision targets should aim to ensure that planning meets the demand for land, so that economic growth is not constrained by lack of land.**
- **However, demand does not have to be met in the local authority area in which it arises. Much of the demand for employment land is footloose across administrative boundaries. Authorities should work together to steer development to the locations which have the most sustainable capacity.**
- **Therefore demand which cannot be met sustainably in the area where it arises should be met in neighbouring areas, and planning authorities should work together to accommodate demand which is not tied to particular areas.**
- **As discussed in the technical manual [Appendix 2], evidence bases should predict the likely demand over the plan period, based both on economic forecasting and market evidence.**
- **All predictions are surrounded by a wide margin of uncertainty. Land provision targets may be higher than forecast demand, to allow for the chance that the forecasts are too low and to ensure that no opportunities are missed. They should also allow for competition and choice, as described in the evidence base manual.**
- **However, a large oversupply of employment land will generally cause harm. Where the planned land supply exceeds demand, so that allocated employment sites remain vacant for long periods:**
 - **Land may be wasted that is needed and in demand for other uses.**
 - **Money may be wasted through misdirected infrastructure investment, aiming to service future development that will never happen.**
 - **The wrong employment sites may be lost. If the evidence shows that there is too much employment land in total, this will strengthen the case for transferring employment land to other uses. The sites promoted for other uses may be those which are most suitable for employment.**
 - **The wrong employment sites may be developed, as environmentally sensitive or less accessible allocations are taken up ahead of more sustainable ones.**
 - **Even if they are not taken up for employment, once environmentally sensitive or badly located sites have been identified for development they may be more vulnerable to development pressures for other uses.**
- **In setting provision targets and in considering specific sites, planning authorities should assess the likelihood of these adverse effects and balance them against the economic benefits of identifying employment land.**
- **In some cases, the benefits of supplying additional land may outweigh the disadvantages. For examples, some authorities have large historical allocations which are in sustainable locations, not in demand for other uses and already supported for infrastructure. There may be a reasonable chance of such sites**

generating major economic benefits, for example by attracting large-scale inward investment. It may be advisable to retain them, perhaps unless and until they are needed for another use.

- The qualitative features of sites identified for employment should match current and future market requirements. Sites that do not have a reasonable prospect of being taken up for an employment use should not be identified for such use.
- Where sites identified for employment have no reasonable prospect of being used or re-used for their intended use, they should be re-allocated or de-allocated, unless there are good reasons to the contrary.

Existing employment sites

5.19 PPW 7.5.1 says that development plans should

'Include policies relating to future development on existing employment sites to protect them from inappropriate development:

- *to encourage the regeneration and re-use of sites which are still suitable and needed for employment;*
- *to control and manage the release of unwanted employment sites to other uses.'*

5.20 The general points made in the last section cover existing employment sites as well as new allocations. But there are particular considerations which apply specifically to existing employment sites and should be mentioned in the TAN (arising partly from the earlier discussion of 'employment' versus 'economic' land uses in Chapter 1):

- **Industrial and related uses generally conflict with other uses, especially housing. To operate effectively, these activities need dedicated industrial areas, where they can be confident that they will not be a bad neighbour to anyone. In managing the retention and release of existing employment sites, authorities should aim to ensure that the integrity of remaining employment sites is not compromised.**
- **The traditional employment uses tend to generate lower land values than many other land uses, especially housing and retail. Because of this, any land lost to these uses is generally difficult to replace. Planning authorities should avoid releasing for other uses sites which will be needed for employment in the future.**
- **In many areas, older, lower-cost employment areas are in high demand, especially from small and new firms who cannot afford newer and more prestigious accommodation. The loss of such areas may cause serious harm to local economies.**
- **In summary, existing employment sites should only be released for other uses if:**
 - **They have no reasonable prospect of being re-occupied for their previous use, either due to low occupier demand or because they would not be viable to provide;**
 - **And/or the particular market that the site is part of is oversupplied;**

- **And / or the existing employment use has unacceptable adverse impacts on amenity or the environment;**
- **And the proposed redevelopment does not compromise neighbouring employment sites that are to be retained;**
- **Or other priorities, such as housing need, override economic considerations.**
- **The evidence base manual shows how these criteria can be applied in practice.**

Criteria-based policies

5.21 PPW 7.5.1 requires that development plans

- *'Include criteria-based policies to deal with development to deal with development not specifically allocated in the development plan and help respond to unexpected change;*
- *Include policies on the scope for new economic development in and adjoining rural settlements and identify suitable sites. In remote rural areas and smaller settlements a criteria-based approach should be considered;*
- *Include policies encouraging farm diversification and new rural development opportunities.'*

5.22 The issues raised by these policies have already been discussed in Chapter 3 above, which. The criteria-based approach set out in paragraph 3.13 applies to the general issue of land not specifically allocated in development plans, as well as the special case of rural development.

5.23 **We suggest that the TAN recommend this approach.**

6 DEVELOPMENT MANAGEMENT AND THE ECONOMY

- 6.1 Section 7.6 of PPW is clear and self-explanatory, and any issues it raises will have been discussed earlier in the TAN. Therefore the TAN does not need to say anything about this section.

APPENDIX 1

THE RESEARCH STEERING GROUP

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