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# Industrial Revolution

Better planning guidance for business

**Turley**

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# Executive summary

The Government is committed to putting in place a “modern” Industrial Strategy to support businesses and drive the economic performance of the UK as it prepares to leave the European Union. The Industrial Strategy green paper (January 2017) contains many commendable proposals, but it is entirely silent on the positive, enabling role that the planning system can play.

For the Industrial Strategy to be effective it needs to be supported by the planning system, which regulates the supply of land in England and the locations in which industrial development can occur.

This report highlights that the planning system is failing to meet the needs of businesses effectively due to flaws and inconsistencies in the way that land is planned for.

The system lags behind industry in its understanding of key issues of supply and demand for sites and this can lead to the market being undersupplied with land in the right locations. This is currently the situation in parts of London and the West Midlands. In our experience, logistics operators and businesses in the automotive sector often cannot find sites and premises to meet their requirements. There are also limitations in the way that the planning system provides for the needs of specific sectors, using very general land use categories which do not reflect the diversity of land and premises needs that different business sectors have.

We are calling for a more **pro-business planning system** that enables growth in the right locations and creates certainty for companies looking to invest, evolve and expand their operations in the UK. This will better support the Government’s Industrial Strategy and meet the needs of businesses. It is essential in preparing to leave the EU and creating conducive conditions for investment.

The starting point for developing a **pro-business planning system** is revision of the Planning Practice Guidance (PPG) that informs how evidence for plan making is prepared and land is allocated for business use. Revision of planning guidance should improve the quality of evidence that planners have available to make strategic decisions about the supply of land within individual boroughs, city regions and combined authorities. It will also make the planning system more agile to changes in the requirements of business occupiers, which has implications for land supply.

Business also has a role to play in ensuring that its needs are accurately reflected in Local Plans. Businesses need to engage more fully in the plan-making process to ensure that their voices are heard and their needs are fully understood by plan makers.

## A call to action

We call for Planning Policy Guidance (PPG) to be reviewed urgently by the Department of Communities and Local Government (DCLG) and strengthened in light of the current limitations of the planning system. This is a call to develop a planning system which is pro-business, which supports the Government’s Industrial Strategy and provides a positive environment for business investment in the run up to the UK leaving the EU.

We make 11 key recommendations for revising the PPG to better support businesses.

- 1 Strengthen the requirement for alignment between housing and employment evidence base.
- 2 Build in requirement for a “margin of choice” to be included in all employment land calculations.
- 3 Set out a requirement for more regular, light-touch updates to evidence every one to two years.
- 4 Encourage use of “exceptions policies” in Local Plans in order to ensure land supply is flexible.
- 5 Mandate local authorities to demonstrate how local plans support the Government’s Modern Industrial Strategy.
- 6 Require employment land need and supply to be considered concurrently leading to a better understanding of the balance between supply and demand.
- 7 Update the planning use class order to include a wider variety of commercial uses.
- 8 Strengthen requirement for local planning authorities to review employment sites systematically and to de-allocate sites where they are surplus to requirements.
- 9 Clarify requirements for employment land monitoring. Introduce trigger mechanisms or thresholds for minimum years’ supply which will warrant review and allocation of additional employment land.
- 10 Require local planning authorities choosing to plan for B2/B8 land needs jointly to fully justify their position.
- 11 Strengthen the requirement for industry engagement including the views of major businesses within local areas.

# Introduction

It has been a year since we reported on the age of the employment land evidence that councils rely upon to support them in their local plans<sup>1</sup>. When we conducted our first survey we found that approximately 50% of local authorities relied on evidence that predated publication of the NPPF. Furthermore, some of the most economically dynamic areas of the country including the Thames Valley and the Northern Powerhouse authorities had the most dated evidence.

We were concerned about this state of affairs because of the negative implications that poor quality and out-of-date evidence has on the quality and effectiveness of Local Plans. Put simply, how can the land needs of industry be met when evidence that is over four years old is relied upon?

Since we reported in 2015, more local authorities are collaborating on shared intelligence and joint pieces of research to bring their evidence up to date. Combined authorities are forming and undertaking new employment land studies at the level of their functional economic market areas. This is a positive development, but not necessarily sufficient in itself to ensure that the needs of industry are met. We need to consider the quality of the evidence which is being produced.

## Quality matters

Having up to date evidence is a useful starting point for making effective planning policy, but only if that evidence is comprehensive and robust. The quality as well as the age of the evidence therefore does matter.

In this research report we have sought to answer a new question:

“For those authorities with up-to-date evidence, what is the quality of that evidence?”

We were particularly interested in finding out if the evidence that underpins Local Plans is complete and up to date, as well as the extent to which it meets the criteria set out in PPG.

We have specifically looked at how the needs of the logistics sector are understood and analysed in up-to-date employment land studies. Logistics is one of the most dynamic sectors of the economy, constantly evolving in relation to consumer and industry demands. It is therefore a fast-moving sector which is particularly sensitive to Local Plan policies and the sufficiency of allocated land.

(1) Turley (2015) – “The Land that Time Forgot”

# What influences planning for business needs?

All assessments of employment land should be prepared in accordance with the PPG. The PPG offers the following guidance in planning to meet the needs of business.

- **Assess the current market** in relation to economic uses, liaising closely with the business community. Consider recent patterns of employment land supply and loss, market intelligence, market signals and the locational requirements of particular types of business.
- **Analyse employment land.** The PPG recommends a simple typology is developed to segment the market in to sub-areas. It recommends examination of take-up of employment land, having regard to projections (based on past trends) and forecasts (based on future scenarios). In doing so the PPG suggests that an understanding of the “underlying requirements” for office, general business and warehousing sites will be gained.
- The PPG specifically mentions the need to analyse supply and demand in order to establish whether there is a mismatch by market segment.
- **Forecast future trends.** The PPG states that quantitative and qualitative needs should be forecast. This includes not only the amount of floorspace needed but also the characteristics, for example the need for specific sectors to be close to infrastructure. The PPG recommends use of a range of data sets to forecast need – including published forecasts and business surveys. Specific consideration should be given to emerging sectors that are well suited to the area. It recommends that “market segments should be identified...so that need can be identified for the type of employment land advocated.”
- **The existing stock of land should then be compared with the identified requirements.** Plan makers should consider a range of data sources including: sector and employment forecasts (labour demand), demographic forecasts (labour supply), past take-up and information gained from business consultation.
- **Derive employment land requirements.** The PPG sets out a series of key relationships between business sectors, types of property, employment (density) and floorspace to site area (plot ratio). These factors are expected to be used to generate employment land requirements.

It is clear that the PPG only provides very general guidance. It is not business sector specific and provides local authorities with a high degree of flexibility in its application. There is also no clear guidance on timescales for keeping evidence up to date, therefore permitting assessments to be undertaken and relied upon for long periods without reference to changing market circumstances and business needs.





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# Research approach

We selected a sample of approximately 10% of local authorities nationally. These covered London, the South East, South West, the Midlands and the Northern regions and obtained the latest employment land evidence for each chosen authority.

Each employment land study was then systematically checked and assessed to gauge:

- The level of compliance with the PPG.
- Evidence of analysis to understand the current contribution of specific business sectors to the local economy.
- Industry engagement and the extent to which this has informed conclusions.
- The methodology used to estimate employment land needs.
- Any adjustments made to estimates of need for land to reflect local circumstances.
- Recommendations relating to meeting the specific needs of the logistics sector (as a fast evolving sector).
- Recommendations relating to adjustments to land supply through new employment land allocations and de-allocations.
- The extent to which both supply and demand factors have been jointly considered and reconciled.

Based on the sample of studies considered we then compared results and looked for trends in the way that business needs are planned for.



# Research findings

We examined a sample of employment land reviews for 10% of local authorities to illustrate key issues arising in each region. The results are presented anonymously.

## North West

- It is apparent that industry engagement in putting evidence together is variable and it is not clear how industry views have informed the findings and recommendations of studies.
- Key aspects of the methodology set out in the PPG are not consistently applied, with one study making no allowances for employment land losses, thereby potentially under-estimating land requirements over a local plan period.
- There is evidence of the needs of different business sectors being combined into a “general industrial” category, potentially masking the distinct location, workforce and property requirements of specific business sectors.

## Midlands

- A lack of documented, meaningful industry engagement.
- In some cases B2 (industrial) and B8 (warehousing) requirements are reported as a single requirement, potentially masking nuances in industry requirements.
- There is evidence of relatively conservative assumptions being applied in relation to margin of choice in land supply, with some authorities applying as little as two years’ supply.

- There is evidence of “off-the-shelf” employment forecasts being used to estimate need. Limited or no checks are made on how representative these forecasts are and no adjustments are subsequently made for local circumstances and business needs.

## South West

- Evidence from the South West shows that sub-regional planning for employment land has in some cases been informed by clear industry engagement.
- Unlike other studies reviewed, in the South West we found evidence of employment forecasts being adjusted to take account of market realities and industry views.

## Yorkshire and Humber

- There are differences in the treatment of the logistics sector between local authorities within the same functional economic market area (FEMA).
- Even where the logistics sector is recognised as playing a critical supporting role to manufacturing businesses, no allowances are applied to ensure its future growth and development through the supply of land.
- Studies reviewed within the region highlight different approaches to applying a margin of choice, ranging from three to five years’ land supply.

## London

- The needs of businesses requiring B1c, B2 and B8 property are jointly considered. Specific needs of these different types of activities are not distinguished.
- The studies reviewed are also unclear as to adjustments made to account for land losses.
- No specific adjustments are made to account for land losses affecting the logistics sector.

## South East

- There is evidence of the industrial and logistics sectors being combined in the estimation of land requirements.
- Where employment forecasts are used as a basis for estimating the need for land, adjustments to forecasts are made in relation to general land use classifications as opposed to specific industrial sectors. This is an imprecise approach to attributing need.
- Some studies provide no guidance to local planning authorities on what level or margin of choice or flexibility should be provided for in estimating land needs.
- It is questionable as to the extent to which industry engagement has meaningfully informed some studies.



# Key findings

## Summary

While all the employment land studies that have been analysed as part of this research are broadly consistent with the PPG, there is a great variation in the content and depth of assessments undertaken. The PPG permits relatively general assessments of employment land need and does not require local planning authorities to understand differences in occupier requirements or the likely evolving needs of sectors. At best this provides a generalised evidence base for plan making, and at worst could be a cause of the misallocation of land relative to business demand.

All of the studies that we reviewed broadly met the requirements set out in the PPG. However, our detailed assessment highlights two specific problems which affect the quality and consistency of the employment land evidence:

1. The generalised nature of the PPG means that local planning authorities are not compelled to examine the specific requirements of business sectors; and
2. Where assessments of need are undertaken, while they generally accord with the PPG, there are observable weaknesses and inconsistencies in application of the guidance.

Further analysis of the findings is provided here.

### Key finding 1: Variable methodologies are used to forecast need

- Relatively few assessments balance labour supply (housing evidence) and employment land evidence.
- There is inconsistency in the application of adjustments to “off-the-shelf” labour demand forecasts, including some forecasts which appear to be tacitly accepted as representative of local economic prospects and others which are adjusted to reflect local circumstances.
- Inconsistent approaches are applied to meeting “strategic” or footloose need in specific sectors such as logistics. This can lead to business needs not being addressed in local plans.

### Key finding 2: Inconsistent approaches are used to assess supply

- Relatively few of the assessments reviewed consider land supply and need together, thereby meaning that local planning authorities can be left bereft of objective evidence on the adequacy of site supply relative to business needs.
- Sites are often appraised on their suitability for ‘employment’ uses without consideration of their suitability for different market segments and occupier requirements. This leads to a very generalised understanding of business needs.

### Key finding 3: Inconsistent approaches are used to applying a margin of choice

- A wide range of approaches are adopted in applying a margin of choice, allowance for vacancy in stock and losses of land. The studies that we reviewed highlighted application of between zero and five years’ supply by way of a margin of choice.

### Key finding 4: Differences in occupier requirements are masked

- No distinctions are drawn in estimating need between different types of occupier demand. This is particularly apparent in B8 use classes and is out of step with the latest Employment Density Guidance (December 2015) which segments the logistics industry by type of operation.
- Reliance on off-the-shelf employment forecasts often precludes differentiation between occupier needs. Off-the-shelf forecasts need to be sense checked against the property needs of occupiers to ensure that they are commercially realistic.

### Key finding 5: Engagement with industry is not representative or meaningful

- Industry engagement is often exclusively with property agents currently marketing properties within localities.
- There is a notable absence in representation of occupiers and operators who will have a long-term view of their evolving business requirements.
- It is unclear how engagement meaningfully informs the quantitative assessment of need, with little evidence of forecasts being adapted in response to consultation.

### Key finding 6: Blunt approaches are applied to the allocation of land relative to end-occupier needs

- The amalgamation of B2 and B8 land requirements into a single category serves to blunt the effectiveness of policy and lead to the specific needs of different sectors not being recognised in plan making. As trends in logistics alter and shift towards new urban responses, there will be an increasing merging of B8, B1c and retail elements.

### Key Finding 7: Lack of guidance on maintaining up-to-date evidence

- Studies contain little or no guidance on how and when evidence should be updated. This can lead to out-of-date evidence being relied on for long periods of time.
- It is rare to find health warnings relating to the “shelf life” of labour demand forecasts which are typically used to estimate land requirements.

# Implications of failing to plan for business needs

The research findings show that the needs of business are not fully or consistently understood and this can affect the quality of policies and land allocations in Local Plans. Additionally the employment land evidence often fails to provide clear recommendations for the retention or release of redundant employment land.

The implications of these failings are apparent. There are widely reported shortages of land for key areas of the country such as Greater London (urban logistics sector – see Case Study 1) and the West Midlands (automotive sectors – see Case Study 2). These shortages of land exist as a result of the market outpacing planning policy and the failure of the planning system to be responsive to rapid change.

In other areas of the country land is allocated for industrial purposes but is no longer attractive to the market. Such land could potentially be released to accommodate other uses such as housing if there was a stronger requirement in planning guidance to systematically consider deallocation of surplus sites.

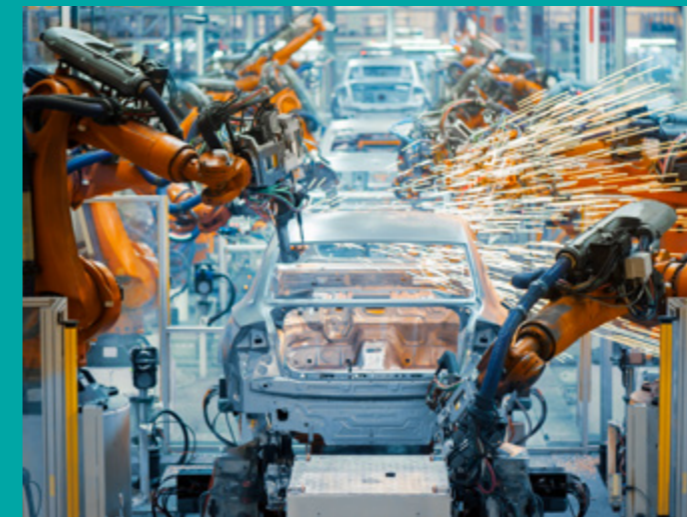
Failure to plan to meet the needs of industry over the longer timescale of a Local Plan (typically 15 to 20 years) could lead to investment being stifled or displaced as well as productivity potentially being damaged as businesses are forced to operate in sub-optimal conditions and poorly located sites in the absence of more preferable options.



## Case Study 1:

### Greater London – The rise of urban logistics

Recent research into the issues facing logistics operators in London highlights that site searches for increasingly central last-mile responses are being unfulfilled. This leads to land searches taking place for a number of years and ultimately being modified to reflect the supply available. This includes operators securing sub-optimal sites that do not meet size requirements and splitting activities over more than one site which is less effective operationally. See *Keep London Working* (2017, Turley on behalf of SEGRO) for further details (<http://bit.ly/2ph7qmF>).



## Case Study 2:

### West Midlands – Supporting the automotive sector

The West Midlands is facing an employment land 'crisis', with Coventry and Warwickshire Local Enterprise Partnership identifying that "existing supply of accommodation is now at a critical level". Available "sites are now close to being exhausted and future growth will be constrained unless currently proposed sites are delivered and future sites are identified" (CWLEP, Employment Land Study, 2015). Operators are competing for limited supply along key transport corridors as land is not being allocated in sufficient quantum to satisfy rising demand, including from the automotive industry, which is a policy priority for the area.



# Recommendations

Planning to better support the needs of businesses starts with getting the right guidance in place, which in turn will positively influence Local Plan policies and land allocations. This will lead to better land availability in the places which are needed by businesses. This is an essential starting point for making the planning system more responsive to business needs.

The planning system has a pivotal role to play in providing the right conditions for business investment and enabling growth of the economy. This is critically important as the UK prepares to exit the EU and seeks to implement its modern Industrial Strategy.

The planning system should play a positive, enabling role at this time.

This research has examined how business needs are planned for and has found limitations and inconsistencies in the evidence used for plan making.

The variable quality of planning evidence can be traced back to the specificity of the PPG which only provides general guidance. The PPG could be revised to better meet the needs of business.

Pro-business planning must start with better guidance for plan makers. We therefore make 11 key recommendations for revising and improving the PPG.



## Recommendation 1

Strengthen the requirement for alignment between the housing and employment evidence base to ensure that employment land policies and allocations meet the requirements of businesses and households. Labour supply based methodologies should be clearly referenced in the PPG as a minima and not a maxima for calculating employment land needs.



## Recommendation 2

Strengthen the requirement for a “margin of choice” to be built into all employment land calculations and offer guidance on an acceptable range (i.e. years’ supply) to assist local planning authorities in building in flexibility to their plans and policies.



## Recommendation 3

Set out a requirement for more regular, light-touch updates at one or two yearly intervals to ensure that evidence remains responsive to changing market circumstances. Specific guidance should be given for local authorities that have adopted Local Plans on the basis of an early plan review to ensure that up-to-date evidence is available to feed into plan reviews in a timely manner.



## Recommendation 4

Encourage local plans to include an “exceptions” policy to respond positively to changing market circumstances and emerging requirements. Local plans are prepared on the basis of long-term estimates of need which are subject to changes over time and market cycles. Policy should be sufficiently flexible to capture opportunities for industrial growth where they arise and can be justified.



## Recommendation 5

Revise the PPG to mandate local authorities to demonstrate specifically how they have supported the Government’s Industrial Strategy as well as the economic plans of LEPs and combined authorities by planning for employment land.



## Recommendation 6

Set a requirement to commission independent evidence covering both employment land need and supply together and at the same time ensure that conclusions and recommendations are consistent and logical.



## Recommendation 7

Provide clearer guidance in the PPG to mandate the consideration of a wider variety of occupier types and requirements within the broad land use classification system to ensure that plan-making evidence is attuned to the needs of specific business sectors and occupiers.



## Recommendation 8

Require local planning authorities to review employment sites systematically for alternative “B” uses first and then consider de-allocation where they are considered to be surplus to business requirements.



## Recommendation 9

Clarify requirements for local planning authorities to provide up-to-date monitoring information relating to employment land supply (and the number of years’ supply of sites relative to need). Require trigger mechanisms/thresholds for minimum years’ supply which will warrant review and allocation of additional employment land to meet need and preserve margin of choice.



## Recommendation 10

Require local planning authorities choosing to plan for B2/B8 land needs jointly to provide a reasoned justification for doing so, including engagement with industry stakeholders to confirm that this is an appropriate approach and does not lead to an under or oversupply of land for specific types of user.



## Recommendation 11

Strengthen the requirement for industry engagement to inform evidence including seeking the views of major business operators. This should cover existing sectors and those which are likely to grow within local authority areas.



# Benefits of better planning guidance

There are many benefits of improving the way that businesses' needs are understood and responded to by the planning system. Pro-business planning would deliver:

- Support for the Government's modern **Industrial Strategy** by better aligning plan making and land allocations to the needs of businesses.
- A planning system which is **more responsive to business needs** as they evolve over time, allowing investment to be realised and jobs to be protected and created.
- Support for **improvements in business productivity** through provision of land in the right locations which will enable businesses to better access their supply chain and serve business and consumer markets efficiently.
- **More surplus industrial land identified for alternative uses** such as housing.

## For more information

For further research into meeting the needs of businesses and the role of the planning system see:



### The land that time forgot

(<http://www.turley.co.uk/sites/default/files/uploads/intelligence/The-land-that-time-forgot-Planning-for-employment-land.pdf>)



### Delivering the Goods

(<http://www.bpf.org.uk/sites/default/files/resources/BPF-Delivering-the-Goods-Dec-15-web.pdf>)



### Keep London Working

([http://www.segro.com/~/\\_media/Files/S/Segro/documents/Keep\\_London\\_Working/SEGRO-Keep-London-Working\\_Report.pdf](http://www.segro.com/~/_media/Files/S/Segro/documents/Keep_London_Working/SEGRO-Keep-London-Working_Report.pdf))

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