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## Consultation Document - Annex 1

### Draft Technical Advice Note (TAN) 23 Economic Development

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## OBJECTIVES

### What is Economic Development?

1.1 Planning Policy Wales defines economic development broadly so that it can include any form of development that generates wealth, jobs and income. In producing development plans or determining planning applications, local planning authorities need to bear in mind that traditional business use classes B1-B8, only account for part of the activity in the economy. It is important that the planning system recognises the economic aspects of all development and that planning decisions are made in a sustainable way which balance social, environmental and economic considerations.

1.2 In the full context of PPW, 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.
- Generating jobs includes providing or sustaining existing jobs as well as creating new jobs.

1.3 Economic activity may be in the private (market) sector, the public sector or non-profit 'third arm' sectors such as charities and social enterprise.

1.4 PPW (7.1.1) advises that economic land uses include the traditional employment uses (Class B in the Use Classes Order) as well as retail, tourism and public services. This list is not exhaustive and among other activities, economic land uses also include agriculture, energy generation and other infrastructure. However, non class B uses and activities are subject to many separate policies and considerations set out in PPW and TANs, which in some cases will take precedence over the more general principles in PPW Chapter 7 and in this TAN.

1.5 Economic land uses also include construction, including house building, but housing is not an economic land use, and sites under construction for housing do not constitute economic development. It is the final intended use of land which the important issue.

1.6 Recognising the whole-economy contribution to economic growth is therefore important, however, the traditional land use classes B1-B8 must continue to be planned for in a sustainable way as these will form the cornerstone of many development plan employment policies and site allocations. This TAN therefore deals principally with the B-classes.

## High Level Planning Objectives

### *Planning and the market*

1.7 The economic benefits associated with development may be geographically spread out far beyond the area where the development is located. As a consequence it is essential that the planning system recognises, and gives due weight to, the economic benefits associated with new development.

1.8 PPW 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.

1.9 Market failures result in situations where market forces undermine environmental and social objectives to an unacceptable degree, or undermine economic efficiency. The planning system should work to correct or mitigate these failures.

1.10 Such instances can be widespread and PPW highlights corrections in many places. Among other things, the policy advises 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 do not necessarily deliver these objectives.

### *Planning considerations*

1.11 Local planning authorities should recognise market signals and have regard to the need to guide economic development to the most appropriate locations, rather than prevent or discourage such development. They should also have regard to the objectives and considerations set out 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).

1.12 In line with these principles, there will be instances where the planning system may not provide the land the market demands, in the places where the market demands it. Some proposed developments or site allocations may 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 authorities are encouraged to look for alternative sites which offer the same, or very similar, advantages.

1.13 PPW establishes the principle of a sequential test in relation to town centre related uses<sup>1</sup> which have direct relevance to economic land uses. Accordingly when identifying land for economic uses in development plans, or when determining applications, local planning authorities should seek to replicate this approach. Local planning authorities should apply judgement depending on the nature of the economic use and its applicability to a particular location. 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 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 considerations set out in subsequent sections of this TAN (section 2.5) i.e. jobs accommodated, alternatives, special merit. If land supply within settlements is already sufficient to meet demand, then other things being equal it will be wrong to identify sites in the countryside. However, if developments in sequentially inferior locations deliver additional economic benefits, as outlined below; then these need to be factored into the decision making process and could result in allocations which do not conform to the sequential assessment. Any alternatives considered need not be in the same local authority area.

### **Larger than Local Planning**

1.14 Market forces do not respect local authority boundaries and the planning system should steer development to the most efficient and sustainable locations. This means that strategic planning, larger than individual local authorities, for economic development is essential. It is for individual local authorities, in the first instance, to identify the most appropriate strategic affiliation and groupings such as Travel to Work Areas or Housing Market Areas and to develop a common evidence base based on these areas.

1.15 Local authorities are encouraged, therefore, to work jointly in regional groups, which ideally already exist such as South East Wales Economic Forum (SEWEF) or South East Wales Strategic Planning Group (SEWSPG) to prepare regional economy evidence bases, including an analysis of the dynamics of the regional commercial and industrial property market, followed by an economic strategy. It would be appropriate that the strategies include a modelling of future economic scenarios based upon an extrapolation of past trends and a stock-take of current economic assets, including output and employment by sector.

1.16 Furthermore, the strategies should focus on identifying strategic sites of national and regional importance. They should also provide agreed land provision targets for the B-class uses, showing how development is to be distributed across local authority areas.

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<sup>1</sup> PPW Para 10.2.9 & 10.2.11

## PLANNING FOR ECONOMIC DEVELOPMENT

### Weighing economic benefit

2.1 It would be wrong to assume that economic objectives are necessarily in conflict with social and environmental objectives. Often these different dimensions point in the same direction. Planning should positively and imaginatively seek such 'win-win' outcomes, where development contributes to all dimensions of sustainability.

2.2 Where economic development would cause environmental or social harm which cannot be fully mitigated, careful consideration of the economic benefits will be necessary. 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 specific circumstances and the planning authority's priorities.

2.3 It is a central objective of the planning system to steer development to sustainable locations. Therefore, where a proposed development would cause unacceptable 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.

2.4 Quantifying the economic impacts is not an easy task. 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.

2.5 Where a planning authority is considering a site allocation or planning application that could cause harm to the environment or social cohesion, it should ask three questions in order to help balance the economic, social and environmental issues:

**2.5.1 Alternatives:** *if the land is not made available (the site is not allocated, or 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?*

2.5.2 This test follows from the principle in PPW, that the planning system should steer development to the most sustainable locations. When a proposed site allocation or development scheme is rejected the associated economic activity will usually be redirected to another site. To gauge the benefit of the proposal, it will be necessary to compare it with the 'base case' in which the proposal does not go ahead. The answer relates partly to the locational flexibility of the economic sectors concerned. For example, retail and local consumer services usually mean 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. Before concluding that 'there is no alternative' local planning authorities are encouraged to try to assess whether competing firms, serving the same markets, could generate the same development and jobs. This would generally require close liaison with the Economic Development Department or other appropriate stakeholders who might have detailed knowledge of the capacity and expertise of firms in the area or sub-area.

2.5.3 This approach requires an analysis of the availability of similar alternative sites nearby, but not necessarily in the same local authority. 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 oversupplied, it would be wrong to sacrifice environmentally sensitive land for the sake of increasing supply.

**2.5.4 Jobs accommodated:** *how many direct jobs will be based at the site?*

2.5.5 This provides a rough-and-ready measure of a development's contribution to the wider economy. 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<sup>2</sup>. There may be good reasons why jobs in some places are even more worthwhile than in other places. The third test below deals with this.

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

2.5.7 Such policy contributions may relate to the objectives listed in PPW<sup>3</sup>, 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 plant 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.

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<sup>2</sup> PPW 7.1.3

<sup>3</sup> PPW 7.1.3

2.5.8 PPW advises that the planning system should particularly support the low-carbon economy, innovative business / technology clusters and social enterprises which are 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. This assessment of special policy contributions has to be largely qualitative but 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 consideration, taking account of displacement. If jobs housed in new development displace jobs that are within or close to the disadvantaged area, then there is no employment benefit to the community concerned.

2.6 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, 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.

## **ECONOMIC DEVELOPMENT AND THE RURAL ECONOMY**

3.1 A wide range of economic activities may be sustainably accommodated in rural areas, and this is recognised in PPW and other TANs. Technical Advice Note 6 Planning for Sustainable Rural Communities defines 'rural enterprise' for the purpose of determining rural enterprise dwellings, and amongst other things includes agriculture, forestry, tourism and leisure in that definition<sup>4 5</sup>.

3.2 Sustainable development is essential to building strong rural economies and vibrant communities. In rural areas local planning authorities should use a sequential approach when identifying land for economic uses in development plans, and this approach is considered in more detail earlier in this TAN (sec 1.13). Less preferable locations may also be appropriate where the resulting benefits outweigh any adverse impacts of the development. In judging these benefits, authorities should have regard to the considerations set out previously in this TAN (sec 2.5) i.e. jobs accommodated, alternatives, and special merit.

3.3 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. Secondly, the needs of established businesses or clusters may be very specific. 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 businesses aiming to join existing clusters may need to be close to existing businesses if they are to derive the benefits.

3.4 Planning authorities should use these criteria comparatively. They should assess the additional benefits of development at the subject site against those of meeting demand in a preferable location.

3.5 Development plans should include criteria-based policies to assess applications for proposed developments on land not allocated in the plan. Such policies are needed everywhere, in both urban and rural areas. But they will be especially important in rural areas, where sites are generally smaller and market requirements more often specialised.

3.6 Allocated sites should be given priority, but development on unallocated sites could be permitted if the resulting benefits outweigh any adverse impacts of the development. 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 the planning system prevents such firms from expanding or modernising in situ,

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<sup>4</sup> TAN 6 Para 4.3.2.

<sup>5</sup> Rural Enterprise Dwelling Practice Guide, Chapter 2

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significant economic benefits may be foregone. Development on land not allocated in the development plan should, however, only be permitted in exceptional circumstances and must be fully justified<sup>6</sup>.

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<sup>6</sup> PPW 7.3 & TAN 6

## **DEVELOPMENT PLANS AND THE ECONOMY**

4.1 Development Plans must be informed by robust evidence. There is likely to be a range of different stakeholders who may offer insights into the local economy which will be useful in Plan preparation. The following list is illustrative and not exhaustive, and is intended to indicate the types of stakeholders who should be consulted when preparing a Development Plan, some of these are Statutory Consultees:

- Neighbouring Local authorities
- Representatives of the property industry
  - Commercial agents / surveyors active in the area
  - Commercial developers / promoters active in the area
  - Landowners, both of existing and proposed sites
  - Landowners representatives or umbrella associations
- 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 especially Natural Resources Wales
- Business representative bodies such as the CBI and FSB
- Key individual businesses
- Infrastructure providers

4.2 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.

### **The evidence base**

4.3 The evidence base for the economic components of development plans should ideally consist of 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.

4.4 Evidence should ideally be collected at two different scales:

- A regional study, to inform policies on aggregate numbers and strategic sites; and
- A local study including an Employment Land Review, to inform finer-grained policies and development management decisions.

Detailed guidance on this will be provided in the Practice Guide which complements this TAN.

## **An economic vision**

4.5 In developing Local Development Plans, planning authorities are expected to develop a broad vision for their Plan which must be consistent and coherent so that the economic, social and environmental considerations support each other and point in the same direction. In undertaking this work, it is essential therefore that the economic vision for an area is consistent with other aspects of the plan such as housing and transportation. 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 working and evidence bases.

4.6 The future is uncertain, and this uncertainty increases as distance into the future increases. The economic vision needs to reflect this, and explicitly acknowledge key uncertainties, with development plans putting in place mechanisms which will provide the flexibility to adjust to changing circumstances. Market signals can be an important indicator of changing circumstances.

4.7 Local authorities are strongly advised to consult with neighbours as part of preparing their individual evidence bases.

4.8 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.

4.9 In areas where there is an up-to-date economic development strategy, the development plan's vision and the economic development strategy should be integrated into the plan making process to ensure that all other provisions within the plan such as transport and housing are geared towards delivery of the strategy, whilst including the flexibility necessary to adjust to evolving circumstances. Some 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.

4.10 In developing their economic visions, local planning authorities should assess current and future business requirements, considering potential new inward investment opportunities 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.

## **Economic Scenarios**

4.11 PPW requires that the development plan includes 'a broad assessment of anticipated employment change by broad sector and land use, this would require the preparation of future possible economic scenarios with plans developed in a way which ensures they are robust across the more likely

scenarios and contain the flexibilities necessary to adjust to changing circumstances. The starting point for scenarios would normally be past trends at a regional level. Such scenarios could be adjusted, perhaps through the use of formal models to reflect different policy or demographic assumptions. In preparing assessments of possible economic future scenarios, it should be remembered that the results of such an approach are not perfect. Models of future economic scenarios are surrounded by a large margin of uncertainty, and often more so for individual local authorities than for larger areas. Modelling may be most successful when based on functional economic areas. Modelling of economic future scenarios, which should cover a range of options, is not the same as economic forecasting which attempts to predict the future. The track record of economic forecasts is not good. The results can be highly volatile and may not be able to capture the dynamics of local economic change. Model scenarios can therefore sometimes provide spurious precision and be misleading and this must be borne in mind when interpreting the results of such models.

4.12 Where envisaged growth at the level of an individual authority differs markedly for that expected for the wider region, the authority should provide an evidence-based justification for these differences, much as they would have to in respect of population projections for their area. Predicted employment figures should usually be expressed as a range rather than a single scenario to reflect different economic outcomes and variant policy options. However, in all circumstances the level of growth envisaged must be realistic, able to withstand scrutiny and be consistent with the other aspirations of the plan including population and housing projections.

### **Employment land provision**

4.13 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.

4.14 Evidence bases may attempt to predict the likely demand over the plan period, possibly based on economic modelling. Market evidence should be ideally reported and incorporated into the analysis.

4.15 Land provision targets may be higher than predicted demand, to allow for the chance that the assessments are too low and to ensure that no opportunities are missed. They should also allow for competition and choice.

4.16 However, an oversupply of employment land may cause harm, where the planned land supply exceeds demand, so that allocated employment sites remain vacant for long periods

4.17 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.

4.18 In some cases, the benefits of supplying additional land may outweigh the disadvantages. For example, 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.

4.19 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.

4.20 Where sites identified for employment have no reasonable prospect of being used or re-used; they should be re-allocated or de-allocated, unless there are good reasons to the contrary.

### **Existing employment sites**

4.21 Certain industrial and related uses may conflict with other uses, especially housing. To operate effectively, these activities usually 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.

4.22 The traditional employment uses tend to generate lower land values than many other land uses, especially housing and retail, consequently, any land lost to these uses is generally difficult to replace. Planning authorities should avoid releasing for other uses sites where there is strong evidence of likely future need for B1-B8. In some areas, older, lower-cost employment areas may be required, 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 and should be avoided.

4.23 Existing employment sites should only be released for other uses if:

- they have poor prospects of being re-occupied for their previous use;
- 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 unduly neighbouring employment sites that are to be retained;

- or other priorities, such as housing need, override more narrowly focussed economic considerations.

### **Criteria based policies**

4.24 In order to incorporate flexibility to respond to unexpected change or to deal with development not specifically allocated PPW requires development plans to include criteria based policies outlining how an authority would respond to unexpected proposals<sup>7</sup>.

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<sup>7</sup> PPW 7.5.1