NSW GOVERNMENT
Department of Planning

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Office of the Director General

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Dear Mr Samuel

Grocery Prices Inquiry – Retail and Centres Planning Policy in NSW

I wrote to you recently about a number of submissions that you have received from the Urban Taskforce regarding the competitiveness of retail prices for standard groceries. The purpose of that letter was to point out a number of fundamental misrepresentations of the content and effect of planning policy in NSW, however I also thought it would be helpful if I set out the current NSW retail and centres policy and the rationale for that policy.

The Retail Sector in NSW

The NSW State Plan[1] sets out the Government's aim of making Sydney the most attractive place in which to do business in South East Asia. It aims to ensure all regions share in the benefits of Sydney's global city status through thriving and diverse economies, and that there is a strong and growing small business community that is nationally and internationally competitive.

The retail sector plays a key part in achieving this aim:

- It contributes around $18bn to NSW economic growth annually[2]
- The sector is a key driver of Australian productivity growth – labour productivity in the retail sector averaged 2.3% per year between 2003-04 and 2006-07[3]
- Around 25% of the growth in employment in NSW between 2000 and 2006 came from the retail trade sector[4]

The Department of Planning wants to facilitate the economic growth and employment benefits that the retail sector brings and has therefore put in place a planning policy framework to allow the sector to grow and prosper.

NSW Retail and Centres Policy

The Department of Planning is the lead agency for NSW State Plan priority E5: Jobs closer to home. Within NSW a high proportion of people currently live in urban areas, and this is set to continue over the next 25 years, with Sydney, and the regional cities of Parramatta, Liverpool, Penrith, Gosford, Newcastle and Wollongong, becoming an increasing focus for jobs, services, cultural facilities, and recreation and lifestyle opportunities.

Therefore the Department of Planning has a retail and centres policy to help deliver growth in these, and other, centres. The policy is currently set out across a number of documents:

- *The Right Place for Business and Services* (2001) – *Planning Policy* component of the Integrating Land Use and Transport policy package[5];
- the *City of Cities* Sydney's Metropolitan Strategy (2005)[6];

- the 10 Draft Subregional Strategies (which sit below the Sydney Metropolitan Strategy)[7];
- the Regional Strategies (for non-Sydney Metropolitan Strategy Areas)[8]; and
- the Standard Local Environmental Plan template – the template used by councils to produce their local plans[9].

The objective of the policy is to be proactive in setting out the broad spatial pattern of growth across NSW, to provide certainty for public and private investment, while allowing flexibility for existing centres to grow and new centres to form. The policy states that retailing should be concentrated in existing and new planned centres, including the full range of centres from small neighbourhood centres to regional cities and the Sydney CBD. The policy does not place a cap on the number of supermarkets or other retail outlets in a centre.

As set out in my previous letter, the Sydney Metropolitan strategy is a good case in point. The Sydney Metropolitan Strategy and Subregional Strategies set out the location of over 800 existing centres, (27 strategic centres, over 50 town centres, approximately 90 villages, 180 small villages and around 470 Neighbourhood centres), and *all* are encouraged to provide retail space to serve their current and expected future populations, and meet the needs of business. The Strategy documents focus on the 27 strategic centres because of their importance to achieving metropolitan-wide outcomes such as NSW State Plan priority E5: Jobs closer to home, but targets have also been set for employment growth in each Local Government Area over the period to 2031.

Within each centre, the retail and centres policy is implemented through zoning land. Current policy allows for seven types of Business zones as well as numerous other zones including Residential and Industrial categories. The policy sets out the uses that are permissible within each zone, but also allows other uses to be added to those that are permissible. As a *minimum*, some form of convenience retail development is permissible in all urban residential zones, and five of the seven business zones. Retail can be included in the other zones, for example:

- formats such as bulky goods which have specialised requirements should also be provided for in areas designated adjacent or close to existing larger centres where they can support those centres.
- along some heavily trafficked main roads where there is a mix of lower cost businesses, some small-scale retail can be included up to 1,000 square metres.
- retailing is allowed in the two most widely used industrial zones (not in the Heavy Industrial or Working Waterfront zones) where it is:
  - ancillary to the industrial use, for example, selling goods produced on site;
  - akin to industrial in its impacts, for example, building and hardware supplies and plumbing; and
  - supplying the small daily convenience needs of the local workforce

Where a location in a centre cannot be identified, an out-of-centre location may be acceptable subject to the development proposal passing a 'net community benefit' test.

Rationale for the NSW Retail and Centres Policy

The Department of Planning's rationale for a retail and centres policy is based on a range of evidence suggesting there are considerable benefits from concentrating growth in centres. The role of planning is to consider the whole community and the full range of economic, social and environmental costs and benefits. Many of these impacts only emerge in the long term or are quite diffuse, such as economic costs and externalities, while many of the environmental and social costs are economic costs that are hidden or disproportionately affect the least well-off in society.

<u>Economic Impacts</u>

The economic benefits from a managed approach to growth, via a retail and centres policy are principally through increased agglomeration, resource savings, such as lower travel times and distances, and a more efficient use of infrastructure.

Economic growth tends to occur in urban areas, and the increase in the urban population over the past century points to the substantial economic benefits of clustering economic activity (commonly referred to in the economic literature as 'agglomeration'). The benefits here are twofold. Agglomeration of similar types of business in centres brings benefits to those businesses through, for example, a well supplied skilled labour force to draw from and access to local product markets. Similarly, concentrating a diverse range of business in centres can bring benefits through enabling businesses to learn from one another, protecting areas from a downturn in one sector of the economy, and ensuring the efficient use of public infrastructure. Empirical evidence from the US and Europe supports this argument. Studies there show that doubling population density in centres produces a 5 per cent increase in productivity in the US[10], a 4 percent increase in productivity in Europe[11], and a 3.5% increase in the UK[12].

There has also been considerable debate about the economic impact of concentrating economic activity in centres, versus urban sprawl. Analysis for the Department of Planning shows that there are considerable benefits from concentrating economic activity in centres[13]. Firstly, work commissioned by the Department to evaluate the impact of the Sydney Metropolitan Strategy shows that there is a strong economic case for Sydney's Metropolitan Strategy over unmanaged growth with significant resource savings that have potential flow on effects to the state economy of around $5billion in economic growth annually, including 23,000 jobs. Moreover, this is thought to be an underestimate given that additional productivity gains, for example through improved business clustering, have not been factored into the analysis.

Second, in terms of the increased need to travel, evidence comparing average travel to shop distances in Sydney with those in the US suggest there would be significant cost from greater urban sprawl within Sydney. The Transport Data Centre (TDC) in the NSW Department of Transport reports that in 2005 the average trip distance (by vehicle) for shopping in metropolitan Sydney was 6.8 km. This can be contrasted with the 10.8 km per shopping trip measured for the US nationally in 2001. Moving towards the US average would result in an additional 2 billion km of car travel on Sydney's roads each year, an additional 500,000 tonnes of greenhouse gas emissions annually, and $1 billion more each year in operating costs for Sydney families[14].

All together, the cost of this additional travel would amount to approximately $1.9 billion per year. To put this in perspective, diverted consumer spending (on the additional travel), plus the drag caused by higher payments for emissions and other externalities, would shave between $9.8 billion and $19.6 billion from NSW's GSP growth over a 20 year period.

There are also critical impacts on the certainty of public and private investment and on the cost of infrastructure. Setting out the broad spatial pattern of growth in a hierarchy of centres helps to provide business with certainty about the future use of land, for example where a new road will be located, or where major retail development is likely to occur. This can help reduce the risks associated with public and private investment, and helps business better plan its future investment strategy, based on a clearer understanding of how an area may develop in the future.

A centres policy can also ensure more efficient use of infrastructure. Where retail and other development is not planned around existing or expected infrastructure, such development can add unnecessary strain to transport networks. Planning also helps in the delivery of infrastructure and public goods more directly, either through helping ensure that development occurs in areas of economic need, or through using developer contributions to provide infrastructure that business might not otherwise supply. Evidence from Sydney suggests that substantial physical infrastructure cost savings of around $20,000/dwelling exist for urban consolidation over urban sprawl[15].

Finally, it is worth noting that, while the paragraphs above set out a number of clear benefits from a centres policy, the Department recognises that there have been reports recently arguing that planning regulations impose significant costs on the economy. In evaluating these costs it is important that the impact attributable directly to planning is isolated. Many other factors, beyond planning regulation, will influence the number, size and location of retail outlets, and their productivity (and therefore prices), including demographics, and business investment in skills and technology. Where these factors are not controlled for, the impact of planning regulations on competition are likely to be overstated.

Indeed seminal evidence from the UK suggests this may be the case. Work there suggests that, for supermarkets, when factors such as demographics and food characteristics are taken into account, planning regulations add only around 0.03% to food prices, equivalent to adding 1.5 pence (3 cents) to the average weekly shopping bill[16].

The fundamental role of the planning system is to balance economic, social and environmental costs and benefits. Turning down applications that may have benefits in terms of productivity or prices but will have a net cost to society is an important function of the planning system. An application likely to damage the local environment or significantly increase traffic congestion, should be correctly refused.

Environmental Impacts

The environmental benefits associated with urban consolidation are primarily associated with lower land usage and lower greenhouse gas emissions.

Land is a finite resource. Managed growth, through encouraging development in centres, offers a more economic use of land than urban sprawl. Focusing development in centres helps to protect rural land for agriculture and extractive industries, which contribute significantly to NSW's economic growth, and protect conservation lands such as flood prone land, biodiversity conservation reserves, scenic landscapes and national parks. It also helps to reduce Sydney's urban footprint: if the growth pattern of the past 30 years was repeated, and Sydney grew by 1.1 million people, and additional 850 square kilometres of land would be required, compared to the 350 square kilometres planned for in the Metropolitan Strategy[17].

The centres policy is also an important element of the NSW goal of reducing greenhouse gas emissions (NSW State Plan priority E3). Managed growth helps to reduce emissions from travel by locating trip generating development in places that reduce the reliance on cars, encourage multi-purpose trips, and provide suitable accessibility by public transport or on foot. As set out above, increasing the average distance travelled to shop in Sydney to align with the US average would generate an additional 500,000 tonnes of greenhouse gas emissions annually[18].

Social Impacts

There are a number of social benefits from a more managed approach to growth, with particular benefits for health, choice and convenience, and liveability.

Increased travel due to urban sprawl can have a number of negative impacts on community safety and physical and mental health. Road safety has clear costs to the community. In 2003, Sydney's roads saw 29,357 crashes causing 162 deaths and 15,361 injuries. Apart from the suffering of victims and their loved ones, the financial cost in NSW of road crashes is estimated around $3.7 billion each year[19]. Evidence also suggests the more that people use active transport such as walking, cycling and public transport, the more community physical and mental health improves. Physical inactivity can result in, amongst other things, poor health outcomes including obesity, heart disease, stroke, Type 2 diabetes, some cancers, and depression. These chronic conditions have enormous direct and indirect health costs - heart disease, stroke and cancer cost well over $10 billion nationally in direct costs, obesity costs up to a further $5 billion, and the health costs in Sydney of motor vehicle emissions are estimated to be between $600 million and $1.5 billion per annum.

Managed growth in centres also provides increase choice and convenience for residents, and reflects typical citizen perceptions of 'community'. In a recent study of the High Street shopping strip in the Melbourne suburb of Armadale, local real estate agents reported that house prices within the walkable catchment of this centre would be 5% to 10% lower, other things equal, if these shops were blighted, in this case by the imposition of extended clearways. Given the number of dwellings within the walkable catchment, this blighting would represent a welfare loss counted in the hundreds of millions of dollars[20].

Finally, the centres policy provides for increased liveability and mixed communities by providing for growth and a greater range of activities located near to one another. The policy helps deliver better structured and designed places, where walking and cycling can be encouraged and where renewal can make places vibrant, viable and safe. The policy helps focus development in locations with transport, away from suburban areas where traditional family housing and local character is particularly valued.

Future Reform of the NSW Retail and Centres Policy

In summary, the planning system plays a key role in balancing economic, social and environmental objectives. Any proposals for changes to planning regulations need to be considered weighing up the costs and benefits associated with each of these objectives. It is the firm opinion of the Department of Planning that the balance of these arguments points towards a managed approach to growth and the Department is therefore committed to its current approach of encouraging retail to locate in centres.

However, within this approach, the Department is currently undertaking work to consolidate the existing guidance into one document, and, where appropriate, making changes to clarify and update the policy. An updated retail and centres policy will be published later this year.

I appreciate the limited time before the Inquiry is to report. If you wish to follow-up any of the points raised, please contact my office.

Yours sincerely

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Sam Haddad
Director General

17/7/2008.

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1 http://www.nsw.gov.au/stateplan/pdf/State_Plan_complete.pdf
2 ABS
3 ABS
4 ABS
5 http://www.planning.nsw.gov.au/programservices/pdf/pol_transport.pdf
6 http://www.metrostrategy.nsw.gov.au/dev/ViewPage.action?siteNodeId=80&languageId=1&contentId=-1
7 http://www.metrostrategy.nsw.gov.au/dev/ViewPage.action?siteNodeId=76&languageId=1&contentId=-1
8 http://www.planning.nsw.gov.au/plansforaction/whatshappening.asp
9 http://www.planning.nsw.gov.au/planningsystem/pdf/standardinstrument_lep_01jan08.rtf

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17 Internal Department of Planning research
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19 RTA
20 SGS work for Stonnington Council