



Submission on the Productivity Commission Research Project on Disruptive Technologies

**SUBMISSION FROM THE
Large Format Retail Association (LFRA)**

11th May 2016

PO Box 78 Balwyn North VIC 3104 | 10/828 High Street Kew East VIC 3102
P (03) 9859 5000 F (03) 9859 6077

www.lfra.com.au

ACN 131 555 612 ABN 31 131 555 612

Contents

| | |
|---|-----------|
| 1.0 LARGE FORMAT RETAIL ASSOCIATION (LFRA) OVERVIEW | 3 |
| 2.0 INTRODUCTION | 5 |
| 3.0 HISTORY OF DISRUPTION IN AUSTRALIAN RETAIL | 5 |
| 3.1 The Story of Australian Retail | 5 |
| 3.2 Changing Preferences and Technology | 6 |
| 3.3 Regulatory Responses to Disruption in Australian Retail | 7 |
| 4.0 WHAT IS LARGE FORMAT RETAIL? | 8 |
| 4.1 Characteristics of Large Format Retail Operations | 8 |
| 4.2 Economic and Employment Generation of Large Format Retail Operations | 9 |
| 5.0 THE REGULATORY LANDSCAPE | 10 |
| 5.1 The Regulatory Regime in Each State | 11 |
| 6.0 RECOMMENDATIONS TO SUPPORT DISRUPTION IN RETAIL | 12 |
| 7.0 CONCLUSION | 15 |
| APPENDIX 1 – LARGE FORMAT RETAIL PLANNING DEFINITIONS & KEY ISSUES | |

1.0 Large Format Retail Association (LFRA) Overview

The Large Format Retail Association (LFRA) is Australia's peak body representing the interests of its membership base, being Large Format Retailers, investors, owners, developers and service suppliers. The LFRA's core focus is on the appropriate planning and responsible development of Large Format Retail outlets.

Retail members of the LFRA include some of Australia's largest and most respected Large Format Retailers including the 62 individual business brands listed in the following table:

| | | |
|--------------------------------|----------------------------|------------------------|
| ABS Automotive Service Centres | Domayne | OZ Design Furniture |
| Adairs | Early Settler | Petbarn |
| Adairs Kids | Fantastic Furniture | PETstock |
| Amart Sports | Forty Winks | Pillow Talk |
| Anaconda | Freedom | Plush |
| Autopro | Godfreys | POCO |
| Autobarn | Goldcross Cycles | Provincial Home Living |
| Babies R Us | Guests Furniture Hire | Ray's Outdoors |
| Baby Bunting | Harvey Norman | Rebel |
| Barbeques Galore | IKEA | Recollections |
| Bay Leather Republic | JB Hi-Fi | Sleepys |
| BCF | JB Hi-Fi Home | Snooze |
| Beacon Lighting | Joyce Mayne | SPACE |
| Beaumont Tiles | Kitchen Warehouse | Spotlight |
| Bedshed | Le Cornu | Suite Deals |
| Bunnings | Lincraft | Super A-Mart |
| Bursons | Masters Home Improvement | Supercheap Auto |
| City Farmers | Midas Auto Service Experts | The Good Guys |
| Costco | National Tiles | Toys R Us |
| Curtain Wonderland | Officeworks | Urban Home Republic |
| Decathlon | Original Mattress Factory | |

The LFRA is supported by its Patron, PwC, and the following 71 Associate members that comprise of Large Format Retail developers, investors, owners and service suppliers:

| | | |
|-----------------------------|-------------------------------|----------------------------|
| 20 Cube Logistics | Deep End Services | Mainbrace Constructions |
| ACTON Commercial | DOMÉ Property Group | Major Media |
| ADCO Constructions | DD Corporate | Mc Mullin Group |
| Aeris Environmental | Eureka Home Maker Centre | Morgans Financial Limited |
| Aigle Royal Properties | Excel Development Group | Newmark Capital Limited |
| ALTIS Property Partners | Gadens | Nunn Media |
| Arise Developments | Gazcorp | Philips Lighting |
| Arkadia | Gibb Group | Primewest |
| Ashe Morgan Harbour Town | Gregory Hills Corporate Park | Properties & Pathways |
| Aventus Property | Griffin Group | Ray White Retail |
| AXIMA Logistics | HLC Constructions | Realmark Commercial |
| AXIOM Properties Limited | Humich Group | REST Industry Super |
| BLIX | Jana Group of Companies | RPS Australia Asia Pacific |
| BWP Trust | JBA | Savills |
| Blueprint | JLL | Sentinel Property Group |
| Brecknock Insurance Brokers | Johns Lyng Group | SI Retail |
| Burgess Rawson | JV Property Management | StarTrack |
| CarbonetiX | Lancini Group of Companies | Terrace Tower Group |
| CBRE | Lander & Rogers Lawyers | The Buchan Group |
| CEVA Logistics | La Salle Investments | TIC Group |
| Colliers International | LEDA Holdings | 151 Property |
| Comac Retail Property Group | Leedwell Property | Vaughan Constructions |
| Cornwall Stodart | Leffler Simes Architects | Vend Property |
| CV Signage Solutions | Lismore Leisure & Home Centre | |

The LFRA is a key stakeholder in the planning and zoning laws that affects this sector of the retail industry and is actively involved across Australia in reviews of planning policy and planning regulations that affect the Large Format Retail sector.

Deep End Services estimates that for the financial year ending 30th June 2015 that the Large Format Retail sector:

- Generated \$63 billion in sales across Australia which equates to 22% of all retail sales;
- Nationally employs 410,700 (FTE) both directly and indirectly; and
- Occupies around 30% of all retail floor space in Australia.

The Large Format Retail industry in Australia is facing difficulties as a direct result of planning and zoning legislation across Australia.

Of note are the following reviews:

- The Productivity Commission's 2015 inquiry into *Business Set-Up, Transfer and Closure*
- *A Review of Competition Policy* otherwise known as the 'Harper Review' commissioned by the Federal government;
- *Cutting Red Tape* by the Federal government;
- *Costs of Doing Business: Retail Trade Industry* by the Productivity Commission. This review, was in part, an audit on the implementation of recommendations that were included in the Productivity Commission's 2011 inquiry into the *Economic Structure and Performance of the Australian Retail Industry*;
- Productivity Commission's 2011 inquiry into the *Economic Structure and Performance of the Australian Retail Industry*;
- Productivity Commission's 2010 *Performance Benchmarking of Australian Business: Planning, Zoning and Development Assessments*;
- Productivity Commission's 2007 review into the *Market for Retail Tenancy Leases In Australia*; and
- ACCC's 2008 *Into the Competitiveness of Retail Prices for Standard Groceries*.

The abovementioned inquiries all identified the need to review planning and zoning laws across all jurisdictions in Australia.

This current submission is in response to the Productivity Commission's call for submissions to its research report on *'Disruptive Technologies: What do governments need to do?'*

2.0 Introduction

In 2015 the LFRA released an evidence based report on the Large Format Retail sector titled '*Investment + Competition = Jobs*'. The report concentrated on NSW, but also is a comparative analysis of the Large Format Retail sector across all Australian jurisdictions. The report was produced by planning consultancy firm JBA, with economic input from Deep End Services. The preface of the report was written by Professors Allan Fels AO and David Cousins AM. A copy of '*Investment + Competition = Jobs*' can be downloaded at:

<http://www.lfra.com.au/wp-content/uploads/Investment+Competition=jobs/Large-Format-Retail-in-NSW.pdf>

On 30 September 2015, the Productivity Commission released its report '*Business Set-Up, Transfer and Closure*'. This report provided advice to policy makers on '*disruptive*' new business models, government approaches to assisting start-up businesses and an entrepreneurial culture, and closure processes for insolvent businesses.

In late 2015, the Productivity Commission followed this up with the announcement of a research project to examine the potential impacts and challenges of innovative and disruptive technologies for competition, productivity, structural adjustment and social structures. The report highlighted that regulatory changes are required to allow the operation of, and economic benefits from, digitally disruptive new business models. It also found that innovative technologies have far-reaching and interlinking impacts on the broader economy, requiring an assessment of the role of government in a range of policy areas.

3.0 History of Disruption in Australian Retail

3.1 The Story of Australian Retail

The history of Australian retail is a story of disruption and never ending evolution, as new formats have arrived to challenge the status quo and bring more choice to consumers in what is available to buy and how, where and when they can buy the things they demand.

Originally, retailing in Australia generally comprised of small corner shops. This evolved into high streets where a number of smaller, specialty stores, catered to local catchments. By the late 19th century, larger department stores began to be established in central business districts.

Following World War II, with the advent of wide car ownership in Australia, and the move of the population to the newly-growing suburbs, suburban shopping centres began to displace high streets as the major retail offering. In this sense, what are now seen as '*traditional*' shopping centres are the original '*out of centre*' development.

The LFR sector has an established role in the Australian retail environment, yet as an identifiable retail format it is a relatively recent phenomenon, tracing its roots

back to the 1970s. The sector began with the development of stand-alone retail stores selling products such as furniture, floor coverings and other low margin stock from industrial properties and secondary retail and commercial space. These operations typically retro-fitted former warehouses to reduce development and rental costs and to fit in with a low-margin/low occupancy cost business model.

During the 1970s and 1980s many inner-city industrial properties were struggling to retain viable tenants, and when major manufacturing, storage and warehousing businesses were beginning to shift to larger and more affordable properties better served by transport infrastructure. The redundant inner city warehouses provided a stock of relatively low cost property able to be reused by innovative retail operators, and to allow trade-oriented businesses (for example, those selling auto parts and plumbing supplies) to present their offering directly to the public in addition to their traditional wholesale customers.

This model was different to the shopping centre model in that it was a high volume, low cost, low prices model, driven by economies of scale. These retailers tended to be established in so-called 'out of centre' locations, with large amounts of free car parking available. In essence, though, the rise of Large Format Retail has been similar to the rise of shopping centres – it is merely the next wave.

Recently, retailers from overseas have sought a foothold in the Australian retail market, with companies such as Costco and IKEA establishing. These Large Format Retailers have provided lower prices and greater choice for Australian consumers, and have presented as disruptive factors in the market.

It is also of interest to note that whilst there has been gradual emergence of the Large Format Retail sector there has also been the abandonment or diminished presence by traditional department stores of many of the product categories that the Large Format Retail sector includes as part of its mix.

Australian retail has also been disrupted by the internet and e-commerce. Barriers to entry are relatively low in e-commerce, and where there is no physical presence it does not require any permission from planning regulators. As a result, some well-established internet retailers are able to compete on a fairly unlevel playing field to that upon which Large Format Retailers find themselves.

3.2 Changing Preferences and Technology

Sales in Large Format/homemaker retail products have significantly outgrown traditional retail categories over the past 5 years. This can be attributed to a variety of reasons including:

- The increase in demand for '*do-it-yourself*' home improvement products brought about by the strong growth in the Australian economy and the recent property boom;

- The technology revolution has provided a substantial increase in new consumer products and the obsolescence of traditional household goods;
- The emergence of the internet and particularly online shopping has increased access to retail goods and services;
- Shopping has evolved into a leisure and lifestyle experience for many Australian families, particularly in relation to household goods expenditure;
- The emergence of the green market; and
- Increased supply of Large Format/homemaker retail facilities and the provision of choice, convenience and competition provided by this increase in supply.

The above is supported by some comments in decisions handed down in the Victorian Civil and Administrative Tribunal in the last few years. In the decision *'Glenwaye Pty Limited L vs Glen Eira CC'* the following comment was made:

"...Changes in technology & marketing, lifestyles, consumption patterns, the mix of activities that now occur within any one premises...and the growth of shopping as a leisure activity, all mean that definitions are continually falling behind where the retail industry stands and where it is heading..."

The VCAT decision *'Radford vs Hume CC'* stated:

"...Retailing is a dynamic industry driven by competition and consumer demand, changes in technology and shifts in consumer patterns... it would be inappropriate to constrain opportunities for the retail industry to develop on the basis that new types of retail premises do not fit comfortably within existing definitions and traditional concepts of retailing which may have informed earlier decisions about how specific uses ought to be characterised. That would be contrary to the general principle of economic wellbeing ...that planning should support and foster economic growth and development as a means of contributing to the economic wellbeing of communities and the state as a whole. As new forms of retailing evolve, the role of planning is to ensure that they locate in appropriate places where they will best meet the needs of net community benefit and sustainable development. It is not the role of planning to frustrate the development of retailing or try to force uses into inappropriate locations by taking a restrictive view about which definition certain activities fall within..."

3.3 Regulatory Responses to Disruption in Australian Retail

The Australian economy is changing dramatically and quickly, as is the way we work. There is a clear trend in the decline of the manufacturing industry in Australia over the past 10 - 15 years. The manufacturing sector of the Australian economy is in increasing decline due to global economic pressure for manufacturing activities to locate in developing countries due to lower cost wage structures. As a direct result of this decline there is declining demand for industrial land particularly within established metropolitan areas. Planning policy

in most states has yet to appropriately respond to this trend and on-balance the response has been contradictory.

There is a current trend at local government level to retain and protect industrial land for industrial purposes despite this declining demand. Often this approach is justified on the basis of preserving employment opportunities for lower skilled workers. This is despite the fact that the retail sector of the economy provides substantially more employment per square metre of developed land than industrial uses and draws its employment base from a similar pool of lower skilled workers.

There is a need to increase land supply for development of commercial and residential purposes particularly within established metropolitan areas which is supported by various state governments' strategic planning policies. The regeneration of industrial land for higher density development and higher value land uses is a logical and sustainable solution to this issue.

As was noted by the Commission in its *'Business Set-Up, Transfer and Closure'* report; *"...Government and regulator responses to new business models are critical to their success. 'Knee-jerk' reactions that are overly prescriptive and shield incumbent businesses from competition, impose unnecessarily high costs on new business entrants and therefore consumers, discourage innovation and reduce economic growth..."*

In addition, the Commission noted, *"...Much of the inaction on recommended regulatory reforms by primarily state, territory and local governments, reflects a lack of political will to change arrangements faced by incumbent businesses, and as identified by the Commission in its past work on regulator engagement, an unwillingness by some state governments to deal with the complications posed by large numbers of poorly resourced and incentivised local governments. For example, many zoning and development assessment requirements remain unnecessarily interventionist, costly, time consuming, duplicative of sector-specific agreed national requirements, and restrictive (without public benefit) in how particular buildings or sites can be used..."*

Over the last 5 years, in several studies, the Commission has identified "...planning and zoning regulations that are complex, excessively prescriptive, and often anticompetitive..." that still needed to be addressed, although it was noted that there had been some progress in Victoria. (*PC 2015*).

4.0 What is Large Format Retail?

4.1 Characteristics of Large Format Retail Operations

The Large Format Retail sector consists of retail businesses predominantly involved in the sale, hire or display of:

- automotive parts and accessories;
- baby and children's goods, children's play equipment and accessories;
- camping, outdoor and recreation goods;
- household appliances, household electrical goods and home entertainment goods;
- electrical light fittings;
- office equipment and supplies;
- sporting, cycling, leisure, fitness goods and accessories;
- animal and pet supplies;
- party supplies;
- floor and window coverings;
- swimming pools and supplies;
- furnishings, bedding and manchester;
- hardware and building supplies;
- garden centres; and
- musical instruments and accessories

There are a number of distinct physical and operational cost characteristics that distinguish Large Format Retail operations from standard retail premises.

Most Large Format Retail businesses sell large bulky items that require large floor plates to display and store goods, and necessitate direct, at-grade access to customers' vehicles for loading. They also rely on good access and exposure to arterial roads for loading requirements and to attract a broader customer base. There is a preference for Large Format Retailers to co-locate within homemaker centres or Large Format Retail precincts to generate critical mass and establish destination appeal.

The sector's viability relies on low development and occupancy costs to support product margins that are generally much lower than for standard retailers in order to minimise prices for end consumers.

Due to their requirements for large flat sites, most operators are unable to find appropriate sites in or near traditional retail centres because of the dense urban fabric, fragmented land ownership, subdivision patterns and the higher cost of land and rent. Large Format Retail uses are ideally located in proximity to, but not within, traditional retail centres.

4.2 Economic and Employment Generation of Large Format Retail Operations

The LFR sector makes a significant contribution to Australian retail activity, generating total sales of \$63 billion in 2014-15. It accounts for a sizeable 22% of all retail activity nationally.

Across Australia, the sector has grown by an annual average rate of 5.6% since 1999 (compared to the standard retail average of 5.2%). However, this growth rate has

slowed since the GFC. It is important that the LFR sector is supported through appropriate planning policy so that it can continue to make a significant contribution to the retail economy.

The LFR sector is responsible for approximately 30% of total occupied retail floorspace in Australia. Over 50% of all LFR floorspace in Australia occurs in homemaker centres or dedicated LFR precincts which points to the importance of co-location for Large Format Retailers. A further 19% of LFR floorspace (3.4 million m²) is situated within shopping centres or as part of traditional activity centres and shopping strips, and another 28% (4.9 million m²) is located within industrial precincts. A small remainder, approximately 2%, is found in more widespread locations including residential and rural areas.

The LFR sector is responsible for employing 410,700 (FTE) people both directly and indirectly.

5.0 The Regulatory Landscape

In the years since the issue of the Productivity Commission report into the *'Economic Structure and Performance of the Australian Retail Industry'* there has been some work undertaken in the various states and territories that has led to varied outcomes. There has been a trend towards review of planning regulation however the only review to date that has resulted in positive changes is in Victoria, although the recently announced changes in Western Australia, once implemented, will also be positive.

The LFRA notes the constructive direction that the Queensland government is taking, however there are major concerns with the progress and direction of planning in New South Wales. Our views in relation to the progress and direction of the main states will be discussed further in this section of the submission.

In recent years, the major focus of these reviews has been to update and standardise planning regulations. There is a common theme throughout Australia of reducing the quantum and impact of restrictions that are in place within planning legislation. The removal of restrictions can generally be supported on the basis that by doing so, the planning system will more efficient, competitive and ultimately more productive.

There is also a need for periodic review of planning policy to ensure that the policies and regulations in place are relevant in our economy and society that is constantly evolving. This is particularly relevant in the past few years where retailing has been under pressure from adverse economic conditions; changes in consumer behaviour; price harmonisation; globalisation and the increasing market share of internet based retailing. In recent times there has been some major reviews undertaken which have identified the need for changes to planning policy. This is timely given that there has never been a greater need for planning to keep pace with the market it seeks to regulate.

On the issue of land use definitions; Large Format Retailing is a separately defined land use term in all state and territory planning schemes across Australia. Common to all planning laws across Australia is the premise that Large Format Retailing is a separate category of retailing distinct from core retail or ‘shops’ and can therefore locate on land that is zoned for purposes other than core retailing. In this regard, Large Format Retailing is a permissible and encouraged land use on lower order Business and Commercial zoned land and in some cases, Industrial zoned land.

There are fundamentally two (2) types of definitions contained in planning laws across Australia that define Large Format Retailing including:

- Performance based definition relating to ‘bulky goods’ or ‘Large Format Retail’ defined by the size, shape and/or weight of the goods. This type of definition originated in New South Wales and has been adopted in part in other states.
- List of specific product categories based on their ordinary meaning (e.g. – furniture) that are deemed to comply as ‘bulky goods’ or ‘Large Format Retail’. This type of definition originated in Victoria and has been adopted in part in other states.

5.1 The Regulatory Regime in Each State

Detailed information about the state by state regulatory regime can be found in the ‘Appendix 1’ to this submission; being an extract from the ‘Australian Large Format Retail Directory 2015/16’. Further information, particularly in relation to New South Wales can be found in our commissioned report ‘Investment + Competition = Jobs’.

Of note we have recently seen the Western Australian government introduce new definitions for ‘Bulky Goods Showrooms’ and ‘Trade Supplies’ within the ‘Model Scheme Text’ (MST) (a list of standard land-use definitions) within ‘Planning and Development (Local Planning Schemes) Regulations 2015’.

The Regulations provide for a ‘MST’ which is intended to guide the preparation of new Schemes or amendments to existing Schemes. Any uptake and application of these definitions within existing Schemes will depend on the rate at which local governments review and introduce new planning schemes based on the model provisions.

Further information can be found via the following link:

<http://www.planning.wa.gov.au/publications/7295.asp>

This is another step along the long and arduous journey to achieve a planning regime for the Large Format Retail sector that provides clarity, certainty and consistency.

The new Western Australia definitions largely replicate the Victorian definitions for ‘Restricted Retail Premises’ and ‘Trade Supplies’. The key differences between the Victorian and Western Australian definitions are highlighted in the following table. Particularly of note is the Western

Australian definition for 'Bulky Goods Showroom' which does not include a prohibition on "...the sale of food, clothing or footwear unless their sale is ancillary to the primary use..."

| Victorian Definitions | Western Australian Definitions |
|--|---|
| <p>"Restricted Retail Premises: Land used to sell or hire</p> <ul style="list-style-type: none"> (a) automotive parts and accessories; (b) camping, outdoor and recreation goods; (c) electric light fittings; (d) animal supplies including equestrian and pet goods; (e) floor and window coverings; (f) furniture, bedding, furnishings, fabrics, manchester and homewares; (g) household appliances, electrical goods and home entertainment goods; (h) party supplies; (i) swimming pools; (j) office equipment and supplies; (k) baby and children's goods, children's play equipment and accessories; (l) sporting, cycling, leisure, fitness goods and accessories <p>(m) Or</p> <p>goods and accessories which;</p> <ul style="list-style-type: none"> (a) Require a large area for handling, display and/or storage of goods: OR (b) Require direct vehicular access to the building by customers for the purpose of loading or unloading goods into or from their vehicles after purchase or hire. | <p>"bulky goods showroom means premises – (a) used to sell by retail any of the goods and accessories of the following types that are principally used for domestic purposes –</p> <ul style="list-style-type: none"> (I) automotive parts and accessories (II) camping, outdoor and recreation goods; (III) electric light fittings; (IV) animal supplies including equestrian and pet goods; (V) floor and window coverings; (VI) furniture, bedding, furnishings, fabrics, manchester and homewares; (VII) household appliances, electrical goods and home entertainment goods; (VIII) party supplies; (IX) office equipment and supplies; (X) babies' and childrens' goods, including play equipment and accessories; (XI) sporting, cycling, leisure, fitness goods and accessories; (XII) swimming pools; <p>Or</p> <p>(b) used to sell by retail goods and accessories by retail if –</p> <ul style="list-style-type: none"> (I) a large area is required for the handling, display or storage of the goods; or (II) vehicular access is required to the premises for the purpose of collection of (III) purchased goods;" |
| <p>It does not include the sale of food, clothing and footwear unless their sale is ancillary to the primary use..."</p> <p>"Trade Supplies: Land used to sell by both retail and wholesale, or to hire materials, tools, equipment, machinery or other goods for use in:</p> <ul style="list-style-type: none"> a) automotive repairs and servicing; b) building; c) commerce; d) industry; e) landscape gardening; f) the medical profession; primary production; or local government, government departments or public institutions..." | <p>"trade supplies means premises used to sell by wholesale or retail, or to hire, assemble or manufacture any materials, tools, equipment, machinery or other goods used for the following purposes including goods which may be assembled or manufactured off the premises –</p> <ul style="list-style-type: none"> a) automotive repairs and servicing; b) building including repair and maintenance; c) industry; d) landscape gardening; e) provision of medical services; f) primary production; g) use by government departments or agencies, including local government;" |

6.0 Recommendations to Support Disruption in Retail

As is clear from the previous section, there is quite a deal of inconsistency in how each state deals with Large Format Retailing.

The LFRA has made submissions to all state and territory governments over the past five (5) years calling for the removal of planning policies that are designed to discourage certain

types of development or overly constrain development in certain locations. Examples of such restrictive policies are:

- *'Activity Centres Policy'* – this type of policy seeks to concentrate development within the geographical boundary of an activity centre (commonly a city or key suburban centre) while at the same time actively discouraging development outside of that centre. This has been a major hurdle for Large Format Retailing in the past as the majority of suitably located and zoned land for the development of Large Format Retail property is located outside of designated activity centres; and
- *'Industrial Land Use Policy'* – this type of policy seeks to preserve industrial land for industrial use while at the same time actively discouraging development for other purposes. This type of policy remains in place all over Australia despite the fact that the industrial sector of the economy has been in decline for many years and the former industrial base of manufacturing has given way to a new industrial base of warehousing and logistics. This type of policy has been a major hurdle for Large Format Retailing in the past as the industrial land, particularly in inner city locations is suitable for the development of Large Format Retail property.

The LFRA considers that these policies restrict retailing despite the projected increase in population over the next 20-25 years in Australia that will require a significant increase in the quantity of retail floor space to service the needs of consumers. There is a corresponding need to increase the supply of suitably zoned land for the purpose of facilitating the development of new retail floor space.

The LFRA agrees with the recommendations in the Productivity Commission's previous reports that providing sufficient land at the strategic planning stage, with sufficiently broad uses in *'employment zones'*, should enable retailers to locate in areas where they judge they can best compete – and planning should be able to accommodate even the newest of current business models requiring significant floor space. Under such conditions, a new retail proposal in a non-designated area should be rare. However, in this situation, considerations of externalities such as traffic congestion and the viability of existing or planned new centres can be an important aspect of city planning which may justify accepting some reduction in competition. But the LFRA suggests that any application of competitive tests must only be used in conjunction with governments allocating sufficient *'employment zones'* capable of a 10 - 15 year growth horizon to meet retail and commercial growth demands. This would entail the review of all activity centre boundaries, the supply of available land and the existing network of centres. It also has considerable opportunity to be a standard model format across all jurisdictions in Australia.

The LFRA would also support the Commission's recommendation that the impacts of possible future retail locations on existing activity centre viability (but not specific businesses) should only be considered during strategic plan preparation or major review – but not for site specific rezoning or development application assessments. The LFRA supports the removal of all adverse impact tests on existing firms and/or activity centres (or town centres) such as a *'sequential test'* (that is, proof that no other central location was suitable for the new shop) or a *'test of need'* (that is, that proof that the new

development was needed to meet local demand conditions) at any stage of the planning, rezoning and development assessment process. These tests have been most problematic as they make it more difficult for competitors to start new businesses by providing incumbents with a procedurally legitimate basis for arguing against the introduction of new entrants.

The LFRA strongly supports the expansion of as-of-right or '*code based assessment*' (as it is referred to by COAG). The LFRA's first submission to the Commission detailed progress at COAG on the harmonisation of development assessment procedures, specifically code based assessment for commercial and industrial development. The LFRA strongly supports code based assessment of commercial and industrial development, including all forms of retail premises including Large Format Retail premises, and recommends the urgent completion of the COAG work to implement code based assessment for commercial and industrial development in all states and territories as the most expedient way for this work to be progressed.

As alluded to above, there is a nationwide trend towards '*activity centre*' based planning controls which aim to concentrate development inside the defined boundaries of these activity centres. The premise of these policies is that increased density of development is most sustainability catered for in developed urban centres with access to the public transport networks. The LFRA supports the sustainable development of activity centres to cater for the projected increase in population. However we consider that there is an unintended consequence of this focus on activity centre planning whereby development of land outside of these defined centres is being constrained and stifled. The majority of existing floor space that caters for Large Format Retailing is located on the edge or outside of the defined boundaries of activity centres. This existing development has been created in direct response to consumer demand and the planning policies that supported and encouraged Large Format Retailing on predominantly main road locations. There is no evidence to suggest that Large Format Retailing in out of centre locations is undermining activity centre policy.

Planning systems around Australia need to be robust and flexible enough to respond to the continuing decline of manufacturing (which is further exacerbated by developments in technologies such as 3D printing, the internet, improved logistics and ongoing wage differentials between Australia and other countries) and new forms of retailing that require larger floorspaces but are accessible to the general public. As alluded to above, this means that local councils should cease '*protecting*' industrial land for uses that will never return to Australia, or if they do, will be much cleaner and quieter, and not require the same separation from residential and commercial uses that they would once have. This should open up land for new, flexible and innovative retail opportunities, particularly as the population grows and requires access to more retail.

The LFRA recommends that the Council of Australian Governments (COAG) should be the recommended body used to facilitate a national approach to planning and zoning via a Model Code for Local Planning (including standard zones). It is only through a national policy making body that all state and territory governments will have the necessary impetus to address the critical issues of zoning restrictions which are creating great

uncertainty and complexity in the land use planning system for the retail industry as a whole.

7.0 Conclusion

The LFRA welcomes this opportunity to contribute to consultation process on the Productivity Commission in this continued review of issues relative to the retail sector.

The LFRA would be pleased to discuss any issues raised in further detail.

Please contact Philippa Kelly, LFRA CEO to discuss any aspect of this submission.