Opinion: Final IA
Origin: Domestic
RPC reference number: RPC15-CLG-3032(2)
Date of implementation: 2016

Permitted development rights for the change of use of offices, light industrial buildings and launderettes

Department for Communities and Local Government

RPC rating: fit for purpose

The IA is now fit for purpose as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

Currently a planning application is normally required to change the use of commercial buildings. Permitted development rights allow a light touch planning process, where the principle of development has already been established. A temporary permitted development right was introduced in May 2013, for a three year period, which allows a change from office to residential use. This proposal makes that permitted development right permanent. It also introduces, for three years, a new permitted development right for change of use from light industrial to residential, subject to prior approval by local planning authorities. It also amends an existing permitted development right to allow for the change of use from launderettes to residential, subject to prior approval. The Department believes that the proposal will significantly increase the delivery of new homes in England.

Impacts of proposal

Administrative savings

The lighter touch planning process will deliver administrative savings to developers and will reduce planning fees. The IA states that, based on Land Use Change Statistics, around 140 applications for change of use from office to residential were brought forward each year before the current temporary scheme was introduced. The Department has commissioned analysis that shows a saving of £13,170 for each application through reduced fees and administration costs. This results in a saving to business of £1.8 million each year. The Department has used a cautious assumption for the number of applications, basing it on the number prior to the proposal being implemented. The Department believes it is likely that the actual volume of applications could increase significantly as a result of the proposals and that the cost savings to business could be greater.

The Department also estimates that, based on the current number of applications for change of use from light industrial purposes to residential, there will be a saving of £12,630 for 80 applications each year. This results in a total saving of £1 million each year. The Department has not quantified the impact of change of use for launderettes, as there is no centrally recorded change of use data at the level of detail required.

Land value uplift

The IA also analyses the benefit to land owners of making the permitted development right permanent. The proposal will increase the probability of obtaining permission for converting office buildings to more valuable residential use. This in turn will increase the value of suitable office buildings.

Based on Valuation Office Agency (VOA) and other data, the Department estimates that 157,000 offices in England might be suitable for conversion at an average office size of 262m^2. The Department uses regional data to compare the value of residential space to office space. The Department assumes that an office can be viably converted if its value as residential space (taking into account the cost of conversion and of obtaining permission) exceeds its capital value as office space. The analysis then takes into account the increased probability of receiving planning permission as a result of the policy. This uses estimates of the proportion of full planning applications that are refused on the basis of principle of development compared to the proportion where there are other grounds for refusal.

The Department estimates that the land value uplift will provide a one-off benefit to business of £610 million. The Department has not quantified the potential uplift in land values in relation to light industrial use or launderettes. The IA also states that there could be an indirect cost to tenant businesses if the cost of leasing office space rose as a result of conversion activity. This represents a business-to-business transfer.

The RPC confirms that the Department has correctly assessed the direct impacts on business. This measure should be scored in accordance with the new better regulation framework and in line with the legal position under the Small Business, Enterprise and Employment Act. This proposal makes permanent a previously time-limited measure. The RPC is awaiting further guidance on such measures. The RPC will confirm the BIT score once the treatment of time-limited measures has been resolved.

Quality of submission

As initially submitted, the IA included two issues that meant that the RPC did not consider it fit for purpose. Firstly, the Department needed to explain its methodology for establishing the net benefit of the asset value uplift to business more clearly and provide more evidence to support its estimates. The Department also needed to monetise the potential additional revenue stream to landowners over the appraisal period rather than the immediate increase in the value of the land or provide evidence that the two numbers were equal. The Department was also asked to explore whether more detailed land value data was available.

The revised impact assessment provides further explanation of the calculations, step-by-step results and inputs, together with references. The Department has explored whether other data sources are available. It has provided sufficient explanation as to why it has not been able to identify non-residential land value data of comparable quality to residential data and at smaller geographical scales.

The Department has also provided additional explanation of the link between the property values considered and the discounted stream of rental revenues provided by the relevant assets. It has confirmed that the changes in land values should represent the changes in the economic rent extracted from that land with the capitalised value of this future "revenue stream", although the appraisal is conducted over a ten-year period.

Secondly, as the proposal makes permanent a previously temporary measure, the Department was asked to set out how this proposal interacts with the previous scheme so that it can be correctly scored against the BIT. The Department has clarified the interaction between the schemes further. The proposal extends the previous scheme, which would otherwise expire. The scenario without a permitted development right is therefore the appropriate counterfactual for appraisal.

Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net cost to business (EANCB)	-£70.3 million
Business net present value	£628.3 million
Societal net present value	£628.3 million

RPC assessment

Classification	Qualifying regulatory provision
EANCB – RPC validated[1]	To be confirmed
Business Impact Target (BIT) Score[1]	To be confirmed
Small and micro business assessment	Not required (deregulatory)
RPC rating (of initial submission)	Not fit for purpose

Michael Gibbons CBE, Chairman

[1] For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.