Communities and Local Government

Planning Policy Statement 3

Regulatory Impact Assessment

Planning Policy Statement 3

Regulatory Impact Assessment

May 2007
Department for Communities and Local Government: London

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 020 7944 4400
Website: www.communities.gov.uk

If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

Communities and Local Government Publications
PO Box 236
Wetherby
West Yorkshire
LS23 7NB
Tel: 08701 226 236
Fax: 08701 226 237
Textphone: 08701 207 405
Email: communities@twoten.com
or online via the Communities and Local Government website: www.communities.gov.uk

May 2007

Product Code: 07HC04606

CONTENTS

Measure	5
Purpose and Intended Effect	5
Background	5
Rationale	6
Consultation	7
Options	7
Costs and benefits	8
Enforcement, Sanctions, Monitoring and Review	13
Small Firms Impact Test	13
Competition Assessment	14
Implementaton	14
Ministerial Declaration	16

Measure

1. In November 2006 the Government introduced a new Planning Policy Statement 3 (PPS3) to replace previous policy and associated guidance.

2. This new policy will replace:

- Planning Policy Guidance Note 3: *Housing* (PPG3);
- Updates to PPG3 *Supporting the Delivery of New Housing* (2005) and *Planning for Sustainable Communities in Rural Areas* (2005);
- Circular 6/98: *Planning for Affordable Housing*;
- Circular 08/2000 *The Town and Country Planning (Residential Development on Greenfield Land) (England) Direction 2000;*
- Circular 01/2005 *The Town and Country Planning (Residential Density) (London, South East England, South West England, East of England and Northamptonshire) Direction 2005.*

3. This Regulatory Impact Assessment presents an analysis of the costs and benefits of three options considered as part of the development of PPS3.

Purpose and Intended Effect

4. The Government's key housing policy objective is to ensure that everyone has the opportunity of living in a decent home, which they can afford, in a community where they want to live. The planning system has an important role to play in terms of understanding and responding to housing markets so the nation can build the homes needed for future generations.

5. Local Planning Authorities and Regional Planning Bodies are expected to provide sufficient land for housing to address housing demand and need in their areas.

Background

6. The Barker Review of Housing Supply[1] recognised that housing has a huge impact on individuals' quality of life, and identified a number of ways in which housing contributes to the economy. The Review made a number of recommendations regarding the need to achieve a step-change in housing delivery and increase the flexibility and responsiveness of supply.

1 *Barker Review of Housing Supply, Delivering Stability: Securing our future housing needs*, HM Treasury, March 2004

7. The *Government's Response to Kate Barker's Review of Housing Supply*[2], published in December 2005, accepted the case for a step change in housing supply and announced a package of measures to help deliver the new houses required.

Rationale

8. The Government wants more people to get the chance of a step on the housing ladder, as well as better choice and quality for those who rent. But for too long, the housing market has not responded sufficiently to housing demand and need. Over the last thirty years, there has been a 30% increase in the number of households but a 50% drop in the level of house building. Some areas have seen strongly rising demand with little increase in supply and rising house prices as a result, and others have struggled with problems of low demand.

9. The analysis of affordability targets and housing supply[3] carried out as part of the Government's response to the Barker Review showed that at recent levels of house building, affordability would continue to worsen in future. The analysis illustrated what this might mean for a typical house-buying couple aged 30-34. The percentage able to afford to buy would worsen significantly in the long term, falling from just over a half in 2005 to around 35% in 2026. Tables 1 and 2 demonstrate worsening affordability across the English regions.

Table 1 Lowest quartile earning to housing prices, 1998 & 2005, by region [Source: Communities and Local Government]

Government Office Region	Lowest Quartile (Earning to House Price ratio) 1998	Lowest Quartile (Earning to House Price ratio) 2005
North East	2.81	4.75
North West	2.95	5.00
Yorkshire and The Humber	3.05	5.32
East Midlands	3.29	6.46
West Midlands	3.49	6.47
East	3.87	8.01
London	4.34	8.50
South East	4.50	8.62
South West	4.13	8.55

2 *Government's response to Kate Barker's Review of Housing Supply*, HM Treasury, 05 December 2005. Website: www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/assoc_docs/prebud_pbr05_adbarker.cfm

3 *Affordability Targets: Implications for Housing Supply*, ODPM, December 2005

Table 2 House prices by Region (adjusted) [Source: Communities and Local Government]

Government Office Region	Mix adjusted house price (2000)	Mix adjusted house price (2005)
North East	£66,599	£131,814
North West	£77,923	£146,111
Yorkshire & Humber	£71,416	£143,281
East Midlands	£80,259	£159,249
West Midlands	£92,055	£163,945
East of England	£118,718	£204,215
London	£174,727	£266,328
South East	£147,220	£233,069
South West	£106,202	£199,230
England	£114,335	£193,097

Consultation

10. Drawing on proposals and feedback from two previous consultation papers, (*Planning for Mixed Communities (January 2005)* and *Planning for Housing Provision (July 2005))*, the Government published draft PPS3, for consultation, in December 2005.

11. The consultation revealed strong agreement that the policies in the draft PPS3 would deliver the Government's housing objectives. Linked to this, there was widespread support for the arrangements for delivering PPS3's objectives, particularly in respect to making efficient use of land; planning for mixed communities; planning for rural housing; designing for quality; greening the residential environment and working in sub-regional housing markets.

Options

OPTION 1: RETAIN PPG3 POLICY

12. Under this option there would be no change to national planning for housing policy, thereby retaining PPG3, the PPG3 updates, the Greenfield and Density Directions and Circular 6/98 (Affordable Housing).

OPTION 2: INTRODUCE NEW POLICY – PPS3

13. This option would involve replacing PPG3 policy with a new planning policy statement designed to deliver the government's strategic housing policy objectives by ensuring that the planning system delivers:

- High quality housing that is well-designed and built to a high standard;
- A mix of housing, both market and affordable, particularly in terms of tenure and price, to support a wide variety of households in all areas, both urban and rural;
- A sufficient quantity of housing taking into account need and demand and seeking to improve choice;
- Housing developments in suitable locations, which offer a good range of community facilities and with good access to jobs, key services and infrastructure;
- A flexible, responsive supply of land – managed in a way that makes efficient and effective use of land, including re-use of previously-developed land, where appropriate.

OPTION 3: UPDATE PPG3 WITH POLICY REFLECTING THE 2004 BARKER REVIEW OF HOUSING SUPPLY AND A MORE CENTRALISED APPROACH

14. This option would involve revision of aspects of PPG3 (and associated 2005 updates) to reflect the Barker recommendations on the allocation and release of land supply and adopt national policy targets. This would involve:

- New arrangements for allocating and releasing land – Local Planning Authorities would be required, in their local plans, to allocate 20-40% more land for housing than required to meet housing targets. Subject to development control requirements, all allocated land would be available for development until sufficient land was available to meet housing targets. After this point, Local Planning Authorities could refuse planning applications for housing unless predefined indicators of housing market disequilibrium were triggered. Examples of such indicators might include worsening affordability for newly forming households, local house price increases relative to regional averages and increasing premiums on land values for residential use over other uses;
- Specifying a definition of affordable housing, and setting national policy targets for the proportion of affordable housing to be provided and site-size thresholds;
- Setting national targets for housing densities, parking standards and delivery of new housing on previously-developed land.

Costs and Benefits

BACKGROUND

15. To the extent that the planning system restricts the supply of land for housing, it will tend to increase the price of housing. It does, however, deliver economic,

environmental and social benefits, although as social and environmental goods are not marketed, the benefits attached to them are hard to quantify.

16. Moreover, it is difficult to quantify with certainty at the national level the impact of national planning policy on housing supply given that Local Planning Authorities will vary their approaches to housing delivery in the light of housing market circumstances, particularly demand and need for housing, and the condition of the existing housing stock.

SECTORS AFFECTED

17. Revisions to planning for housing policy are likely to affect three broad groups, which can be described as follows:

- Public Sector – particularly Local Planning Authorities and Regional Planning Bodies;
- Private Sector – particularly landowners and the house building industry;
- Wider Community – particularly local communities, businesses and other organisations that would be affected by these changes.

OPTION 1: BENEFITS

Economic Benefits

18. Option 1 is to retain the PPG3 approach, providing continuity for the development industry and public sector. This would continue to maximise the re-use of previously-developed land for housing and contribute to urban renaissance. It would also require new housing to be located around existing transport and social infrastructure, which helps to maximise the efficiency of infrastructure (such as railways and hospitals).

Social Benefits

19. This approach would support the creation of mixed and balanced communities, requiring Local Planning Authorities to consider the needs of specific groups such as older people. Option 1 also promotes the need to provide a choice of housing types and tenures for both market and affordable housing.

Environmental Benefits

20. Option 1 would require previously-developed sites to be developed as a priority. It would seek to avoid development which makes inefficient use of land (ie less than 30 dwellings per hectare) as well as ensuring that housing is developed in sustainable locations.

21. This approach would also continue to seek to maximise walking and cycling and reduce the use of the car by encouraging housing to be provided in accessible locations and emphasise the need for good quality housing design.

OPTION 2: BENEFITS

Economic Benefits

22. In order to improve affordability and support economic growth, a significant increase in housing supply, over a sustained period of time, is necessary. By identifying sites in plans to deliver agreed housing numbers, Local Planning Authorities can ensure that housing is built in the right places with the necessary infrastructure.

23. By requiring Local Planning Authorities to identify sufficient specific deliverable sites, this should lead to greater certainty of land supply. In addition, improved availability of land for housing should improve competition amongst the development industry, which in turn could improve market efficiency.

24. By requiring Local Planning Authorities and Regional Planning Bodies to take into account market information when determining the level of housing to be provided, this option provides flexibility at the local level to ensure that the specific economic challenges can be addressed, eg low demand.

25. The existing gap in affordability between the north and south of England as well as within regions is significant. By providing more housing nationally, particularly affordable housing in areas of acute housing need, this option should also help to address labour market issues, including the recruitment and retention of labour.

26. Providing more land for housing in response to need and demand, in both urban and rural areas, should help to improve the sustainability of communities and the rural economy by allowing people to live closer to where they work.

Social Benefits

27. This approach should widen the choice of, and accessibility to, housing for communities. By facilitating delivery of a variety of housing, particularly in terms of tenure and price (including meeting the needs of specific groups, such as families with children and older people) Option 2 should help to encourage community cohesion and address social exclusion.

28. The approach would include providing more land for affordable housing as well as market housing to help support the development of mixed communities.

Environmental Benefits

29. The environmental benefits are consistent with Option 1 in that both options would seek to make effective use of land by prioritising the use of previously-developed land for housing. Option 2 also promotes the efficient use of land by requiring Local Planning Authorities to develop density policies for their areas having regarding to the national indicative minimum density of 30 dph.

30. This approach emphasises the need for good design, promotes the Code for Sustainable Homes, which aims to encourage environmentally friendly new housing development, and the use of Design Codes. This should help to improve the quality and design of housing and associated public realm and in addition help to speed up the determination of planning applications.

OPTION 3: BENEFITS

Economic Benefits

31. This option would aim to improve the supply of land for housing by requiring Local Planning Authorities to be more responsive to market signals in allocating and releasing land for housing. Like Option 2, it should deliver sufficient land for housing to encourage national economic growth, increasing the competitive advantage of English regions and cities in the global economy.

32. Using market signals as a trigger for the release of land for housing could provide greater certainty to landowners and developers as well as addressing affordability issues. For example, where indicators show that affordability is worsening, the Local Planning Authority would be required to release land, which would allow developers to respond to changes in the housing market. In addition, increased supply will help to manage house price cycles caused by short term fluctuations in demand.

33. Option 3 could result in a significant increase in land for housing in rural areas, which could help to sustain rural economies, supporting local shops, services and rural businesses. In comparison to the Option 1, this could have wider sustainability benefits for rural areas by allowing more people to live closer to where they work.

Social Benefits

34. By facilitating a more responsive supply of land for housing, Option 3 could help to increase housing supply and widen housing choice. Setting a national affordable housing target could result in more affordable housing and create a mix of housing, which could help to encourage community cohesion and address social exclusion.

Environmental Benefits

35. Providing more land for housing should help to improve the efficiency of the house building industry, which should have positive implications for the quality and design of housing. National previously-developed land and density targets could also maximise the efficient use of previously-developed sites.

Costs

OPTION 1: COSTS

Economic Costs

36. This approach could exacerbate affordability issues by restricting access to land for housing, as demonstrated by Table 3, which shows the ratio between lowest quartile housing prices to lowest quartile earnings in England from 1998 to 2005. Whilst it is difficult to quantify the impact of worsening affordability on the nation's economic competitiveness, this option is likely to have some impact upon economic stability, particularly in terms of reduced labour mobility.

Table 3 Lower quartile house prices to earnings ratio, England, 1998 to 2005 (Source: Communities and Local Government)

	1998	1999	2000	2001	2002	2003	2004	2005
England	3.65	3.84	3.98	4.22	4.72	5.23	6.27	6.82

Social and Environmental Costs:

37. Continued restrictions in the availability of land are likely to restrain opportunities to increase house-building rates and further restrict the choice, quality and accessibility of housing. It could also restrict people's ability to move because of price barriers between housing markets.

OPTION 2: COSTS

Economic Costs

38. There is a risk that increasing the supply of land for housing could have a detrimental effect on the availability of land for other economic uses although the extent to which this is an issue will depend on the level and nature of competing demands for land compared with supply, at the local level.

Social Costs

39. Option 2, if inappropriately applied by Local Planning Authorities, could result in dispersed patterns of housing, inadequately serviced by infrastructure, which would undermine sustainable development objectives. However, the emphasis upon suitable locations for housing and using sustainability appraisal to help identify such locations, should mitigate against this.

Environmental Costs

40. A potential risk of Option 2 is that developers may 'cherry pick' the highest value greenfield sites which could undermine regeneration and market renewal objectives. However, Option 2 requires Local Planning Authorities to manage the delivery of land in a way that safeguards against this risk. If it became clear that there was a significant underperformance against plan objectives, in terms of development on particular categories of land, it would be open to Local Planning Authorities to invoke development control policies to address the issue.

OPTION 3: COSTS

Economic Costs

41. Option 3 could lead to an over supply of housing, resulting in macro-economic problems such as falling housing prices. An over supply could also be inefficient from an economic perspective as it can result in shortages of land for other uses, particularly for employment and economic development.

Social Costs

42. National targets for affordable housing, densities and car parking could restrict the ability of Local Planning Authorities to respond to demand and need at the local level resulting, for example, in higher or lower levels of affordable housing and car parking than may be needed in a particular area.

Environmental Costs

43. There is a risk that the combination of national targets and market-responsive land release mechanisms could reduce the flexibility that local authorities require to ensure that housing development is in the most sustainable locations. This could have a detrimental effect on achievement of national previously-developed land targets and/or the quality of residential developments.

Enforcement, Sanctions, Monitoring and Review

44. As with other Planning Policy Statements, Local Planning Authorities and Regional Planning Bodies are required to have regard to national planning policies and should seek to ensure that the objectives of PPS3 are delivered.

45. Local Planning Authorities and Regional Planning Bodies are required by the 2004 Planning and Compulsory Purchase Act to undertake annual monitoring and produce Annual Monitoring Reports. These should assess policy performance and implementation, particularly housing delivery. These reports will help the Government assess the impact of PPS3.

46. Local Planning Authorities' performance is measured through Best Value Performance Indicators and Comprehensive Performance Assessments.

Small Firms Impact Test

47. There will be no additional statutory requirements on small and medium sized firms as a result of the new measures. However, where businesses (in particular house builders) follow best practice, the policy may increase costs – for example the costs of better design or costs of more engagement in local and regional plan making.

48. Consultation responses to draft PPS3 identified issues relating to possible impact on small businesses and organisations. Concerns were raised that the approach to the release of non-housing land would result in a loss of land for business and employment use, in particular, by eroding the number of small employment sites in and around residential areas. However, as is clearly stated in Planning Policy Guidance 4 and accompanying guidance[4] Local Planning Authorities should only release appropriate employment sites for housing.

49. The consultation also raised a concern that small windfall sites would no longer be permitted to be developed for housing. However, although Option 2 takes a plan-led approach to the identification of specific sites for housing this does not necessarily preclude other sites from being released if they will contribute to the delivery of high quality housing in suitable locations.

4 Employment Land Reviews: Guidance Note, ODPM, 2004. http://www.communities.gov.uk/index.asp?id=1502071

50. Option 2 will deliver positive outcomes for small firms. Businesses involved in house building will benefit from the increased supply of housing land whilst all businesses, as employers, will benefit from improved affordability and the increased availability of housing for their employees. The Small Business Service was consulted as part of the Small Firms Impact Test and acknowledged the approach and findings.

Competition Assessment

51. It is expected that the proposed changes will have a positive impact on competition in the house building sector. Increasing the amount of land allocated for housing should lead to greater competition in the development industry and greater market efficiencies.

52. According to the Home Builders Federation[5], the top five house building companies provide over 30% of private sector output. This is a relatively high level of market concentration. However, smaller developers and self-builders account for around 40% of output[6]. In 2003, the largest 12 house building firms accounted for around 13% of output[7].

53. These figures may hide a series of smaller regional subsidiaries that largely operate independently. However, regional market shares can be quite high, with concentrations in particular sub-regions and markets. Market concentration does not necessarily imply the existence of a monopoly and it may be that larger firms benefit from economies of scale. Providing more certainty over future land supply could reduce the incentive to hold back sites as it will allow other competitors opportunities to develop alternative sites.

Implementation

54. The Government's approach to implementing PPS3 will be to work with key partners to communicate and deliver the five main outcomes, including by:

- Close working with the Commission for Architecture and the Built Environment on how to achieve the PPS3 messages on design quality;
- Utilising the communication expertise of the Planning Advisory Service to reach both regional and local audiences;
- Issuing practice guidance on Strategic Housing Market Assessments and Strategic Housing Land Availability Assessments;
- Issuing advice notes on Identifying Sub-Regional Housing Market Areas and market information;

5 Calculations provided by the Home Builders Federation

6 Ball, M. (forthcoming) Market share and scale economies in the UK housebuilding industry

7 DTI (2004) Construction Statistics Annual

- Incentivising the production of Strategic Housing Market Assessments (through the Planning Delivery Grant) and capturing and sharing best practice;

- Evaluating progress against the five PPS3 outcomes, using existing data sources and processes wherever possible.

Ministerial Declaration

"I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs"

Signed Kay Andrews

Date 9.5.2007

Baroness Andrews OBE
Parliamentary Under Secretary of State
Communities and Local Government