



**SCOTTISH EXECUTIVE**

Development Department

# **REGULATORY IMPACT ASSESSMENT**

**for Scottish Planning Policy 3:  
PLANNING FOR HOUSING**

# REGULATORY IMPACT ASSESSMENT

## Scottish Planning Policy (Revised 2003) 3: Planning for Housing

### Introduction and Summary

1. This is a Regulatory Impact Assessment (RIA) of *Scottish Planning Policy (SPP) 3: Planning for Housing* which replaces National Planning Policy Guideline 3 (published 1996). This RIA assesses the impact of the SPP on business and other interests. It considers the additional costs that may arise from the wider benefits sought by the changes introduced into SPP 3 in comparison with NPPG 3. The Scottish Executive consulted on the SPP in draft during the spring of 2002.

2. While the SPP sets out the overall policy, it will be given detailed effect at the local authority level through their development plans. It is therefore not possible to be precise about the costs that will be imposed. This assessment discusses the likely areas in which costs will be imposed, the significance of these costs and who is likely to have to pay.

### Purpose and intended effects of the measures

3. SPP 3: *Planning for Housing* reflect the priorities and policy framework as set out in *Scottish Planning Policy 1: The Planning System*. As part of the commitment to sustainable development, it identified five key priorities of the Scottish Executive:

- economic competitiveness
- social justice
- environmental quality
- design
- integrated transport.

Planning decisions should favour the most sustainable option, promoting development that safeguards and enhances the long-term needs of the economy, society and the environment. When conflicts between the objectives inevitably arise, decisions should be taken in line with local priorities and needs as identified in the development plan.

4. The main themes of SPP 3 address these issues in relation to new housing development. This assessment considers in particular:-

- providing land for new housing development
- the provision of affordable housing
- improved design
- energy efficiency
- measures to encourage and facilitate public transport, walking and cycling

5. The intent of these measures is to promote a more attractive and sustainable living environment for the people of Scotland as part of the wider investment in new housing.

### Benefits

6. **Economic competitiveness** - With an anticipated increase in the number of households in Scotland, there will be a continued requirement for new housing. In the period from 2000 to 2014 an increase of 260,000 households is anticipated. Homes for Scotland

have estimated that the investment involved in creating accommodation for these new households could amount to £20 billion, assuming that virtually all new housing will be provided by the private housing building industry. The policy in SPP 3 looks to the planning authorities to meet the housing land requirement in each housing market area in full. Structure plans should identify the overall housing land requirement for a period of 12 years from the expected date of approval of the plan and should provide a broad indication of the scale of housing land requirement and location of housing development beyond year 12, preferably up to year 20. The local plan must provide sufficient effective land to meet the housing land requirement for at least 5 years from the date of adoption and should also identify further sites to meet requirements in the medium term. The SPP seeks to provide greater certainty for the house-building industry over a longer period.

7. **Social Justice** - The provision of affordable housing as part of new developments reflects the Scottish Ministers' commitment to social justice. It brings direct benefits to the families who can access homes at a cost they can afford. The benefits to the community are the preservation of towns and cities with a range of social groups and a balanced labour force. It would be very difficult to place a value on these benefits, but it is clear from experience in parts of Southern England that significant costs can arise when large elements of the community can no longer afford to live in particular towns or areas.

8. **Environmental Quality and Design** - The scale of future new house building, significant in numbers and much of which will last 60-100 years, should make a positive and lasting contribution to environmental quality. *Designing Places* (November 2001) signals the Scottish Executive's determination to improve urban design and raise standards in urban and rural development. The benefits of improved design are in the greater quality of life of residents and in the retention of local variations in buildings and urban layout. This can lead to a greater sense of community, reducing both the fear of crime and the incidence of crime. Good design can also add value to the development scheme, often providing a distinctive identity, and reduce the long-term costs of energy, maintenance, management and security. A well-designed environment can encourage walking and outdoor play which can lead to health benefits. The availability of good quality housing and safe and attractive residential environments are factors in attracting business investment. The SPP also comments on the environmental value of a development respecting and even enhancing natural heritage for example by well-designed sustainable drainage systems.

9. Greater energy efficiency in new housing brings benefits for occupants as they can enjoy lower energy bills and greater comfort. Greater energy efficiency also contributes towards reductions in greenhouse gas emissions in line with the Scottish Climate Change Programme.

10. **Integrated Transport** - Development that encourages the use of cycling, walking and public transport for journeys in preference to the car will reduce congestion and vehicle emissions. It can also contribute to a sense of community and safety. Development that is adjacent to existing community facilities can reduce the need for travel in general and additional car journeys in particular.

### **Compliance cost estimates**

11. In making compliance cost assessments it is important to consider that the building sector is characterised by series of individual development projects. While there will be sunk

costs, for example in mechanical equipment and reserve land, many of the costs of future projects are still to be defined. *(To consider the importance of sunk costs to compliance costs we can imagine the extreme examples of a firm that builds a factory to manufacture an electrical component that is internationally traded; and a firm that leases an aircraft to introduce a passenger service. The factory owning firm has large sunk costs, and little influence over its product price. Any new measure will impact directly on the firm's profits. It will pay the compliance costs which are imposed, but there may come a point where the business ceases to be viable. It is trapped by its sunk costs. The other firm has low sunk costs, as the aircraft can be given up or moved to another route. This firm will seek to either pass the cost of the new measure onto its passengers, or can shift its operations if the cost is too great. This firm will never pay large compliance costs, as its low sunk costs allows it to escape.)*

12. The new measures will impose no costs on building projects for which planning permission has already been granted.

13. For projects where planning applications have been submitted, and are under consideration, this consideration will change with the introduction of the new measures. This could, in principle, lead to planning authorities seeking amendments to these applications to reflect the new measures. The Scottish Executive has kept the industry informed of its developing policy. Homes for Scotland were represented on the Advisory Group and were consulted during the development of the SPP.

14. New applications will be considered in the context of the new guidance. There is expected to be no increase in the administrative costs of submitting a planning application. This will be dependent on the necessary information being made available to applicants, for example on acceptable design standards. Excessive time taken to get planning permission and expenditure associated with possible appeals can affect builders' costs. The revised SPP should not cause increased delays. The intention is to provide greater certainty about future location of development and greater clarity about what is expected in terms of the detail of proposed development. This may help to reduce delays once an application has been submitted.

15. The real resource costs that could be imposed by the new measures are:-

- **the provision of affordable housing.** This could be the most substantial area of cost, although the precise level of this cost will only emerge through the development plan process and will be determined in the light of local circumstances. Costs will also be influenced by whether Communities Scotland will make subsidy available for sites that form part of a strategic programme. The SPP in any case does not set out to add to the expectations of a contribution by house builders to the new affordable housing required in an area.

- **improved design.** This need not add greatly to costs, particularly if it is clear to the builders what will be acceptable before they make any outlays. This will also avoid expensive revisions to plans. The SPP refers to the fact that provision must be made for the long-term management of open space which may be a feature of a residential development. It notes that these may be adopted by the local authority, owned in common by residents or managed by a suitable third party. This will incur a cost.

- **energy efficiency.** The energy efficiency measures sought in building regulations can be shown to pay for themselves fairly quickly in energy cost savings. This means that they have no net resource costs to society as a whole. It may be, however, that house purchasers are not willing to pay the full cost of the efficiency measures themselves, although they will be the ultimate beneficiaries. It is also recognised that there is a wider cost to society and the environment if energy efficiency measures are not taken.

- **measures to encourage and facilitate public transport, walking and cycling.** These measures are intended to support the Executive's commitment to an integrated transport policy. Provided that a sustainable location is selected for new housing development, they will not have significant resource costs. The requirement should be met in many cases through improved layout. Higher costs will only arise where a new location is to be developed and contributions are sought from the developer to address deficiencies, particularly in public transport provision.

### **Incidence of cost**

16. The costs identified in the previous section will fall across three groups:

- the purchasers of the completed houses and apartments;
- the house builders;
- the owner of the land that is to be developed.

17. Opinions are divided on which of these bears the greatest cost and it is likely to vary. If costs are passed on to the purchaser, they are contained in the sale price of the property unless they are for specific continuing commitments such as maintenance of facilities such as public open space. In other cases the cost may fall on the land owner in the form of reduced price offered for the land. The return to the builder is affected by these factors as well as by the development cost of the site. Considering these three factors:-

- the price paid for the completed property will vary widely according to local market conditions and the desirability of the location. The quality of the design and the degree of energy efficiency can also be expected to influence the price to a minor degree.

- since house building is a competitive sector, there is no reason to suppose that the house builders earn systematically excessive margins. The house builders' margins must therefore be expected to be a fairly stable element in the final property value.

- the price which house builders are willing to pay for the land will reflect assumptions about the forecast final property value and development costs. This of course does not apply where house builders have already purchased sites for development.

18. Losses to house builders possible from two main sources; the revision to applications submitted but not approved and the decrease in the potential value of development on land that they have already purchased. However, beyond these initial losses, there is no reason to

expect house builders to sustain continuing losses. House builders will behave rationally and, faced with additional costs for a given expectation of final property values, the market value of the land for development will fall. So long as adequate information is available about the elements of planning gain, and where relevant affordable housing, that will be expected, then house builders should be in a position to calculate a realistic basis for land transactions.

19. It is not anticipated that the losses to the owners of land will be of particular significance. The value of land is massively influenced by both its location and by the development that will be permitted under the planning system. A significant increase in value can be created, for example, by a decision to allow housing development on farming land adjacent to a prosperous existing settlement. Compared to this, the reductions in value to landowners from the additional requirements in SPP 3 will be fairly marginal although the implications could be more significant if the developer is required to provide a proportion of “affordable” housing in a development. The reduction in selling price of the development could be substantial with an effect on the value of the land to the developer. (There may be a question about whether the land owners current idea of value is a real or a perceived one.)

20. It would clearly be a cost to society if the new requirements of SPP 3 meant that in certain areas development could not be achieved at a fair margin to house builders, given prevailing final property prices in an area, for any land value. This is most likely to be true when the land has to have money spent on it prior to development, for example to clear the effects of past industrial use. This could also affect the viability of local house builders, if there were no acceptable projects in their area of operations. This is clearly not the intention of SPP 3 and it is for the local planning authorities to operate the new policy with due proportionality to ensure that problems of this nature do not occur.

### **Other costs**

21. It is not possible to identify with precision other costs that might arise. Much will depend on the particular local circumstances. Extra costs might fall to local authorities, for example, in the earlier revision of plans or the preparation of development briefs for particular sites, although in most cases local authorities have a programme of revising plans and they do not have to do it each time a new SPP is published. Likewise, the policy emphasis on design and quality may require new skills in local authorities, but these would not be exclusive to new housing developments. However, the monitoring requirements set out in the SPP may give rise to additional cost for planning authorities.

22. The development of new sites may require an element of “planning gain”, say, financial contribution from developers for infrastructure related to the new development, but these additional costs in most cases result from policies or requirements independent of those set out in SPP 3. In some cases additional costs are created by the requirement for affordable housing. The additional cost would vary according to the volume of affordable housing in relation to the development as a whole. As mentioned above this may be borne to varying extents by the seller of the land, the developer or the house purchaser.

### **Monitoring and review**

23. The property market is influenced by so many factors that it would be impossible effectively to monitor the cost of the revisions to the SPP in comparison with the former

NPPG 3. Instead, it would be valuable to monitor the key factors that will reduce the compliance costs with the new guidance, in particular:-

- that all planning authorities bring into place development plans that are explicit about the requirements;
- that planning authorities are not using the policy as a cover for the imposition of disproportionate or unrelated conditions on development; and
- that the new policy is not leading to a lack of development in specific areas.

24. SPP 3 will be reviewed in due course as part of the regular cycle of planning guidance review.

### **Declaration**

**I have read the Regulatory Impact Assessment and I am satisfied that the balance between cost and benefit is the right one in the circumstances.**

**Signed by the responsible Minister**



**Minister for Social Justice**

**Date**

**27 February 2003**

### Contact point

Andy Kinnaird

Planning Division

Area 2-H

Victoria Quay

Edinburgh EH6 6QQ

Tel no: 0131 244 7825

Email address: andy.kinnaird@scotland.gsi.gov.uk