

Title: Reform of the Use Classes Order IA No: DCLG-5044(1) RPC Reference No: RPC-CLG-5044(1) Lead department or agency: MHCLG Other departments or agencies:	Impact Assessment (IA)			
	Date: 21 January 2021			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary Legislation			
Contact for enquiries: Maria Darby 0303 444 1463				
Summary: Intervention and Options			RPC Opinion: Green	

Cost of Preferred (or more likely) Option (in 2019 prices)

Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying provision
£m 111.1	£m 111.1	-£m 12.9	

What is the problem under consideration? Why is government intervention necessary?

High streets and town centres have been increasingly struggling, including as customers switch to online shopping or look for more, or different experiences from their high streets. The government has considered how planning changes to use classes and permitted development rights could help support vibrant high streets that provide a mix of retail, commercial and other uses. The Covid-19 emergency and its broader economic impact, has led to government to consider more wider reaching reform to use classes to help deliver a key priority to help support vibrant, mixed use town centres and help them recover from the impacts of the COVID-19 restrictions. These measures have therefore been introduced at pace in light of this to stimulate economic activity and support high streets and town centres.

What are the policy objectives and the intended effects?

The aim of this measure is to support high streets and town centres and boost economic recovery, by introducing a new 'Commercial, Business and Service' use class. This provides significantly greater flexibility for premises to move between uses within this new use class, or a mix of such uses, to meet rapidly changing market demands, without the cost or time of submitting a planning application. It supports high streets and communities by helping to reduce the number of shops left empty and drawing in additional footfall to use such uses.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The Government is committed to supporting our high streets and town centres. In response to the 2018 consultation, *Planning reform: supporting the high street and increasing the delivery of new homes*, the government announced that it would amend the shops use class to ensure it captures current and future retail models and include clarification on the ability of the retail and services use classes to diversify and incorporate ancillary uses. However, given the economic impact of Covid-19, the Government has now decided that wider reaching reform to the Use Classes Order is needed to help support high streets and town centres and allow more flexible use of existing buildings. Separate to this, the government has taken action to support high streets through the High Street Fund, and as a result of Covid-19 business rates discounts and cash grants.

Will the policy be reviewed? No. If applicable, set review date:

Is this measure likely to impact on international trade and investment?	No			
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Christopher Pincher Date:

21/01/2021

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 82.1	High: 140.1	Best Estimate: 111.1

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.0	5.4	46.2
High	0.0	5.4	46.2
Best Estimate	0.0	5.4	46.2

Description and scale of key monetised costs by 'main affected groups'

This measure is deregulatory and will not create a cost to business.

Local authorities will lose the planning fees paid by applicants. It is estimated that this reduction in planning fees will amount to £46.2 million.

Other key non-monetised costs by 'main affected groups'

There may be externalities imposed on the local community such as a loss of amenity or an increase in noise from different types of uses or differing opening hours.

Building owners may opt to change use without the need for a planning application, displacing existing uses from operating in that building. There is therefore potential for a negative impact on some individual businesses which might be lost through change of use to more profitable uses.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	15.1	128.3
High	0.0	21.9	186.3
Best Estimate	0.0	18.5	157.3

Description and scale of key monetised benefits by 'main affected groups'

Overall, the changes to the Use Classes Order are deregulatory. Businesses will have greater freedom to adapt and diversify their business helping them to remain viable as market conditions change. The reforms mean that fewer changes of use will require an application for planning permission. This will benefit businesses by removing the costs of preparing and submitting applications.

Local planning authorities will benefit from having to determine fewer planning applications for changes of use. This will save time and resources which can be used elsewhere.

It is estimated that between 8,300 and 10,900 planning applications and prior approvals will be avoided every year to 2030. Between 2020 and 2030, we estimate £46.2m will be saved in planning fees and £64.8m of benefits will be derived from the time savings of applicants. Local authorities will benefit from no longer reviewing these planning applications and prior approvals. It is assumed this is equal to the loss of planning fee revenue, £46.2m, but this could be greater. This analysis may therefore underestimate the benefits of the change to use class orders.

Other key non-monetised benefits by ‘main affected groups’

The primary aim of the reforms is to create vibrant, mixed use high streets and town centres. Communities will benefit from greater choice and convenience of having a wider range of services and facilities located in the same area. Communities may benefit from more high street and town centre premises being repurposed rather than left vacant with the corresponding impact that has on the amenity of the area.

Businesses will have greater freedom to adapt and diversify their business, thus helping them to remain viable as market conditions change. Furthermore, better competition could encourage firms to deliver benefits to customers in terms of lower prices, higher quality, and more choice. Therefore, by removing this restraint on competition, the government may support productivity and economic growth. In a COVID-19 context, this will have a positive economic impact.

There is the potential for communities to be negatively impacted if local amenities or shops are lost to other uses through these reforms. However, this impact has been mitigated by excluding uses which are particularly important to communities, such as small isolated shops and community halls, schools, and libraries, from the greater flexibility to change use introduced by these reforms. This means that these types of use will be better protected through the planning system.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

It is assumed that growth in the number of planning applications in the counterfactual follows a one to one relationship with GDP growth.

The number of working hours in a day is assumed to be 7.4 because this is the 10-year average actual daily hours of work for full-time workers.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual – 2019 Prices, 2020 Base Year) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0.0	Benefits: 12.9	Net: -12.9	-64.5

Evidence Base (for summary sheets)

Policy background/problem under consideration & rationale for intervention

The government is committed to supporting our high streets and town centres. In response to the 2018 consultation, *Planning reform: supporting the high street and increasing the delivery of new homes*, the government announced that it would amend the shops (A) use class to ensure it captures current and future retail models and include clarification on the ability of (A) use classes to diversify and incorporate ancillary uses.

While the high street has been in decline for several years, including arising from the challenge of online shopping, such areas are vital for the economic and social wellbeing of the local area. The economic impact of Covid-19 has exacerbated the challenges facing such areas, and the government has taken action at pace to help support such areas and support their economic recovery through the planning system. It has introduced wide reaching reform to the change of use to help support high streets and town centres by providing for more varied and flexible use of existing buildings.

Policy objective

Modern high streets and town centres have changed so that they now seek to provide a wider range of facilities and services, including new emerging uses, that will attract people and make these areas viable now and in the future. To do so, they need to be able to adapt and diversify. The government considers that it requires a complete overhaul of the Use Classes Order to better reflect the diversity of uses found on high streets and in town centres and to provide the flexibility for businesses to adapt and diversify to meet changing demands. This is particularly important at the present time as high streets and town centres, and the wider country, seeks to recover from the economic impact of Covid-19. These reforms were therefore brought forward at great pace and are intended to give businesses greater freedom to change use so that they can adjust more quickly, and with more planning certainty, to changing demands and circumstances. The aim of the reforms is to support vibrant, mixed use high streets and town centres that will attract people and allow local businesses to thrive.

At the same time, the government wants to ensure that those valued community and learning uses which are important for communities, such as small isolated shops and libraries, are protected by limiting the scope for change of use without planning permission. It is recognised that some changes of use can give rise to important local considerations, for example, to prevent the proliferation of hot food takeaways or betting shops in an area or to protect a local pub. For this reason, such changes of use will be subject to full consideration through the planning application process.

The Use Classes Order applies to all such uses in England. Therefore, while High Streets and Town Centres are the key policy focus, suburban and other areas will similarly benefit.

Description of options considered

Policy Option 1: Reform of the Use Classes Order in England

In the 2018 consultation, the government considered proposals to amend the use classes to support high streets. However, recognising the economic impact of Covid-19 and the need to respond quickly and positively, the government has decided to go further and to introduce these more wide-reaching reforms to the change of use that go beyond the initial consultation proposal and the proposed changes previously announced. The amendment to the Use Classes Order delivers on the government aim to support high streets and town centres; providing

additional flexibility to enable business to adapt quickly and therefore support the high street and the wider economy in its response to Covid-19. The new Commercial, Business and Service Use Class groups together a range of retail, leisure, and service uses and provides for free movement between them without the need for a planning application. The changes have also created new Community and Learning, and Local Community use classes. It also listed additional uses as 'not in a use class' and thereby requiring the change of use from or to a theatre or live music venue etc.

Policy Option 2: Do Nothing

Doing nothing would not deliver the government's decision to reform. Planning permission would continue to be required for the change of use between uses, and limit the potential for high streets and town centre to respond rapidly to changing consumer demands.

Summary of preferred option with description of implementation plan

Change of use of buildings and land in the planning system in England is controlled through the Town and Country Planning (Use Classes) Order 1987 (as amended) (the Use Classes Order). This groups uses with similar land use impacts into 'use classes'. Changes of use within a class are not considered to be development and therefore, do not require planning permission. A material change of use between use classes is development and requires planning permission. Some uses do not fall within any use class and material changes of use to or from these types of uses also require planning permission.

This measure amends the Use Classes Order in England. It creates a new 'Commercial, Business and Service' use class (E) giving greater flexibility to change to a broad range of uses without the need for planning permission. The new class incorporates the former A1 shops, A2 financial and professional services, A3 restaurants and cafes and B1 business use classes. Other uses such as gyms, nurseries and health centres which fell within the former D1 Non-residential and D2 Assembly and leisure use classes are also included in this class as are other uses which are suitable in town centres. The new 'Commercial, Business and Service' use class also allows for mixed uses where all the uses fall within that class. This provides significantly greater flexibility for premises to move between uses within this new use class, or a mix of such uses, to meet rapidly changing market demands, without the cost or time of submitting a planning application. It will support business in trying out new business models, providing an opportunity for further change of use at the same premises if appropriate.

New 'Local community' and 'Learning and non-residential' use classes have also been created. The F1 'Learning and non-residential institutions' class incorporates uses from the former D1 use class such as schools, libraries and art galleries. The F2 'Local community' use class groups together those uses from the former D2 use class which provide for group activities of a more physical nature – swimming pools, skating rinks and areas for outdoor sports. It also includes the use of buildings where this is principally by the local community. The class also recognises the importance of small, isolated shops in meeting the day to day shopping needs of local communities, particularly in rural communities, large residential estates, and outside main shopping areas generally. This provides some protection for such shops while placing those shops found on high streets and town centres in the new 'commercial' class.

The residential (C classes), general industrial (B2) and storage and distribution (B8) use classes remain unchanged.

The former A4 Drinking establishments and A5 Hot food takeaway use classes have been removed. We recognise that changes of use to or from these uses can give rise to important local considerations, for example to ensure that local pubs can be protected or to prevent the proliferation of hot food takeaways. We have therefore, included these uses in the list of uses which are specifically identified in the Use Classes Order (see Article 3(6)) as uses which do not

now fall within any use class. We have also taken this approach with cinemas, concert, dance and bingo halls which fell within the former D2 use class. This ensures that any change of use to or from these uses requires planning permission, ensuring greater control over these uses.

While these reforms to the use classes are primarily designed to help support vibrant, mixed use town centres, they apply to all uses of land and buildings, in town centres and elsewhere, across England.

Separate to use classes, the Secretary of State has powers to grant planning permission by development order for specified development. These national permitted development rights as set out in the Town and Country Planning (General Permitted Development) (England) Order 2015 (as amended) are deregulatory and remove the need for a full planning application. There are a number of existing permitted development rights which grant planning permission allowing changes of use between the former use classes. Transitional provisions retain the effect of these rights until 31 July 2021 based on the use classes that were in place prior to the regulations to amend the Use Classes Order coming into force. The current consultation <https://www.gov.uk/government/consultations/supporting-housing-delivery-and-public-service-infrastructure/supporting-housing-delivery-and-public-service-infrastructure> seeks views on the approach to consolidating and simplifying these existing permitted development rights. Amendments will be made to existing permitted development rights via separate secondary legislation, and the impacts of such changes will be assessed separately.

Monetised and non-monetised costs and benefits of each option

Monetised Benefits

Planning Applicant Savings

Applicants will benefit from no longer being required to submit any planning applications for change of use within the newly created class E. For buildings formerly in class B1, D1 and D2, this will remove the requirement to submit a full planning application. For buildings formerly in classes A1, A2, A3, this will remove the requirement to receive prior approval in certain cases. In other cases, such as a change from A3 to A1 for example, this will have no impact.

This represents a reduction in transaction costs, including a reduction in fees and the administrative burden in the preparation of a full planning application. They will also benefit from being able to change the use of their buildings, particularly underused buildings, so that they can be brought back into effective use.

The resource, time and fee cost of a full planning application can vary for the applicant. For estimating the total costs incurred to the applicant when making an application, a range of values have been used to illustrate the possible span of benefits which applicants may gain from the policy.

The 2009 report *Benchmarking the costs to applicants of submitting a planning application*¹, finds that a change of use application takes “between a couple of days and a week of (applicant) time”. The average hourly wage of those individuals required to complete the planning application is £19.99². It is assumed that a day of work is 7.4 hours because this is the 10-year average of actual hours of work for full-time workers³. Accounting for non-labour costs,

¹ Department for Communities and Local Government (July 2009), *Benchmarking the costs to applicants of submitting a planning application*, <https://webarchive.nationalarchives.gov.uk/20100519232001/http://www.communities.gov.uk/documents/planningandbuilding/pdf/benchmarkingcostsapplication.pdf>

² ONS (October 2019), *Annual Survey of Hours and Earning*, Table 15.5a.

³ ONS (November 2020), *Average actual weekly hours of work for full-time workers (seasonally adjusted)*. Figure adjusted for wage growth.

removing the requirement to submit a planning application would save the applicant between £355.53 and £888.82 per planning application in 2020.

In other cases, the change to Use Classes Order will remove the requirement for prior approval in respect of a permitted development right. Prior approval applications are a simplified version of planning applications. They focus on the key planning issues associated with particular types or location of development identified in the regulations. At their simplest they require factual information such as names, addresses, contact details and a description of the proposal. The prior approval application must be accompanied by plans and drawings and any necessary information relevant to the prior approval matters. However, the information developers have to provide should have already been researched and prepared as part of the work to bring forward the proposal. For example, developers would have site plans and architects' drawings as part of the preparation for their scheme, so where it is required as a matter for prior approval there is no further work involved. It is therefore expected that much of this information will already be available from the scheme development work i.e. is not additional for the prior approval process.

For those applications which previously required prior approval only, we can therefore assume that up to half a day would be taken up from completing the prior approval form, depending on the detail of the proposal. Using the same assumptions on hours of work and hourly wage as above, this will therefore benefit the applicant with £17.78 to £88.88 worth of time savings in 2020. These time savings benefits can then be profiled over time by using OBR wages and salaries growth parameters⁴. See Annex A for detail.

Local Authority Benefits

Local authorities may benefit from this policy due to the reduction in administrative costs required for the planning process as a result of having fewer planning applications.

Planning-related fees were introduced so that users of the planning system, rather than taxpayers in general, meet the costs incurred by local planning authorities in determining planning applications. As of 11th November 2020, the fee charged for a full planning application for the change of use is £462⁵. For change of use prior approvals under permitted development rights, the fee is £96⁶. The change of use from shops (A1) to financial and professional services (A2), was previously provided for by a permitted development right that did not attract a fee.

For this analysis, we assume that the reduction in planning fee revenue fully offsets the benefit of having to review fewer planning applications. In reality, the cost of development management activities by local planning authorities is to a large extent covered by planning fees, but the current fee structure means the cost of processing some applications can be greater than their individual fee. Therefore, it is likely that the benefit of reviewing fewer planning applications and prior approvals in fact exceeds the cost from the reduction in planning fee revenue. However, without a national benchmarking exercise, it is not possible to formulate a robust assumption on the extent to which this is the case. Therefore, it is assumed here that this cost and this benefit are equal. This means this analysis will underestimate the benefit of this policy to local planning authorities.

The private sector benefits from no longer paying this fee.

⁴ OBR (July 2020), Fiscal sustainability report.

⁵ The Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) (Amendment) Regulations 2017, <https://www.legislation.gov.uk/uksi/2017/1314/regulation/2/made>

⁶ Ministry for Housing, Communities and Local Government (September 2020), Fees for planning applications, <https://www.gov.uk/guidance/fees-for-planning-applications#fees-for-specific-application-types>

Estimate of change in applications numbers

The total monetised benefits will depend on the above and on the change in number of planning applications and prior approvals. The number of change of use applications by use class is not centrally recorded although there is data on the total number of change of use “full” planning applications. The change of use planning applications numbers account for those changes of use where a) a full planning application is made, b) where the size of the development is less than 1 hectare, c) where no building or engineering work is involved. These numbers will therefore account for some of the changes explored in this impact assessment. However, this is a very broad scope and would include between uses that are not the subject of this assessment, for example to general industrial uses.

In addition, the Ministry of Housing, Communities and Local Government records the hectares of land that has changed use. An observation on land use change is not the same as a planning application. Each observation may represent a single premise or a number of co-joined premises. However, in the absence of data on change of use applications we have assumed that each observation of land use change at LSOA level reflects one change of use planning application. This means an application might be counted twice if it straddles several LSOAs and we may omit applications where there are several in one LSOA. Nevertheless, this is a small enough area that it is reasonable to make this assumption, especially considering lack of better data.

By using both these datasets, it is possible to formulate an assumption to then estimate the change in number of planning applications and prior approvals. The table below summarises the land use change categories useful here and their planning requirement before the change in legislation.

From	To	Former planning requirement
Leisure and recreational buildings	Offices	Planning application
Leisure and recreational buildings	Retail	Planning application
Offices	Leisure and recreational buildings	Planning application
Offices	Retail	Planning application
Retail	Leisure and recreational buildings	Prior Approval
Retail	Offices	Prior Approval

It is important to note that these categories do not align entirely with the former or new use classes. This may not capture all the elements of D1 which are moving to use class E. The leisure and recreation building category will partly capture these changes, but some changes might fall into the community buildings category. At the same time however, leisure and recreation may capture some buildings which are not included in use class E and the community buildings category would capture many other changes which are not pertinent to this analysis. Because better data is not currently available, it has been assumed for this analysis that the changes from buildings not accounted for in the offices, retail, and leisure and recreational land use change categories are offset by the changes included in these categories which do not fit in the newly created use class E.

Looking at historic data, the count of land use change observations at LSOA level which required a planning application in the table above averaged 48% of the reported number of change of use planning applications. If it is assumed there is a link between the number of change of use planning applications and prior approvals, then for those changes which required prior approval, this is 49%. These proportions can be applied to forecasts of planning

applications to understand the number of planning applications and prior approvals which would have occurred without the change in legislation, and therefore the change in the number of planning applications and prior approvals caused by this change in legislation.

Analysis of the relationship between applications and GDP growth suggests there is a cyclical relationship between applications and GDP growth. In light of this we have adopted a one-to-one relationship between GDP growth and change of use planning applications. This treatment is consistent with the methodology used in Impact Assessment DCLG12029, DCLG1401, and RPC14-FT-CLG-2147(2) Revised previously validated by the Regulatory Policy Committee. See Annex B for detail on the forecasted number of planning applications and prior approvals avoided from the change in legislation.

Benefits

Total benefits of this change in legislation can then be derived by multiplying the change in number of planning applications and prior approvals by the time savings and the fee savings. Over the ten-year period from 2020 to 2030, it is expected that this change in legislation will deliver £96.6 – £165.2 million of benefits, with a central estimate of £130.9 million. See Annex C for breakdown of benefits per annum.

Total benefits in 2019 prices, 2020 present value is therefore £128.3 - £186.3 million, with a central estimate of £157.3 million.

As noted above however, it is assumed that the local authority benefit of having to review fewer planning applications is equal to the reduction in planning fee revenue. In reality, this benefit may be greater the loss of fee revenue meaning this analysis may underestimate the benefits of this policy.

Monetised Costs

This measure is deregulatory, reducing or removing planning costs, and will not create a cost to business. Local authorities will lose the planning fees although this will be fully offset by the benefit of the reduction in administrative costs as a result of having fewer planning applications to consider. It is estimated that this reduction in planning fees to developers will amount to £46.2 million (2019 prices, 2020 present value).

Non-Monetised Benefits

The primary aim of the reforms is to support vibrant, mixed use high streets and town centres. Under the previous system, certain planning applications for change of use might have been refused. With the 2020 changes to the Use Classes Order, applicants are no longer required to submit an application in more cases and therefore the change of use may proceed. Communities may therefore benefit from greater choice and convenience from having a wider range of services and facilities located in the same area.

In addition, communities may benefit from more high street and town centre premises being repurposed rather than left vacant with the corresponding impact that has on the amenity of the area. This may improve public enjoyment of an area and may increase footfall, with resulting benefits to the local economy and other neighbouring businesses.

Businesses (commercial property owners and businesses) will benefit from increased planning certainty and reduced planning requirements on the premises that will no longer require planning permission to change use. This allows for business owners to better align their risk profiles and bring forward new uses for buildings that may otherwise have been delayed or

abandoned. Savings include staff costs of formulating applications, development potential research costs. The increased planning certainty will lead to a reduction in the need to appeal against refusal of permission, bringing further savings in some cases. These benefits will favour small and medium sized businesses who will have less restrictions on what type of business they run from a particular premises.

The introduction of the F2 Local Community use class will help to protect uses that the community values such as local halls, and places for outdoor recreation. In particular, it provides protection for small, isolated shops selling essential goods, such as that may be found in rural areas, by constraining their ability to change to other uses only within this smaller use class. A planning application would be required for the change of use from a small, isolated shop

Non-Monetised Costs

There may be externalities imposed on the local community. For instance, building occupiers may suffer a loss in amenity and an increase in noise from neighbouring change of use, on which they will not have the opportunity to comment. This could include an increase in traffic and parking, and different opening hours.

Building owners may opt to change use without the need for a planning application, displacing existing uses from operating in that building. There is therefore potential for a negative impact on individual businesses which might be lost through change of use to more profitable uses. Furthermore, by allowing commercial premises to switch to more productive uses, the opportunity cost of not switching rises. Commercial rents may increase to reflect this opportunity cost.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);

Data available for monetising costs is very limited. The number of change of use applications by use class is not centrally recorded. The Ministry of Housing Communities and Local Government does record the overall total number of change of use planning applications and the hectares of land which have changed use however. These datasets have therefore been used in combination to provide an estimate of the relationship between total planning applications and change of use planning applications and prior approvals. In doing so, it is possible to estimate the direct impact of this change in legislation - the reduction in applications and prior approvals and therefore the time and money saved by applicants. There may be instances where this enables businesses to change to more profitable uses. However, this is far too uncertain to attempt to estimate. Similarly, external costs and benefits (e.g. amenity) may be derived from this change, but it is impossible to estimate with any degree of confidence what these may be in monetary terms.

Risks and assumptions;

The options are modelled using the number and cost of applications for each development type by using categories used in Land Use Change Statistics as proxy indicators for Use Class Orders. An observation on land use change is not the same as a planning application. Each observation may represent a single premise or a number of co-joined premises. Nevertheless, the Land Use Change data used for this analysis is broken down to the LSOA level which have an average population of 650 households. This is a small enough area to have a reasonable

degree of confidence in the estimated benefits. This does however mean that this analysis may underestimate the benefits of this policy.

The table below presents the planning requirement removed from change between these land uses.

From	To	Former planning requirement
Leisure and recreational buildings	Offices	Planning application
Leisure and recreational buildings	Retail	Planning application
Offices	Leisure and recreational buildings	Planning application
Offices	Retail	Planning application
Retail	Leisure and recreational buildings	Prior Approval
Retail	Offices	Prior Approval

As noted above, there is not an exact match between these categories and former or new use classes. It is worth noting that these Land Use Change categories may not capture all the elements of D1 which are moving to use class E. The leisure and recreation building category will partly capture these changes, but some changes might fall into the community buildings category. At the same time however, leisure and recreation may capture some buildings which are not included in use class E and the community buildings category would capture many other changes which are not pertinent to this analysis. Because better data is not currently available, it has been assumed for this analysis that the changes from buildings not accounted for in the land use change categories included in the table above are offset by the changes included in these categories which do not fit in use class E.

It is also assumed that the number of planning applications made in the counterfactual increase in line with economic growth. This treatment is consistent with the methodology used in Impact Assessment DCLG12029, DCLG1401, and RPC14-FT-CLG-2147(2) Revised previously validated by the Regulatory Policy Committee.

Further assumptions:

- The number of working hours in a day is assumed to be 7.4 because this is the 10-year average actual daily hours of work for full-time workers⁷. The time it takes to prepare and submit a planning application is therefore 14.8 to 37 hours. For prior approval, this is 0.7 to 3.7 hours.
- The fee charged for planning applications and prior approval does not increase over time. Planning fees are set in legislation and any change in fee would require an amendment to the Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) (Amendment) Regulations 2012, as amended.
- Furthermore, it is assumed that this fee fully covers the cost of planning application review by the local authority. In reality, the cost of development management activities by local planning authorities is to a large extent covered by planning fees, but the current fee structure means the cost of processing some applications can be greater than their individual fee. Therefore, it is likely that the benefit of reviewing fewer planning applications and prior approvals in fact exceeds the cost from the reduction in planning fee revenue. However, without a national benchmarking exercise, it is not possible to formulate a robust assumption on the extent to which this is the case. Therefore, it is

⁷ ONS (November 2020), Average actual weekly hours of work for full-time workers (seasonally adjusted).

assumed here that this cost and this benefit are equal. This means this analysis will underestimate the benefit of this policy to local planning authorities.

Direct costs and benefits to business calculations (following BIT methodology); (2019 Prices, 2020 Base Year)

Businesses will enjoy an annual equivalent benefit of £12.9 million per year. This constitutes the savings that arise from not preparing and submitting planning applications and prior approvals for change of use between uses now within class E, and the savings from not paying the fee.

Wider Impacts

The changes to the Use Classes Order are deregulatory. Businesses will have greater freedom to adapt and diversify their business, thus helping them to remain viable as market conditions change. This is because restricting change of use between existing buildings by requiring an applicant to seek consent introduces a transaction cost. This transaction cost increases the generalised cost of changing the use of an existing building. As costs are higher than the costs of the non-planning work, some building owners will be deterred from making a switch to a more productive use. Reducing or removing this barrier therefore presents an opportunity to enable more efficient use of the building stock.

Furthermore, there is a significant body of literature demonstrating that removing regulatory restrictions on markets can have a positive impact on competition⁸. Better competition could encourage firms to deliver benefits to customers in terms of lower prices, higher quality and more choice. Therefore, by removing this restraint on competition, the government may support productivity and economic growth.

In a COVID-19 context, granting businesses more flexibility will make it easier for commercial properties to adapt. COVID-19 and the resulting public health measures have led to a collapse of demand for goods and services in the UK economy. Consumer-facing services such as retail, travel, hotels, and restaurants were disproportionately hit during the first national lockdown⁹ and high streets across the country have suffered. Reducing barriers to change the use of a building may help businesses survive by entering a different market, for instance by switching from a restaurant to a shop or to a gym. However, it is reasonable to expect in many cases that this change of use will displace customers from other similar businesses. This is because the current public health restrictions limit the changes of use which could be viable, and retail is a high displacement sector. In a COVID-19 context, this change in legislation is therefore expected to have a positive albeit low additional impact.

Communities could be negatively impacted if local amenities or shops are lost to other uses through these reforms. This impact has been mitigated by excluding uses which are particularly important to communities, such as small isolated shops and community halls, schools and libraries, from the greater flexibility to change use introduced by these reforms. This means that these types of use will be better protected through the planning system, including in suburban and rural areas.

In addition, where there are uses which give rise to important local considerations, for example, to ensure local pubs and theatres are protected or to prevent the proliferation of hot food takeaways or betting shops, such changes of use will be subject to full consideration through the planning application process.

⁸ For a review of the literature please see CMA (2015), Productivity and Competition: a review of the evidence.

⁹ ONS (December 2020), Coronavirus (COVID-19) roundup.

Nevertheless, by removing the need for planning permission for some types of development, local authorities will lose the opportunity to consider such development in the context of their local plans. Local authorities and communities are less able to effectively manage the high street or town centre. Viable or valued shops or other services in key locations may change use, leaving already empty premises in less desirable areas vacant. Building occupiers may suffer a loss in amenity from neighbouring additional development, on which they will not have the opportunity to comment. This could include, for example, an increase in traffic and parking, or a change to opening hours.

Small and Micro Business Assessment SaMBA

Many sectors are affected by this change to legislation. The sectors likely to be most affected are retail trade (except of motor vehicles and motorcycles), food and beverage service activities, high-street offices such as real estate, financial services or travel agencies. The human health activity sector may also be affected, but this may be to a lower extent. According to the 2020 BEIS Business Population Estimates¹⁰, a strong majority of businesses in these sectors have fewer than 50 full-time equivalent employees, qualifying them as small or micro businesses.

This measure will be beneficial to businesses that will be able to change their operating model in response to market conditions. This may be especially beneficial to small and micro businesses. It is therefore not appropriate to provide exemption or mitigation for these businesses.

Impacts on Local Authorities

Local planning authorities will benefit from having to determine fewer planning applications or prior approval applications for changes of use. This will save time and resources which can be used elsewhere. However, this benefit will be offset by the reduction in fees received from planning applications and prior approvals which are assumed to offset the costs of determination. This is because planning-related fees were introduced so that users of the planning system, rather than taxpayers in general, meet the costs incurred by local planning authorities in deciding planning applications.

A brief qualitative summary of the potential trade implications of measure.

This is a domestic policy and is unlikely to impact on trade or investment. We expect that the majority of businesses benefitting will be UK businesses. By increasing commercial activity, any impacts on trade would be expected to be positive. This measure does not impact any World Trade Obligations.

Monitoring & Evaluation

This measure will be monitored as part of the Government's package of planning reforms to support economic recovery. The Government set out in its *Planning for the future* white paper, proposals to transform the planning system to make it simpler, quicker and more accessible, and more certain for developers. The consultation ran for 12 weeks, closing 29 October. The Government will now require time to analyse responses to the consultation, before responding. Against this background of economic recovery and wider planning reform, a specific review clause for this measure has not been included.

¹⁰ BEIS (2020), Business Population Estimates - <https://www.gov.uk/government/statistics/business-population-estimates-2020>

Annex A – Time savings per application (nominal)

Savings per planning application	Unit	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Prior approval - Low	£	18.14	18.77	17.78	17.30	18.59	19.41	20.21	20.98	21.77	22.60	23.46	24.35
Prior approval - High	£	90.68	93.86	88.88	86.48	92.97	97.06	101.04	104.88	108.86	113.00	117.29	121.75
Full application - Low	£	362.73	375.43	355.53	345.93	371.87	388.24	404.15	419.51	435.45	452.00	469.18	487.00
Full application - High	£	906.82	938.56	888.82	864.82	929.68	970.59	1,010.38	1,048.78	1,088.63	1,130.00	1,172.94	1,217.51

Annex B – Forecast of planning applications

	Unit	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
GDP growth	%	-14.3	4.6	5.4	3.3	2.5	2.3	2.3	2.3	2.3	2.3
Planning applications received	Applications	363,905	380,645	401,200	414,439	424,800	434,571	444,566	454,791	465,251	475,952
of which change of use	Applications	17,095	17,882	18,847	19,469	19,956	20,415	20,884	21,365	21,856	22,359
Full applications avoided	Applications	8,280	8,661	9,129	9,430	9,666	9,888	10,115	10,348	10,586	10,829
Prior approvals avoided	Prior approvals	8,332	8,715	9,186	9,489	9,726	9,950	10,179	10,413	10,652	10,897

Annex C – Estimated benefits to business (nominal)

	Unit	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	
Lower bound	Time savings	£m	3.1	3.1	3.6	3.8	4.1	4.4	4.6	4.9	5.2	5.5	42.4
	Fee savings	£m	4.6	4.8	5.1	5.3	5.4	5.5	5.7	5.8	5.9	6.0	54.1
	Total savings	£m	7.7	8.0	8.7	9.1	9.5	9.9	10.3	10.7	11.1	11.6	96.6
Upper bound	Time savings	£m	8.1	8.2	9.3	10.1	10.7	11.4	12.1	12.9	13.7	14.5	111.1
	Fee savings	£m	4.6	4.8	5.1	5.3	5.4	5.5	5.7	5.8	5.9	6.0	54.1
	Total savings	£m	12.7	13.1	14.4	15.3	16.1	16.9	17.8	18.7	19.6	20.6	165.2
Best estimate	Time savings	£m	5.6	5.7	6.5	7.0	7.4	7.9	8.4	8.9	9.4	10.0	76.7
	Fee savings	£m	4.6	4.8	5.1	5.3	5.4	5.5	5.7	5.8	5.9	6.0	54.1
	Total savings	£m	10.2	10.5	11.6	12.2	12.8	13.4	14.0	14.7	15.4	16.1	130.9