

Insight focus

SEPTEMBER 2017

New approach for local housing needs

The long awaited consultation could mean the end of tedious debates on housing need at examinations and appeals, but it also raises new questions

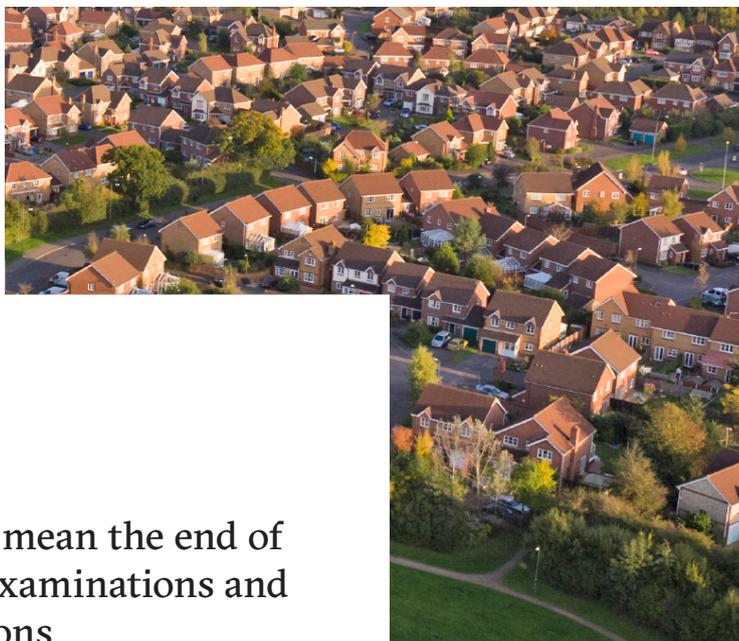
In its March 2016 report, the Local Plans Expert Group (LPEG) identified uncertainty over estimates of Objectively Assessed Need (OAN) as a key barrier to effective local plan preparation and recommended that Government tighten up the Planning Practice Guidance (PPG) to provide a more definitive approach. The Housing White Paper (HWP) in February 2017 suggested that some Councils “duck difficult decisions” and confirmed that the Government would bring forward a standard methodology for an “honest assessment” of housing need. On duty to cooperate, the consultation proposes “Statements of Common Ground” to apportion needs across local authority areas, as well as covering neighbourhood planning, viability assessments and planning fees.

Originally expected in July, the new housing need methodology was stalled by difficult politics. It's easy to see why: under localism, a definitive methodology prescribing housing numbers has no regional planning tier, firms of consultants or developers to buffer Government from any fallout if local politicians disagree with the figures it produces. That fallout will likely still come. But now the methodology is out for consultation, we can explore what is proposed and what its implications might be.

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What is the new methodology?

The new methodology can be summarised in the diagram below (right). It is a variant (albeit simpler still) of that in the recommendations of LPEG because it starts with household projections and then applies fixed bands of uplifts. At a national level it generates a need figure of 266,000 homes, of which 72,000 are in London. Whereas the old methodology had significant scope for discretion over what data to use and judgement in how to interpret it, the new methodology can only generate one, fixed answer.

The new methodology will apply to all future plans, but not directly interfere with plans that are already submitted or will be submitted before 31st March 2018 (or before the revised NPPF is published, if later – this is now a confirmed ambition for Spring). The need figure will be fixed for a period of two years from plan submission, even if the underlying projections or affordability data changes, but not in the run-up to submission.

Over the following pages we present the indicative figures for the new methodology based on the Government's published data tables and benchmark it, and also consider some of the practical implications and questions arising over how it combines with the policy on Statements of Common Ground. We also consider some of the other issues raised in the consultation.

If you would like assistance with the issues raised by the new consultation – or if you need advice on the implications it may have on your project – please contact us.

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Figure 1 : Chart for methodology

The new standard methodology

Official household projections



Affordability ratio based on local median house prices to median work-place earnings



Uplift of 0.25% to projections for every 1% increase in affordability ratio above 4



Cap level of uplift

- Cap at 40% above level in adopted plans less than five years old
- Plan older than 5 years = cap at 40% above projections or plan, whichever higher



Concluded Housing Need

Source : Lichfields

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The new methodology indicates a need for c.20,000 more homes per year collectively across England than current local assessments of need.

The National picture

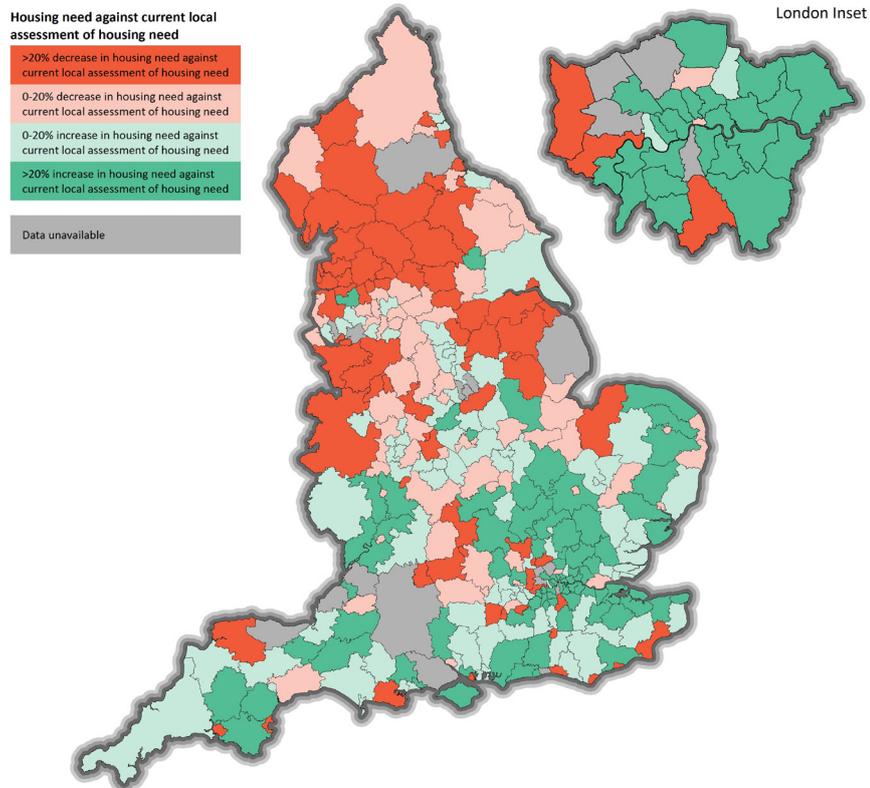
How does the methodology differ from the current approach?

The new approach is a slimmed down version of current practice. It continues to use household projections but limits its uplift to market signals to reflect affordability, based on a fixed formula for areas where the affordability ratio is in excess of 4. It doesn't include for addressing likely job growth or affordable housing, albeit the latter was something most SHMAs fail to do anyway.

Will it generate higher or lower numbers than current SHMAs?

It varies, as shown in Figure 1. 156 areas will see an increase, on average by 35%. 77 will see a boost of over 20% (with LB Greenwich it is 800%). But 144 areas will see a decrease. In our view, many of these are areas where SHMAs were based on employment growth or where the most recent set of projections showed a marked drop in migration from those used previously. Because the projections are updated every two years, plan making will continue to suffer from fluctuations in assumptions between different sets of population projections.

Figure 2 : Housing need under proposed methodology compared to current local assessment of housing need.



Source : Lichfields analysis based on DCLG

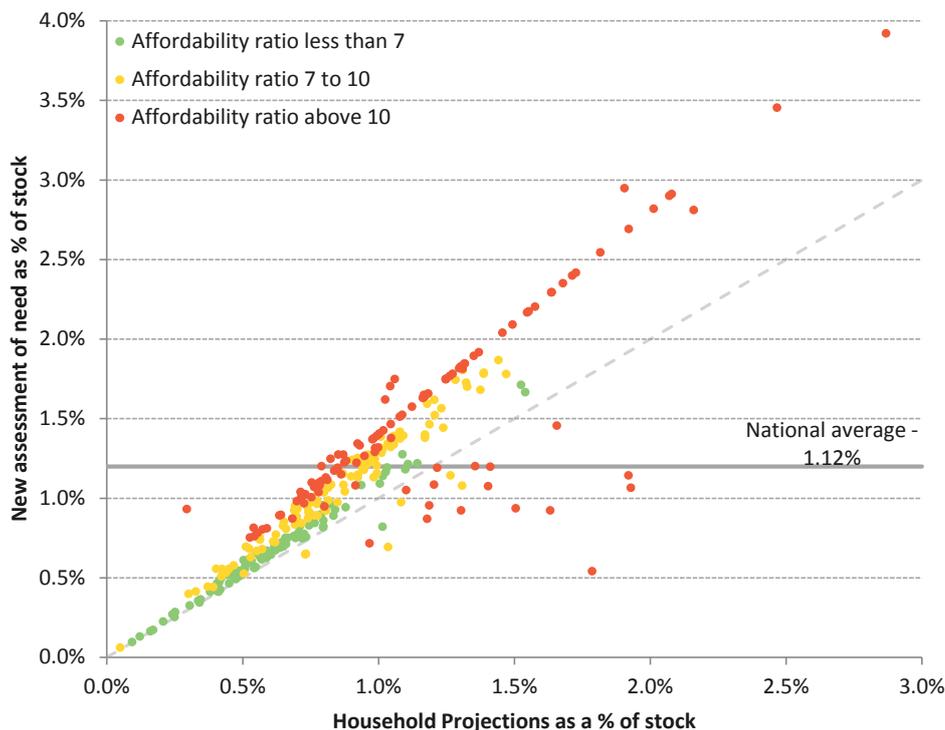
On the whole, the methodology appears to be moving towards the desired outcomes, with less affordable areas getting a greater uplift on their baseline household projections compared with more affordable areas (as shown in Figure 3).

However, the introduction of a cap has meant some relatively unaffordable areas are not seeing the scale of uplift they might otherwise see. Indeed some areas would have numbers which are lower even than the latest household projections as a result of a particularly low Local Plan target – perhaps an unintended consequence of the cap. For example, Hillingdon, with projected household growth of 1.8% per annum, would have a figure under the new methodology equivalent to growth of just 0.5% per annum; that translates into a gap of over 1,300 dwellings each year.

Collectively, the new methodology would provide a 1.12% increase in housing stock nationally – this could be seen as every authorities' 'fair share' if each area contributed equally to a 'national target'. But the use of household projections and the cap has also meant that there are a number of relatively unaffordable local authorities which would provide less than their 'fair share' of housing. This seems counter-intuitive.

Further, 266K is less than the 300K some think is needed, and will only be met if the plan-making system works perfectly. In reality, if some constrained areas cannot meet needs and the duty to cooperate fails to redistribute this to areas that can, England's real housing needs will not be met.

Figure 3 : Comparison between housing number under new methodology and household projections (as a % of current stock)



Source : Lichfields based on DCLG/ONS data

30

Local authorities with Local Plans adopted within the last five years are affected by a cap which means the new methodology will not give a figure in excess of 40% of Local Plan targets

12

Authorities where the Local Plan cap will expire within 1 year (five of which before the end of 2017)

9

authorities where the cap will expire within 1-3 years

9

authorities where the cap will expire within 3-5 years

Notes [Figure 3]: Excludes areas where number under new methodology was not provided (Warrington and West Somerset). Excludes Isles of Scilly. Household projections are average over period 2016-26 by affordability ratio.



Areas with Local Plans adopted since 2012 collectively are providing 108,000 homes each year. Under the new methodology these areas would have provided c.120,000 homes each year.

Other key questions on the housing need methodology

Can local areas still plan for more housing than the standard methodology indicates?

Yes. Plan makers can utilise different methods of assessing need, and if these produce figures that are higher, the Government proposes that Inspectors should consider such approaches sound unless there are compelling reasons to indicate otherwise. This provides a route for local authorities that want to pursue higher figures based on employment growth or higher affordable housing needs.

If plan makers adopt a different approach to generate a **lower** figure, the Consultation document suggests this may be justified if there are compelling circumstances, but it will need to be properly justified at examination. This may provide wriggle room for areas with significant concerns about population projections, based on factors such as students, and Unattributable Population Change (UPC) but the bar has been raised for such variations to be justified.

It remains to be seen what happens to the soundness of plans where a local authority bases its housing **requirement** on the standard methodology **need** figure, but where evidence suggests this would not be sufficient to match the plan's economic strategy. Such alignment issues are regularly debated as part of 'policy-off' OAN, but this could now shift to the 'policy-on' issue of whether a plan's housing and employment strategies are sufficiently joined up (a requirement of NPPF para 158).

What does it mean for plan making and appeals?

The new approach will apply for appeals (e.g. on five year housing land supply) and local plans after 31st March 2018 or immediately when the revised NPPF is published, whichever is later, subject to the transitional arrangements summarised. The Government may allow some leeway where progress is being made on ambitious joint plans. The Government will also consult on allowing authorities to assess land supply across joint planning areas, although this is something that in our view is already permissible under the Framework.

What about specific needs for other types of housing?

Affordable housing is no longer a component in arriving at the housing need figure, but the consultation proposes that local authorities should continue to assess affordable housing need as well as that for students, travellers and for PRS and build to rent. The Government proposes that local authorities disaggregate the total need figure into different types, but there are potential difficulties in this if the combined need for these specific types is greater (when sitting alongside the need and demand for market housing) than the overall need arising from the standard methodology. This could result in Local Plan policies that prescribe a mix of housing that in turn squeezes the scale of market housing that is needed to support delivery of specialist housing products, particularly affordable housing.

Statements of common ground

The new NPPF will include a policy requirement for local authorities to produce a statement of common ground (SoCG) across their housing market area or other agreed geography within twelve months, with an outline in place within six months. SoCG's should be kept up to date, at minimum being reviewed each time a local authority consults upon, publishes, submits and adopts its plan. This takes forward another key

No change is proposed to the statutory duty-to-cooperate which applies at plan submission stage, with the SoCG providing the evidence base for testing compliance. The NPPF is to be revised so that the tests of plan soundness are amended to include that plans should be "based on a strategy informed by agreements over the wider area," and should be based on "effective joint working." This arguably moves the 'duty-to-cooperate' towards being a 'duty to agree', with a 12 month transitional period. Absence of statements of SoCG may trigger Government intervention in plan making. SoCGs will also be evidence to support applications for infrastructure funding investment.

Other measures

The new consultation also seeks views on other housing-related planning initiatives, some of which have already been touched on in 'Fixing our broken housing market'.

The Government proposes that authorities give Neighbourhood Plans have a housing figure to work with either through a local plan and/or through a simple apportionment of the standard housing need figure.

Government is keen to find ways to let local authorities add a further 20% to national planning application fees. The already confirmed general 20% fee increase will still come into force first - the necessary amendment regulations are being brought forward 'at the earliest opportunity'. Both increases will require parliamentary time; DCLG has said elsewhere that there is little of that available for the foreseeable future. For the time being, there will have to be continued reliance on planning performance

agreements to help resource planning departments.

More decisively, DCLG is asking for views on what national policy should be for viability testing local plans and development proposals. This new consultation seemingly reflects the Mayor of London's 'threshold approach' to viability that will be taken forward in the draft new London Plan, due by the end of November. London is clearly leading on ways of speeding policy-compliant applications for new homes through the planning system - and central government appears to be following suit.

As we already knew, these and the White Paper's other proposed policy measures require revising the NPPF - largely to enhance clarity and consistency. However, the extent of proposed changes is obviously so great now that there will have to be a consultation on the revised Framework 'early in 2018'. The finalised, updated NPPF is then due by 31 March next year. A short consultation period and a lot of optimism feed into this target date for publication; that's why the consultation explains how contingency plans will kick in, if it slides.

Statements of common ground should include

After 6 months

Geographical Area

What are the strategic matters to be addressed

Identify the primary authorities and additional signatories

Governance arrangement

After 12 months

The process for agreeing the distribution of housing need and agreed distributions

A record of any agreements on key strategic matters

Any additional strategic cross-boundary matters not already addressed



**The measures
... will help
ensure that local
authorities plan
for the right
homes in the right
places.**

RT Hon Sajid Javid MP

Commentary / Issues for the Consultation

The new methodology and approach to Statements of Common Ground provides welcome clarity, but key questions remain.

Housing Need

1. Future household projections will be the responsibility of ONS who, in March 2017, consulted on a revised approach to household formation rates that would 'lock-in' suppression in younger age groups experienced over recent years. Under future projections, this could mean the methodology generates substantially less than 266,000 dwellings per annum even with the same population growth. A solution would be for ONS to produce a variant projection for housing need purposes, start including concealed households again, and/or for the methodology to apply higher market signals uplifts to compensate.
2. The new methodology has the same limitations of many current SHMAs which is that the starting point is a level of population growth based on recent migration. In areas with little new house building, they are likely to see lower household projections, and any uplift is unlikely to compensate (ie a big percentage uplift to a low figure is still a low figure). This can be seen from Figure 2 which shows some unaffordable locations with low levels of need relative to total stock under the new methodology.
3. The methodology appears to equate households with dwellings and does not reflect an allowance for vacancy and second homes. In most areas, it is 2-3% but in some places (e.g. in popular holiday destinations) it can be as high as 10% or more. Airbnb is another dimension in urban areas. Not reflecting this factor could mean under-estimating need in some areas. Nationally consistent data is readily available so this factor could be easily incorporated into the methodology.
4. A further issue relates to the methodology's use of a ten year period when set against the NPPF expectation that plans should provide for housing at least 15 years ahead. What figure should plans use for the period beyond 2026? Similarly, what figure should be used for plans with a base date prior to 2016?

5. The capping approach – which limits increases in need to 40% above the figure in recently adopted local plans risks conflicting with the principle of early review that was set out in many recent Plans. For example, since 2012, more than 30 plans have been adopted despite not properly dealing with housing need, with Inspectors agreeing to defer these matters for proper consideration in an early review. The current proposals would undermine the ability of the new methodology to address the inadequate housing proposals of some of those 'interim' plans.
6. Will the message in paragraph 158 of the NPPF be strengthened to ensure alignment of housing and economic strategies? This is to deal with situations – such as in Oxfordshire – where economic growth, which has driven the SHMA's estimate of need, needs not to be undermined by a lower number generated by the new standard methodology.
7. How will the estimates of need for types and tenures relate to the overall level of need produced by the methodology. How will inconsistencies be resolved?

Statements of Common Ground

8. The household projections have tended to 'pile-up' housing need into the big cities, particularly London, but also Birmingham and Manchester. When compounded with uplifts for market signals this can generate much higher need figures (72,000 in London compared to 42,000 in the current London Plan). Capacity challenges mean that it is unlikely this need will be met.
9. This, and the presence of constraints (such as AONB, National Parks etc) mean there will continue to be major burdens on the duty to cooperate to operate between as well as within HMAs. The current system is currently struggling to grapple with where constrained HMAs are contiguous with less constrained HMAs (famously, around Birmingham) but also between the London and the wider south east. The current proposals for the Statement of Common Ground do not in our view provide sufficient comfort that such matters will be addressed.

10. Although the new methodology is focused on identifying needs for local authority areas, it does not address how HMAs are defined, and there remain challenges in certain locations where HMAs are historical or political constructs that do not reflect functional areas of relevance to housing, economic growth and infrastructure.

11. A lacuna in many current Memoranda of Understanding (equivalent to Statements of Common Ground) are Sustainability Appraisals of the distribution agreed. Given the significance of these distributions (which often reflect “policy on” spatial choices), some subsequent Plans may be vulnerable to the charge that the “reasonable alternatives” have not been adequately tested. This matter is not addressed in the Government’s consultation.

Concluding remarks

As expected, the Government has proposed a proportionate and straightforward approach to estimating housing need. It has resisted the lobbying of some in the housing need ‘industry’ who had sought to resist simplification and maintain the status quo. There are questions remaining over whether household projections are still the best starting point, but their continued use reflects a longstanding approach with which most are familiar.

For many locations, the standard methodology will produce estimates of need around which a consensus can quickly be agreed. But this will not make planning or plan-making simple; the debate will simply shift, quite rightly, to what are the sustainable and effective planning choices over how that need is best met.

But for some areas, the new approach will generate significant debate and difficulty and will increase the pressures

- that existed in any event - over how to reconcile need with environmental and landscape constraints (such as AONB) and policy factors, such as Green Belt. In other areas, it will create challenges over ensuring alignment between housing need and economic growth and regeneration.

The duty to cooperate will face greater strain, most immediately in the areas lagging in plan making (notably around London) who have to get to grips with how they meet levels of housing need that in many cases have increased. The Statement of Common Ground policy broadly crystallises current good practice adopted by many areas within their Memoranda of Understanding so in that sense it is welcome, but it still falls short in providing a mechanism to address the most difficult strategic planning challenges.

Finally, many will be concerned that the 266k per annum total figure will be inadequate to reflect the scale of housing need in England, with some estimating the real figure to be 300K. Once one factors in that some constrained HMAs will not be able to deliver their share, the actually planned figure could be much less. So, the new methodology may match an ambition to plan for 200k per annum, but more? The jury’s out.

At Lichfields we will continue to monitor changes and provide our own contributions to assist Government thinking on the way forward. We are happy to share our thinking with our clients and assist in any consideration of these changes and what they could mean in practice for projects and plans.

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