As the Government is keen to speed up plan making and housing delivery, what will the new housing delivery test mean for councils across the country?

Alongside the publication of the revised National Planning Policy Framework (NPPF2) the Government has provided a little more clarity regarding the test that will form the basis for assessing whether councils are delivering the homes they need. On the face of it, the housing delivery test (HDT) seems relatively straightforward, comparing past housing delivery to past housing need. However, complexity arises due to three factors:

- The availability and time-periods of the data on which the test is based;
- The methodology for measuring housing need is set to change and become standardised; and,
- The thresholds for the test are set to become more onerous over time.

As Figure 1 shows, the HDT has two components: housing delivery and housing need. Housing delivery looks at past performance, as it sums the last three years of net additional dwellings plus any communal housing, while housing need is the lower of that set out in an up-to-date local plan (adopted within the last five years) or local housing need (calculated using household projections for the years 2015/16 to 2017/18 and standardised objectively assessed housing need methodology for years from 2018/19) and neighbours’ unmet need. The results of this test fall into different categories, where some form of action may be required.
The housing delivery test will become increasingly difficult to satisfy

The HDT is a monitoring tool the Government will use to demonstrate whether local areas are building enough homes to meet their housing need. Based on the outcome of this monitoring, councils may be required to undertake further action in the near future. However, as the test is new, the Government has built in time for it to bed down which, inevitably, has created complexity.

In November 2018, the test will compare housing delivery (net additional dwellings plus communal housing) to housing need (the lower of the three years in an up-to-date local plan or household projections plus unmet neighbours’ need).

In November 2019, as the standardised objectively assessed housing need methodology (new OAN) is implemented, housing need is estimated as the lower of: (a) the number in the up-to-date local plan; or (b) two years of household projection plus one year of new OAN methodology (plus communal housing and unmet need). Moreover, the threshold for when the ‘presumption in favour of sustainable development’ applies becomes more stringent and increases from 25% to 45%.

A similar methodology is to be applied from November 2020, except housing need comprises one year of household projections and two years of new OAN methodology (plus communal housing and unmet need), and that the threshold for ‘presumption in favour’ of sustainable development rises to 75%.

The same approach would again be applied in November 2021, although housing need would then use three years of new OAN methodology (plus communal housing and unmet need).

Using the latest data available, and mindful of the limitations and availability of data, Figure 2 shows the estimated number and proportion of local plans that would fall into various categories over time. These numbers will inevitably change – the test is dynamic and reflects the changes that new data will bring – but it does provide an indication of the direction of travel.

Clearly, the test becomes increasingly stringent both in terms of housing need being assessed – new OAN numbers provide different figures to the existing calculations – and test thresholds. Using current data on housing delivery, 53% of local areas would require no action in 2018 – this falls to 42% in 2021. Conversely, the proportion of councils requiring a 20% land buffer would fall from 37% to 9% between 2018 and 2021, but this is because more councils would fall into the next category – application of the presumption in favour of sustainable development (0% in 2018; 37% in 2021).

Figure 2: Estimation of housing delivery test results using current data

1 The presumption in favour of sustainable development is described in paragraph II of the revised NPPF (paragraph 14 of the original NPPF).

2 The adjustments for student and other communal housing will be calculated by MHCLG and added to the Test result. The calculations are based on two nationally set ratios: i.) The national average number of students in student accommodation is 2.5; and 2.) national average number of adults in all households is 1.8 (Census 2011). These ratios will be applied to local figures as they are submitted and returned by local councils to MHCLG. As a result, analysis here does not include communal housing as there is no one central source available.
Regional estimates for November 2018

Estimates for the November 2018 HDT show that some regions would perform better than others. Broadly, councils in the North – with the exception of Yorkshire and the Humber would appear to perform well on the test while those in the South would generally perform poorly.

At the national level, a little over 50% would require no action – i.e. they would ‘pass’ the test – while more than one-in-three councils would require a 20% land buffer (Figure 4). At a regional level, there would be significant variation. The North East would perform well – in part because the region has a smaller number of councils than other regions – as three quarters of local authorities would require no action i.e. housing delivery would be over 95% of housing need. The West Midlands would also perform well with 70% of councils requiring no further action and one-in-five requiring a 20% land buffer.

At the other end of the spectrum, it appears that high demand regions would not perform as strongly. Estimates for the regions of London, the South East and the East of England – all areas facing acute housing pressure – show that 45%, 49% and 55% of their councils, respectively, would require a 20% land buffer. Importantly, but unsurprisingly, local areas constrained by the Green Belt would be around twice as likely to require a 20% land buffer (52% of councils) than those that are unconstrained (27% of councils), as shown in Figure 3. The Green Belt will clearly continue to be an important factor for both the HDT and local plan making.
The most severe test – which councils need to increase housing delivery by 2021?

The HDT will be run every year and will reflect new data as it becomes available. With this in mind, it is difficult to predict test results many years into the future. However, on comparing current housing delivery to housing need in 2021 – i.e. using the lower of the current local plan number or three years of new OAN methodology number – and using the most stringent thresholds, it is possible to start to see which councils will need to make large changes if they are to avoid the presumption in favour of sustainable development.

At a national level in 2021, the presumption in favour of sustainable development would apply to 38% of councils, while only 43% would ‘pass’ the test and require no action. Under these conditions, the presumption in favour of sustainable development would apply to some councils in every region. However, councils in the regions in the North and Midlands would perform relatively well – with the exception of the majority of councils within the Greater Manchester area – while councils in London, the East of England and the South East would have to increase housing delivery significantly if they were to avoid the presumption in favour of sustainable development applying (39%, 57% and 61%, respectively).

The HDT appears to be the key monitoring tool for the Government to incentivise local councils to build the homes they need. Importantly, it indicates that the Government is not only interested in the future housing plans of local councils but also their past housing delivery performance – in understanding the latter, the Government is better placed to assess whether the former is sufficient.

Recognising that both the HDT and the standardised housing need methodology are new, the Government has usefully built in a transition period for the test to bed-down. However, this may create confusion through complexity – will local councils know which datasets to use, across the correct time periods?

Central Government will need to prioritise clear and concise communication in the lead up to each year’s test. Finally, the HDT will have an immediate impact and is likely to be increasingly powerful in years to come, unless councils can step up to the challenge. How councils respond to this challenge will be important. Are they prepared for such a test?

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Figure 5: Housing delivery test estimates for 2021 (based on current delivery)

<table>
<thead>
<tr>
<th>Intervention required in 2021 (by Local Authority):</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
</tr>
<tr>
<td>Action Plan</td>
</tr>
<tr>
<td>20% Land Buffer</td>
</tr>
<tr>
<td>Presumption in favour of sustainable development</td>
</tr>
</tbody>
</table>

Source: MHCLG; Lichfields

For consistency, data relating to the housing target figure in adopted local plans uses the Government published spreadsheet from September 2017.