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Policy Response

Planning for the right homes in the right places

Savills Research
UK Residential

Proposed standard approach to housing need is a step in the right direction but doesn't go far enough

The government's long-awaited consultation on calculating housing need proposes a very straightforward method with the intention of removing some of the complexity and debate that surrounds the issue. Consequently the chance for Local Planning Authorities and their consultants to 'fudge' their numbers and 'dodge difficult decisions' (Sajid Javid's phrases) should be much limited. Equally, the lengthy delays caused by complex forecasts and the debate around them particularly at the examination stage of the Local Plan making process will be reduced. Many unanswered questions on the implementation of the new method however remain. The real impact of the new method will not therefore be known until the revised NPPF is published and we see how the new figures translate into actual Local Plan housing requirements.

Key Findings

- The proposed method would increase housing need at a national level, but not to a high enough level to really make an impact on worsening affordability pressures.
    - What's more, the uplifts are distributed too evenly across the country and are not focused on the most unaffordable areas.
- Despite the consultation using the phrase "the right homes in the right places", there is no mechanism to correct for very low household projections in areas that are very unaffordable and have past records of low delivery, e.g. Oxford, Chiltern, Hart.
    - This is further exacerbated by the 40% cap on uplifts. Concerns regarding deliverability have no place in a need calculation – this is an issue for the Local Plan process.
    - Our solution is to convert the need figure under the proposed standard calculation to a growth in stock metric, and to increase this where it falls below a further affordability-based level. This will reduce anomalies resulting from low household projections and remove the feedback loop where low levels of past housing delivery feed into low housing targets.
    - Housing need arising from very strong employment growth forecasts (or specific ambitious growth plans) is explicitly dealt with under the current system, but this would become a 'policy on' option for the Local Plan under the proposals. New targets would only have to exceed the standard need to be deemed sound at examination, not necessarily meeting the full employment-driven housing need where this has been assessed separately.
- Duty to Cooperate must be strengthened or the increased need will not translate into increased targets. Whilst the introduction of a Statement of Common Ground may improve some matters by flagging potential problems earlier, the biggest (and largely unaddressed) cross-boundary issue is dealing with London's unmet needs, and the consultation provides no clear mechanism for this.
- Transitional measures will limit the immediate impact to authorities in the middle stages of Local Plan production (Reg 18 or 19 stages), with some of the most unaffordable locations at this stage set for big increases, averaging 36% across 7 LPAs. They will either have to rush to submit a plan based on their existing OAN or find more housing land to meet the increased need.
    - For those at earlier stages of the plan process the most pressing issue will be five year land supply. For the 21 most unaffordable LPAs without up to date plans in place their housing requirement for land supply purposes would more than double, on average.

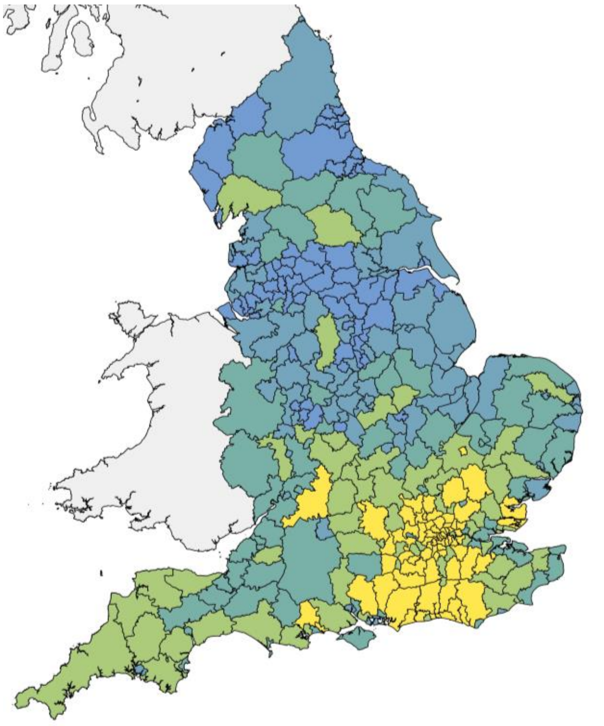
The current system

At present, Objectively Assessed Need (OAN) for housing is calculated in a Strategic Housing Market Assessment (SHMA) by the relevant Local Planning Authority (LPA), or group of LPAs – the National Planning Policy Framework (NPPF) requiring that housing needs be addressed accross a Housing Market Area (HMA). National Planning Policy Guidance (PPG) sets out a range of factors that should be considered when preparing SHMAs, but, leaves a fair amount of room for interpretation. Our analysis shows that this appears to have allowed LPAs in areas of high housing pressure to produce figures well short of the 'true' level of need, with the national (England) total not high enough and many unaffordable areas seemingly contributing less than their fair share.

At a national (England) level, the total OAN figures from the latest SHMAs (242,000 dwellings per annum - dpa) add up to about 7% more than the household projections for the next 10 years (227,000 dpa). The academic consensus, as summarised by the evidence to the House of Lords Economic Affairs Committee[1], suggests at least 300,000 homes per year in England is the level needed to start to improve affordability, so this 7% uplift is not enough. In the most unaffordable areas (lower quartile house price to earnings ratio over 11.4), the need identified in SHMAs is 17% below the household projections. While there may be legitimate local reasons for downwards adjustments in the calculation process in some areas, this figure suggests that the SHMA process is completely failing to plan for the homes that are really needed, exactly the kind of 'fudging' that a new method aims to address.

Table 1 – Household projections vs. housing need by affordability band, with map key

Lower quartile house price to earnings ratio[2]	2016-26 household projections	SHMA objectively assessed housing need
Over 11.4	72,688	60,321
9.1 to 11.4	38,030	41,535
7.6 to 9.1	39,856	42,858
5.9 to 7.6	31,445	42,132
Under 5.9	44,806	55,100
Total	**226,825**	**241,946**



Source: Savills Research, DCLG

OAN falling short of 'true' need is bad enough, especially in the most unaffordable areas, but LPAs aren't even adopting these – potentially artificially low – figures as their housing targets, generally citing land availability issues or physical, environmental or policy constraints such as Green Belt. Adopted housing requirements only make up 92% of OAN across the 17 LPAs in our top affordability band with up to date (less than five year old) Local Plans. Whilst land availability may be a valid factor in adopting targets below OAN, the Duty to Cooperate exists to pick up the issue of unmet need either elsewhere in the HMA or in connected locations.

[1] https://publications.parliament.uk/pa/ld201617/ldselect/ldeconaf/20/20.pdf

[2] Lower quartile ratios were used in our work earlier this year as existing PPG specified them as the affordability metric. The consultation introduces median ratios, which we use later in this paper. There is negligible impact on the results due to the switch.

In many examples this is not the case, with the biggest problem being London, where there is significant unmet need and no robust mechanism to apportion this need to anywhere in the wider south east. In a stark articulation of the problem, the Inspector at the Mid Sussex Local Plan Examination[3] concluded that:

Attempting to address elements of London's unmet need outside the Greater London area would involve multi-authority regional-level policy decisions. It would not be appropriate to include an explicit additional allowance for unmet need from London within this plan.

Clearly, the current system is failing to successfully address housing needs.

Too much simplicity?

The proposed new calculation method swaps the evidence and calculations of an often 200+ page SHMA for a single formula:

$$Adjustment\ factor = \frac{Local\ affordability\ ratio - 4}{4} \quad \text{x} \quad 0.25$$

This adjustment factor is then applied to the ten-year average household projections to define the local housing need, subject to a maximum uplift of 40% over existing Local Plan targets, or household projections if the Local Plan is more than five years old, whichever is the higher. We welcome the reduction in complexity and the strong link to affordability introduced by this method, having suggested something similar in our June 2017 report *Planning to solve the housing crisis*[4].

The resulting housing need figure is around 267,000 per year at national level, around an 18% increase on the relevant household projections. The affordability band breakdown is shown in the table below:

Table 2 – Household projections vs. standard approach by affordability band

Affordability band	Household projections	New standard approach	Increase
Over 11.4	72,688	89,226	23%
9.1 to 11.4	38,030	47,251	24%
7.6 to 9.1	39,856	49,245	24%
5.9 to 7.6	31,445	35,177	12%
Under 5.9	44,806	45,823	2%
TOTAL	**226,825**	**266,722**	**18%**

Source: Savills Research, DCLG

Compared to the 300,000 needed it's still quite a way short, but it is a good improvement over the current system in terms of numbers as well as simplicity.

The cap doesn't fit

Clearly an affordability-based system is not working if the sum of the uplifts in the most unaffordable places is lower than that in average locations. So, what's gone wrong? The lack of differentiation between strong and average markets is very much the consequence of the 40% cap on uplifts. This cap is introduced to "*ensure the method is deliverable*" (paragraph 25 of the consultation), but this is too arbitrary an approach. The question of deliverability should be left for the Local Plan to answer via housing land assessments, with higher (uncapped) need figures in the most unaffordable areas pushing plan makers harder to find additional development sites where they are most needed, use innovative methods of increasing housing delivery from existing sites, or engage in cross-boundary cooperation.

[3] http://www.midsussex.gov.uk/media/78962/id11_inspectorsinterimletterhousing20217.pdf

[4] http://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight-planning-to-solve-the-housing-crisis.pdf

We have estimated the impact of the cap by re-running the analysis without it, with the results shown in the tables below. Uncapping the uplifts has a big impact, apportioning more need to the most unaffordable places and boosting the total past the 300,000 needed.

Table 3 – Standard approach with and without 40% cap by affordability band

Affordability band	New with cap	Without cap	Further increase
Over 11.4	89,226	118,497	33%
9.1 to 11.4	47,251	52,750	12%
7.6 to 9.1	49,245	50,988	4%
5.9 to 7.6	35,177	36,329	3%
Under 5.9	45,823	48,201	5%
TOTAL	**266,722**	**306,765**	**15%**

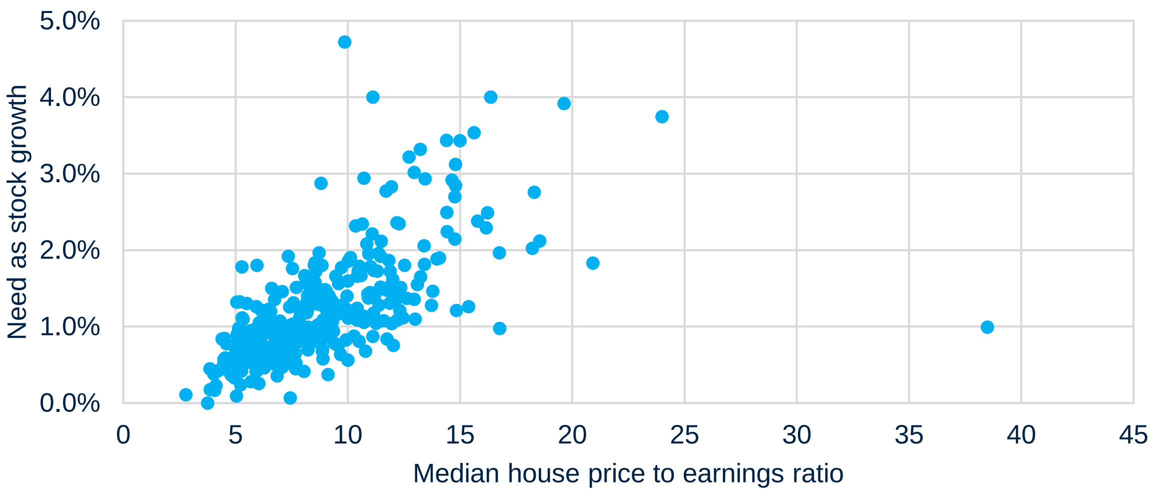
Source: Savills Research, DCLG *Note: 'Without cap' figures approximate due to estimates where DCLG data unavailable.*

The good news is that the cap is effectively temporary, as the new system proposes revising the housing need calculation every five years. Most affected LPAs will reach the full figure after one or two reviews (five or ten years). But can we wait that long to start addressing affordability in the areas most in need of more housing? LPAs need to start working on improving the situation as soon as possible, so we should scrap the cap.

The cap is designed to ensure the new method generates housing figures that are 'deliverable', but we would question whether this is a necessary restriction. If a greater number of new homes can be delivered, then they should be.

With no cap, the national and regional figures look good, but what about at a local level, where planning policy actually takes shape? In theory, we should be getting more housing apportioned to the most unaffordable locations. To compare like with like, we have looked at housing need expressed as the growth required in housing stock and then plotted that against the house price to earnings ratio.

Figure 1 – Housing need vs. affordability with the standard approach (without cap)



Source: Savills Research, DCLG

The chart shows that the general aim is being met: there is a trend of higher need as affordability worsens. But there are quite a few outliers and anomalies. The most extreme example is Kensington and Chelsea, with an affordability ratio of 38:1, with a need figure lower than Salford (affordability ratio 5:1) on a % of stock basis: 1.0% vs. 1.3%.

Further down the affordability scale, but still in the highest band at 17:1, Chiltern would only need to plan for housing equivalent to 1.0% of current stock each year before the cap, falling to 0.8% with the cap as is currently proposed. Similarly, at an affordability ratio of 12:1, Hart would only need to plan for 0.8% with or without the cap.

There are many more examples of where, using the proposed method, unaffordable locations end up with a low assessment of need and relatively affordable ones end up with high need. Many of these would not be solved even by removing the cap. The problem comes in two parts:

First, applying uplifts to districts with affordability ratios as low as 4:1 does not seem to fulfil the brief of the right homes in the right places. It is unnecessarily lifting proposed need in relatively affordable markets, many of which have more pressing housing issues than a lack of new supply. This has a limited impact on the overall totals, and could be mitigated by starting the uplifts at higher affordability ratios and increasing them more steeply thereafter, thus doing what the consultation says it is seeking to do – addressing affordability in the least affordable areas.

But much more important is the second and fundamental problem of low household projections.

Feedback loop

Under the proposed method, the starting point for the calculation is the projected household growth at a LPA level. As the name suggests, these just project forward growth trends based on the previous five years, so if households are not forming due to affordability issues or low levels of past housebuilding, this creates a feedback loop into lower future housing targets, masking the true levels of need. While the proposed new approach makes an adjustment for affordability, it is not sufficient to offset the low base set by the projection in many areas.

By contrast, the current system offers plenty of flexibility in adjusting the demographic starting point for housing need calculations. In some pro-growth areas this freedom has been used positively to adjust the housing requirement upwards to correct for suppressed household formation and to respond to strong employment growth aspirations. Under the proposed method, whilst authorities will still be allowed to set a target in excess of that generated by the standard calculation, the proposed rationale for doing so appears to be much less robust than the present approach and no guidance as to how to do it has yet been published.

Winners and losers

The impact of the new figures is highly dependent on current Local Plan status. A deadline of 31st March 2018 (or publication of revised NPPF, whichever is later) has been set, after which the standard method will replace current OAN calculations. But for LPAs with adopted, up-to-date Local Plans the immediate effect will be limited; for them nothing changes until their current Plan is five years old or it is next reviewed or updated. Similarly those submitted for examination can continue through that process with their currently proposed figures. For those at earlier stages the impact could be huge, with immediate issues likely to appear for LPAs close to submission but unlikely to meet the deadline.

We have reviewed the emerging plan targets of 46 LPAs that have recently published a Reg 18 or 19 plan and compared these figures to the DCLG standard method. The table below shows how the need set out by the standard approach in the most unaffordable locations is well above their emerging targets; an average of 36% in the 7 LPAs in the highest affordability band. These authorities will either have to rush to submit a plan based on their existing OAN before the deadline or find more housing land to meet the increased need.

Table 4 – Emerging plan targets vs. SHMA OAN and need from standard approach

Affordability band	Emerging target	SHMA OAN	DCLG std need	Emerging vs SHMA	DCLG vs emerging	# of LPAs
Over 11.4	3,436	3,404	4,670	1%	36%	7
9.1 to 11.4	4,590	4,521	5,489	2%	20%	6
7.6 to 9.1	5,862	6,184	7,316	-5%	25%	10
5.9 to 7.6	3,143	3,091	2,693	2%	-14%	6
Under 5.9	11,925	11,490	10,174	4%	-15%	17
Total	**28,956**	**28,690**	**30,342**	**1%**	**5%**	**46**

Source: Savills Research, DCLG

For the 85 LPAs at an earlier stage it is very likely that the standard figure will replace their current OAN, with the comparison shown in the table below, again split by affordability band. The increase is very significant overall and especially in the less affordable areas, the 22 LPAs in the top band see an average 57% increase under the standard method. Compared to current, out of date, targets the increases are even larger. This will have major implications for five year land supply calculations, which will be based on the standard figures from next year for LPAs without up to date plans, according to the new method set out in the Housing White Paper.

Table 5 – Current ('out of date') plan targets vs. SHMA OAN and need from standard approach

Affordability band	Current target	SHMA OAN	DCLG std need	Current vs SHMA	DCLG vs SHMA	# of LPAs
Over 11.4	12,428	19,232	30,575	146%	59%	21
9.1 to 11.4	7,996	12,435	16,571	107%	33%	17
7.6 to 9.1	9,307	11,010	12,932	39%	17%	15
5.9 to 7.6	7,700	8,370	8,927	16%	7%	14
Under 5.9	10,086	9,774	10,571	5%	8%	15
Total	**47,517**	**60,821**	**79,576**	**67%**	**31%**	**82**

Source: Savills Research, DCLG

For the 171 LPAs either with adopted plans or at examination the impact is unlikely to be felt immediately, but we can look at current targets and OANs and compare them to the standard need figures, shown in the table below. Amongst the most unaffordable markets the standard need figures would be a 44% increase on current targets on average. Notably this is only 7% above current SHMA OANs, highlighting how the current system is not properly providing for the identified need.

Table 6 – Current plan targets vs. SHMA OAN and standard approach, LPAs with adopted or submitted plans

Affordability band	Current target	SHMA OAN	DCLG std need	DCLG vs current	DCLG vs SHMA	# of LPAs
Over 11.4	6,356	8,573	9,167	44%	7%	15
9.1 to 11.4	19,208	22,850	22,503	17%	-2%	39
7.6 to 9.1	24,673	25,375	28,846	17%	14%	39
5.9 to 7.6	24,863	30,671	23,557	-5%	-23%	45
Under 5.9	31,612	33,837	25,078	-21%	-26%	33
Total	**106,711**	**121,305**	**109,151**	**2%**	**-10%**	**171**

Source: Savills Research, DCLG

Our proposal

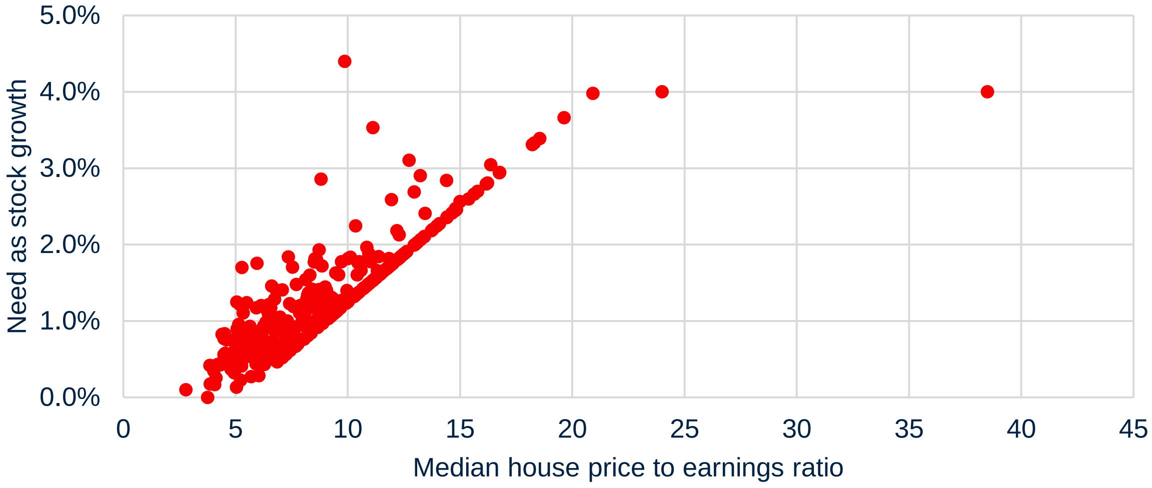
The work above identifies three flaws in the proposed approach: the overall number is too low; the need is not sufficiently focussed on the most unaffordable regions; and there are some specific LPAs with very low need for their affordability due to low household projections. Therefore we propose a further check, based on expressing housing need as the growth in existing stock that would be required, with the aim of correcting any outliers with low figures under the approach being being consulted on and boosting both the overall numbers and those in the most unaffordable areas.

Our method sets a floor based on a stock growth figure that depends on local affordability. We propose that need should be the higher of the DCLG standard approach figure or a variable stock growth 'floor' calculated as follows:

- Median house price to earnings ratio <5 = 0%;
- For every increase in ratio of 1, increase floor by 0.25% (e.g. HP-E ratio of 8 = 0.75% floor);
- Floor stops when it reaches 4% at HP-E of 20 (as everything above 2% is high compared with past delivery, and only three central London boroughs are above this – radical delivery models would be needed to achieve the growth rates required to really improve affordability in these areas).

The results are shown in the chart and tables below, with the anomalies of the DCLG method removed and the highest housing growth being directed at the most unaffordable areas.

Figure 2 – Housing need vs. affordability with Savills proposed approach



Source: Savills Research, DCLG

Table 7 – Savills proposal vs. standard approach, by affordability band

Affordability band	DCLG	Savills	DCLG to Savills Increase
High	89,226	122,506	37%
Mid-high	47,251	54,273	15%
Mid	49,245	51,269	4%
Mid-bottom	35,177	35,464	1%
Bottom	45,823	45,823	0%
TOTAL	**266,722**	**309,334**	**16%**

Source: Savills Research, DCLG

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