

**A critique of Wessex Economics Strategic Housing Market  
Assessment for Hart, Rushmoor & Surrey Heath, December 2014**

**Final Report**

**To Winchfield Action Group and We Heart Hart**

**13 November 2015**

***Urban & Regional Policy***

48 St Agnes Road  
Birmingham  
B13 9PN

Tel 07977 859411  
e-mail [alanwenbansmith@pobox.com](mailto:alanwenbansmith@pobox.com)

# Critique of Hart, Rushmoor & Surrey Heath SHMA

## Final Report

<b>Contents</b> .....	<b>i</b>
<b>Executive Summary</b> .....	<b>ii</b>
<b>Author qualifications and experience</b> .....	<b>iii</b>
<b>1 Introduction</b> .....	<b>1</b>
This commission.....	1
National policy context.....	1
<b>2 National policy and guidance for estimating local housing needs</b> .....	<b>1</b>
From national projections to local needs.....	1
ONS subnational population projections (SNPPs) .....	2
DCLG local household projections .....	2
Guidance on the use of projections.....	3
<b>3 SHMA adjustments to DCLG projections</b> .....	<b>3</b>
Adjustments to the DCLG household projections .....	4
Adjustments for economic growth.....	5
Adjustments for provision of affordable housing.....	6
Market signals.....	7
‘Bringing it all together’ .....	7
<b>4 Implications of a high OAN for compliance with NPPF</b> .....	<b>7</b>
How housing needs arise and are met .....	7
Effects on the location of new houses and demands for services and infrastructure...9	
Housing market segments served by excess provision of land.....	9
Wider implications of the scale of the SHMA projections .....	10
How robust is projected OAN? .....	11
Compliance with NPPF.....	11

## Executive Summary

1. The critique focuses in two main areas – (a) conformity of the Strategic Housing Market Assessment (SHMA) with the processes laid down in Planning Policy Guidance (PPG), and (b) compliance of the resulting ‘objectively assessed need’ (OAN) with the requirements of the National Planning Policy Framework (NPPF).
2. The 2011-based DCLG household projection is for an increase of 775 dpa for the 3-District Housing Market Area (HMA) and 356 (Hart). The SHMA proposes a series of 6 adjustments to arrive at an OAN of 1180 dpa (an increase of 52%). There are serious deficiencies in the way this has been done, which means it does not conform with PPG:
  - A series of three adjustments to the DCLG projection (to extend its timescale to the whole plan period; to adjust migration estimates; and to adjust household formation rates) would increase HMA housing needs from 775 dpa to 925 dpa. These are redundant because the 2011-based household projection has been superseded by a 2012-based version. For the same three factors this produces a reduction in needs (from 775 to 763 dpa for the HMA, and from 356 to 241 dpa for Hart);
  - An adjustment for economic growth takes as its lower bound the 700 pa jobs growth in the period 1998-2008, a period of very strong growth. The argument for a higher growth rate than this rests on ‘splitting the difference’ with an even higher figure – which the SHMA agrees to be excessive. The 1998-2008 growth would be a very good result, which might justify increasing housing provision up to 921 dpa for the HMA (up to 340 for Hart). This would be slightly higher than average completions 2001-13 (HMA 885, Hart 314);
  - While no further increases have been proposed in the SHMA for ‘affordable housing’ or ‘market signals’, the evidence put forward under these headings raises further issues. The SHMA suggests a need of 355 dpa for social housing. At the HMA level this would require a quota of 38% of total provision – somewhat higher than the 30% considered realistic by the SHMA. While forming part of the OAN these needs will not give rise to effective demand for additions to the housing stock unless an alternative (and so far unidentified) delivery mechanism is created. The Hart quota is lower at 21%, so this is a lesser problem there.

Implications of this critique for OAN	HMA Housing needs dpa <sup>1</sup>	Hart Housing needs dpa <sup>1</sup>
<b>Starting point: DCLG 2012-based projection (2011-31)</b>	<b>763</b>	<b>241</b>
Adjustment for historic economic growth	921	340
Affordable/social rented housing need (20 year backlog clearance)	355	72
Effective demand for housing	566	268
Quota for social rented need as % of total	38%	21%
<b>Notes:</b>		
1. Dpa: dwellings per annum for additional households projected (with no allowance for vacancy or second homes)		

3. The evidence above demonstrates a gap between ‘need’ (OAN) and effective demand (need backed by resources). The clear ‘market signal’ is that housing provision on the scale of the SHMA (1180 dpa) cannot be delivered by the market, and even at the reduced level of 921 dpa there would be difficulties for which no solution is offered. This puts serious difficulties in the way of Local Plans achieving sustainable development as required by NPPF:
  - A dynamic analysis of household formation shows that new households are mainly formed by younger age groups. They do not generally have the resources to buy or rent new housing, but rely on churn of cheaper stock for their housing choices;

- 
- Builders respond to effective demand, not need per se. The effect of allocating large amounts of land to meet OAN will be to provide builders with a wide choice of locations rather than to increase overall housing output;
  - Builders' preferences are for greenfield sites offering lower risks and higher profit margins, especially if targeted on wealthier market segments such as commuters to London, better-off retirees, and those 'trading up';
  - The additional housing provided in response to such demands is largely irrelevant to supplying the local labour market. It also tends to add disproportionately to demands on infrastructure and services, particularly transport;
  - A large surplus of land above effective demand diverts resources (mainly public) from renewal of infrastructure and services in existing settlements, compromising the housing choices available to new households, and their contribution to the local labour market;
  - Provision of land in response to an over-stated OAN will not help meet the needs of new households, and may not even lead to provision of more housing. By undermining the role of existing settlements, it will reduce choice for employers and for new households, and increase travel demand and car-dependency.
4. The rationale for using national projections as the basis for local assessments of housing need depends upon the SHMA process adding up to credible national total. In practice adjustments are being permitted which render the process invalid, and undermine the purposes of NPPF. Meeting housing needs that the market will not meet also requires action at national level. A large-scale programme of social housing is implied if the 'need' figures are to be acted upon, though this is national not a local issue.

## Author qualifications and experience

This submission has been prepared on behalf of Winchfield Action Group and We Heart Hart by Alan Wenban-Smith. He is a Member of the Royal Town Planning Institute, and for the last 10 years a member of its Policy and Research Committee, and its representative on the board of the Transport Planning Society.

He has extensive relevant professional experience in spatial planning in local government, including leading development planning, housing, transport and economic development projects at local, city, conurbation and regional levels. In his last local authority role he was responsible for planning and transport policy for Birmingham City Council, and also chaired conurbation- and region-wide collaboration on planning and transport issues. In these capacities he led a number of joint projects, some later adopted at national level: the first big city Unitary Development Plan, the first regional Strategic Planning Guidance (later rolled out nationally as Regional Planning Guidance), the first conurbation-wide transport investment programme (rolled out nationally as Local Transport Plans), and the first Regional Transport Strategy (later incorporated into Regional Spatial Strategies).

As a consultant since 1996 (trading as Urban & Regional Policy) he has led several projects touching on housing issues in the South East and elsewhere, including advising CPRE on housing in SERPLAN (author of its 1999 report on 'Plan, monitor and manage'); acting as a Special Adviser to the Commons Select Committee Inquiry into the South East Growth Areas (2003/4); advising DfT on integrating transport planning with regional spatial policy (2004); conducting regional case studies on land for affordable housing for the Housing Corporation (2008), chairing a Peer Review of London's land-use transport modelling for TfL (2008/9); and reviewing the Oxfordshire Strategic Housing Market Assessment for CPRE (2014).

## 1 Introduction

### This commission

- 1.1 Wessex Economics (WE) was commissioned by a consortium of the local authorities to carry out a Strategic Housing Market Assessment (SHMA) for the three local authority Districts constituting the Housing Market Area (Hart and Rushmoor (Hants) and Surrey Heath (Surrey)). I have been commissioned by CPRE to critically examine the basis of the SHMA, because of the major implications for housing land across all districts. The SHMA (dated December 2014) is being used by a number of District Councils to update Local Plans that are in the course of preparation, of which Hart is the first.

### National policy context

- 1.2 The National Planning Policy Framework (NPPF) makes clear that purpose of the planning system is to further the economic, social and environmental dimensions of 'sustainable development' (paras 6 and 7). It stresses (para 8) that because of their mutual dependence, *'to achieve sustainable development, economic, social and environmental gains should be sought jointly and simultaneously through the planning system' which 'should play an active role in guiding development to sustainable solutions'*.
- 1.3 The role of the local planning process in respect of housing is set out in NPPF (paras 47-55). In summary the relevant policies are:
- a) Local Plans are required to make provision for 'full, objectively assessed needs for market and affordable housing in the housing market' [usually abbreviated to OAN];
  - b) Identify and annually update a supply of '*specific deliverable sites*' sufficient for 5-years' worth of housing at the required annual rate, and a supply of *specific, deliverable locations* for years 6-10 and (where possible) years 11-15;
  - c) Set out an 'implementation strategy for the delivery of land for the full range of housing', and 'a housing trajectory for the plan period' illustrating the expected rate of delivery.
- 1.4 Planning Policy Guidance (PPG) sets out the framework for estimating the OAN in a Strategic Housing Market Assessment (SHMA). Unlike NPPF, PPG does not have the status of national policy, and changes from time to time by administrative decision<sup>1</sup>.
- 1.5 The remainder of this report is in three sections:
- a) Section 2 considers in more depth the key points of national policy and guidance on provision for housing in Local Plans;
  - b) Section 3 critically examines the extent to which the WE SHMA complies with PPG, and suggests a figure for OAN which could be compliant;
  - c) Section 4 considers the high probability that effective demand will be significantly lower and different in character from OAN at either level, and considers the implications for the NPPF principle of sustainable development.

## 2 National policy and guidance for estimating local housing needs

### From national projections to local needs

- 2.1 National policy requires the SHMA to be carried out within the framework set by NPPF and current PPG. In this Section we consider the technical underpinning of the projections, particularly whether the adjustments proposed to official household projections are

---

<sup>1</sup> PPGs are a web-based resource maintained by DCLG. The Guidance quoted in this report is '*Methodology: assessing housing need*' [www.planningguidance.planningportal.gov.uk](http://www.planningguidance.planningportal.gov.uk) (revised 6 March 2014)

*'reasonable...consistent with the principles of sustainable development and could be expected to improve affordability'*, as required by the PPG.

- 2.2 The household projections by DCLG that provide the baseline for adjustments are based on subnational population projections (SNPPs) for local authorities by the Office for National Statistics (ONS). The ONS and DCLG projections are 'policy neutral'; they take past trends and project them forward on the assumption that the same policies and processes are in place in both the past 'reference' period and the future 'projection' period. They do not estimate the impact of policies yet to take effect.
- 2.3 When considering adjustments we need to be aware of what assumptions and trends are already incorporated, so these are summarised below.

#### **ONS subnational population projections (SNPPs)**

- 2.4 SNPPs are produced every 2 years, based on mid-year estimates of population by local authority area (MYEs), and going forward incorporate trends in fertility, mortality and migration over the previous 5 years. These local estimates are added up and adjusted pro rata ('controlled') to the estimated totals at national level. Crucial points for the present purpose are:
- a) The current SNPP are 2012-based and go forward 25 years to 2037. The population of England is projected to grow by 7% by 2022;
  - b) The migration trends used in MYEs and SNPPs are based on international travel statistics, Higher Education student statistics and NHS registrations over the reference period (2007-2012);
  - c) The smaller the area, the more significant local migration becomes as a proportion of population change. NHS and Higher Education statistics are used to study local migration, but it is recognised as the most difficult component of change to estimate;
  - d) The 2011 Census provided an opportunity to check MYEs of population against its counts, showing significant differences in many areas including the present case. These unattributed population changes (UPCs) have been the subject of a study by ONS<sup>2</sup>. This concluded that because (unlike the 2011-based series) the 2012-based SNPPs are fresh forecasts, with reference period MYEs adjusted for the 2011 Census, they should not be adjusted for UPCs;
  - e) Provision of housing is a particularly important driver of local migration, meaning there is a danger of circularity. A projection of households based on past population trends will be influenced by housing provision during the reference period.

#### **DCLG local household projections**

- 2.5 DCLG's current subnational household projection takes the corresponding population projection (2012-based SNPP) as its base and applies local 'headship rates' to each 10-year age cohort. Trends in headship rates for each age, sex and marital status group are projected forward from 1991, 2001 and 2011 Censuses and Labour Force Survey data, and applied to the SNPP projected local population. Key points are:
- a) The headship rates in the household projections rely on much longer-term trends than the corresponding population projection (20 years compared with 5 years);
  - b) The 2011 Census marked a significant turning point in household formation: the long-term decline in average household size appeared to have ended, at least temporarily. The projection thus takes account of the reduction in new household formation following the global economic events of 2007/8 (as shown by the 2011 Census), mitigated by the 20 year reference period it uses.

<sup>2</sup> ONS (2014) *Report on Unattributable Population Change*

---

### Guidance on the use of projections

- 2.6 The starting point specified by PPG is the latest official household projections produced by DCLG. PPG implies a cautious approach to adjustments: *'The household projections produced by DCLG are statistically robust and are based on nationally consistent assumptions. However, plan makers may consider sensitivity testing, specific to their local circumstances, based on alternative assumptions in relation to the underlying demographic projections and household formation rates. Account should also be taken of the most recent demographic evidence including the latest Office of National Statistics population estimates.'*
- 2.7 PPG identifies a number of headings under which adjustments may be considered, to reflect:
- a) Sensitivity testing against alternative assumptions about underlying demographics, with any local changes needing to be clearly explained and justified;
  - b) Employment trends for the housing market area, with implications for cross-boundary migration and commuting considered under the duty to cooperate;
  - c) Projections may be adjusted to reflect a range of 'market signals', including land prices, house prices, rents, affordability, past over- or under-delivery against plans, and overcrowding.
- 2.8 PPG states that market signals indicating worsening affordability trends will require upward revision relative to the official projection (and the larger the problem, the larger the adjustment). However, plan makers should *'set this adjustment at a level that is reasonable'*. Plan makers *'should not attempt to estimate the precise impact of an increase in housing supply'*, but rather should *'increase planned supply by an amount that, on reasonable assumptions and consistent with the principles of sustainable development could be expected to improve affordability, and monitor the response of the market over the plan period'*.

## 3 SHMA adjustments to DCLG projections

- 3.1 This Section critically examines how the SHMA has applied the PPG. The SHMA has followed a 7-step process to get from the 2011-based DCLG household projections it uses to the 'objectively assessed need' across the housing market area. The adjustments proposed are as follows:
1. Extension from 2011-21 to 2011-31 to match Local Plans periods;
  2. Adjustment of migration to take account of UPCs;
  3. Adjustment assuming household formation rate will return halfway towards to pre-2008 trends;
  4. Adjustment for chosen economic scenario (almost double the 1998-2008 jobs growth);
  5. The affordable housing requirement;
  6. Consideration of market signals; and
  7. 'Bringing it all together'.

**Figure 1: SHMA adjustments to DCLG projections (HMA and Hart District, 2011-31)**

<b>Steps in the adjustment</b>	<b>HMA Housing needs dpa<sup>1</sup></b>	<b>Hart Housing needs dpa<sup>1</sup></b>
<b>Starting point: DCLG 2011-based projection (2011-21)</b>	<b>775</b>	<b>356</b>
1. Extension to 2031 (WE 7.25, Fig 7.3)	790	330
2. Adjustment for migration UPCs (WE 7.38-48, Fig 7.6)	850	310
3. Adjustment for headship rate increase (WE 7.49-59, Fig 7.8)	925	340
4. Adjustment for 'central scenario' economic growth (WE 7.79)	1180	370
5. Affordable housing (housing for rent within 1180 – Fig 7.10)	1180 (355)	370 (72)
6. Market signals: accommodated within 1180 target (WE 7.115)	1180	370
<b>7. Overall housing needs projection (2011-31)</b>	<b>1180</b>	<b>370</b>
<b>Notes:</b>		
1. Dpa: dwellings per annum for additional households projected (with no allowance for vacancy or second homes)		

#### Adjustments to the DCLG household projections

- 3.2 The first point to note is that the 2011-based projections used by WE as its starting point has been superseded by the 2012-based series. This series takes into account adjustments to past MYEs of population within the reference period of an up-dated (2012-based) SNPP, and a revised projection of headship rates. The relevant comparisons are given in Figure 2.

**Figure 2: 2011 and 2012 DCLG household projections compared**

	<b>HMA</b>	<b>Hart</b>
<b>Population increase 2011-31 (persons)</b>		
2011-based SNPP <sup>1</sup>	29,674	16,157
2012-based SNPP <sup>2</sup>	22,100	7,900
<b>Additional housing needs (dpa)<sup>3</sup></b>		
2011-based DCLG	775	356
2012-based DCLG	763	241
<b>Implied change in average household size<sup>4,5</sup></b>		
SNPP pop/DCLG hh (2011-based)	2.56 to 2.55	2.56 to 2.53
SNPP pop/DCLG hh (2012-based)	2.51 to 2.44	2.51 to 2.46
<b>Notes:</b>		
1. 2011 SNPP + 20x annual projected increase 2011-21		
2. 2012 SNPP + 19x annual projected increase 2012-31		
3. Average increase in numbers of households pa over projection period		
4. SNPP population (all ages) divided by DCLG projected households		
5. 2011-based ahs projection is to 2021; 2012-based to 2031		

- 3.3 In broad terms the 2012 SNPP implies a lower population increase than the 2011 version (very much lower in the case of Hart). However, this is counter-acted by the increase in the household formation rate in the 2012-based DCLG projection (reflected in the greater reduction in average household size). The net effect is a small reduction in the HMA housing need figure (from 775 to 763 dpa), and a larger reduction in the figure for Hart (from 356 to 241 dpa).
- 3.4 The scale of the changes between the two years' projections raises significant issues about the robustness of the procedure, which is returned to later (para 4.17). For the present purpose my comments will focus on the effect on the SHMA projection of OAN. There are two principal points:
- The SHMA has a lengthy discussion of migration (WE 7.30-48 refers), seeking to 'correct' the 2011-based SNPP for unattributed population changes (UPCs) and for revisions to MYEs affecting the projection reference period (see 2.4(d) above). The 2012-based SNPPs are fully up-dated taking on board data not available when the SHMA was produced, so these adjustment are no longer necessary;

- b) Similarly, the DCLG household projection incorporates higher rates of new household formation than the 2011-based series, rendering the discussion in WE 7.49-59 superfluous.

3.5 As noted earlier (2.6 above) PPG states that *'The household projections produced by DCLG are statistically robust and are based on nationally consistent assumptions'*, and any adjustments must be fully justified. These two no longer are, and the increases set out against Steps 1, 2 and 3 in Figure 1 are no longer valid. To comply with PPG any adjustment for the remaining factors (economic growth, affordable housing and market signals) must start from a need of 763 dpa for the HMA (241 dpa for Hart).

#### **Adjustments for economic growth**

3.6 The SHMA considers three economic scenarios, each leading through a set of assumptions about economic activity rates, commuting, and part-time or double-working to a linked need for housing the resulting workforce:

- a) The 'historic trend' established over the strong growth period 1998-2008. Jobs growth for the HMA averaged 700, requiring 925 dpa if continued;
- b) An Experian projection for more than double this number (1,560 jobs pa), but of which no further details are given. This would require 1,390 dpa;
- c) A 'Central Scenario' which splits the difference (1,130 jobs pa), which would require 1,180 dpa.

3.7 While the assumptions linking households and employment are reasonable, the same cannot be said of the economic scenarios themselves. The 'Central' scenario is chosen by WE without any apparent justification other than its centrality. There are several reasons for regarding this as unsafe:

- a) The 'historic trend' is already optimistic, given that since 2008 employment in the area fell and has only barely recovered. This much recovery was heavily dependent on Surrey Heath, while the other districts in the HMA continued to lose jobs (WE Figs 4.4, 7.9).
- b) There seems to have been pressure from business consultees to adopt the Experian projection (WE Appendix A, paras 18-22). This follows an established pattern elsewhere: those with an interest (both businesses and institutions) favour optimistic views of future growth, as this both flatters their power and provides a platform for seeking funding (usually public funding) to bring the projections about. WE rightly rejected this projection, but do not seem to have recognised that this also compromises the case for their 'Central' scenario.
- c) The 'historic trend' relates to a period in which there was a very active regional policy, even in the relatively prosperous South East, funded by Government through Regional Development Agencies. Only about a quarter of the resources applied by RDAs have been transferred to LEPs, and local authorities were also more active then than they can be now. It seems highly unlikely that much better results than 1998-2008 will be achieved in future with reduced resources for infrastructure, services and training, even before considering the more challenging national and global context.
- d) A large proportion of overall employment is population-related services, both public and private. The public components include major employers such as the NHS, education and local government. These are all subject to significant job losses, set in train in 2011/2, since increasing in pace, and likely to continue for some more years, as a matter of Government policy.
- e) The 20-year 'reference period' for the household projections includes the 1998-2008 period of strong growth, so its effects on headship rates are already factored in.

3.8 All these factors suggest that the ‘historic trend’ is at the upper, not the lower, limit of probability. The associated increase in housing needs depends on the detail of the model linking working age population to housing, but we should note that the effect of lower population and household size in the 2012-based SNPP will pull in opposite directions. As a first approximation, the increase between Steps 3 and 4 in Figure 1 (255 dpa) should be reduced pro rata with the difference in jobs growth between the two scenarios (700 vs 1130 pa) to 158 dpa. This would produce a future housing need of 921 dpa for the HMA (763 + 158), and Hart’s share (on the same basis as the SHMA, Figure 7.8) would be around 340 dpa<sup>3</sup>. This is slightly higher than the average completions 2001-13 (HMA 885, Hart 314), and thus consistent with the view that this is a positive, but not unrealistic long-term projection.

#### **Adjustments for provision of affordable housing**

3.9 The final heading for adjustment is whether additional housing provision is required to ensure an adequate supply of affordable housing. The SHMA is conflicted about what is meant here by ‘affordable housing’: its need figures relate to ‘subsidised rental housing’ (primarily local authority and Housing Association stock), but the delivery mechanism is through a quota on private housing development. Though it is stated that 400 dpa has been delivered ‘in recent years’ (WE 8.13) this is not developed, nor figures given for past performance. ‘Intermediate’ housing such as is often sought through Section 106 Planning Obligations (eg shared equity, starter homes and cross-subsidised units) is explicitly excluded (WE 8.19). However, no alternative delivery programme for ‘subsidised rental’ housing is suggested ‘*since it is uncertain and the assessment is designed to inform how much new affordable housing might be required*’ (WE 8.20).

3.10 The SHMA makes no additional provision under the ‘affordable housing’ heading, because its ‘central case’ economic projection is so high that the projected need for ‘affordable housing’ (HMA 355 dpa, Hart 72 dpa – WE Fig 7.10) could be expected to be provided by way of planning obligations at 30% of total housing permitted. Implicit in this is that a significant proportion of planning obligations would need to take the form of cash payments to social housing providers. At the lower level of provision suggested here (921 dpa) the quota would need to rise to 38% over the HMA (though only 21% in Hart). However, there are other factors to take into account:

- a) ‘Affordable housing’ is defined for planning obligation purposes as up to 80% of market price or rent. It is clear from the SHMA analysis of local incomes, prices and rents that the 80% level would not in fact be affordable to many of the newly-forming households that are the target of such provision (WE Fig 4.9, 6.9-11);
- b) The government has for some time been encouraging negotiated reductions in affordable housing requirements in new developments (in order to increase output). Although a recent Court judgement has suggested the ending of the exemption of small developments from affordable housing quotas, which might lead to an increase in such provision, this is being appealed by DCLG;
- c) The recently published Housing and Planning Bill would require local authorities and Housing Associations to sell off their better stock – and the general ‘Right to buy’ continues. This may help meet some of the private housing demand, but would increase the need for subsidised rental housing, making a credible delivery mechanism even more crucial.

3.11 The absence of effective demand does not of course remove the demographic need for such housing. However, to the extent that past housing provision (like pas economic

<sup>3</sup> The translation of a job growth figure into a corresponding housing need number is not an exact science – there are too many variables in between (such as unemployment, ‘double jobbing’, economic activity rates, and This is true at the HMA level and much more so at the level of individual Districts.

growth) has been a factor in the trends towards higher headship rates (and lower average household sizes), these needs are already captured in the projections. It does emphasise the difference between 'need' in these terms, and 'effective demand' – that is, need backed with sufficient money to allow its realisation. PPG as presently formulated treats these two different concepts as the same.

- 3.12 Starting with the OAN of 921 dpa arrived at above for 'historic growth' (3.8), effective demand would be 566 dpa (921-355) for the HMA, and 268 dpa (340-72) for Hart. The resulting affordable housing quotas would be 38% for the HMA and 21% for Hart. While the need for genuinely affordable housing is captured in the housing need projections already reviewed (355 dpa), the absence of a delivery programme has already been noted. Adding to the OAN in the hope that this will increase affordable housing output (as is sometimes done) is logically incoherent: if the additional houses could be sold they would either meet the needs themselves or draw in additional migration.

#### **Market signals**

- 3.13 As for affordable housing the SHMA concludes that the need for more housing to respond to market signals indicating shortage is already covered by its OAN of 1180 dpa. With the lower need discussed above there would be less market pressure on prices arising from lack of new homes; in any case, house prices are very insensitive to new build for reasons discussed later (para 4.1). New housing is a small part of the overall market (around 10% of the annual supply), so the number of extra houses needed to lower prices and increase affordability by that means is correspondingly very large, and there is no credible commercial motivation to do so.
- 3.14 The experience of the years since 2008 is that even 'volume' builders would rather build fewer houses at a higher margin than risk lower prices. The evidence of the SHMA itself gives the clearest possible market signal that the OAN cannot be delivered by market housing.

#### **'Bringing it all together'**

- 3.15 We have seen that following the procedures laid out in PPG leads to an estimated OAN much higher than effective demand. In Section 4 we conclude that the effects of making such provision in the Local Plan are destructive of the achievement of the sustainable development objectives of NPPF. We have already noted that NPPF takes precedence over PPG; it should also be noted that Planning Inspectors are obliged to consider NPPF as a whole<sup>4</sup>. The implications of this conclusion are considered further in the next Section.

## **4 Implications of a high OAN for compliance with NPPF**

### **How housing needs arise and are met**

- 4.1 The process of estimating housing needs set out in PPG and followed by the SHMA has been in use by DCLG and its predecessors for at least 40 years. In essence it compares the projected net increase in households with the supply of new housing, on the premise that for needs to be met these two numbers ought to be in balance. In the long run, and at the scale of the wider housing market (the greater South East in this case) that may be true, but the implicit assumption that new houses met the needs of new households is not true. This has important, but often neglected, implications for the provision of land through the planning system:

- a) New households are mostly young and can seldom afford to buy or rent new, but depend rather on 'churn', and particularly on churn in cheaper areas.

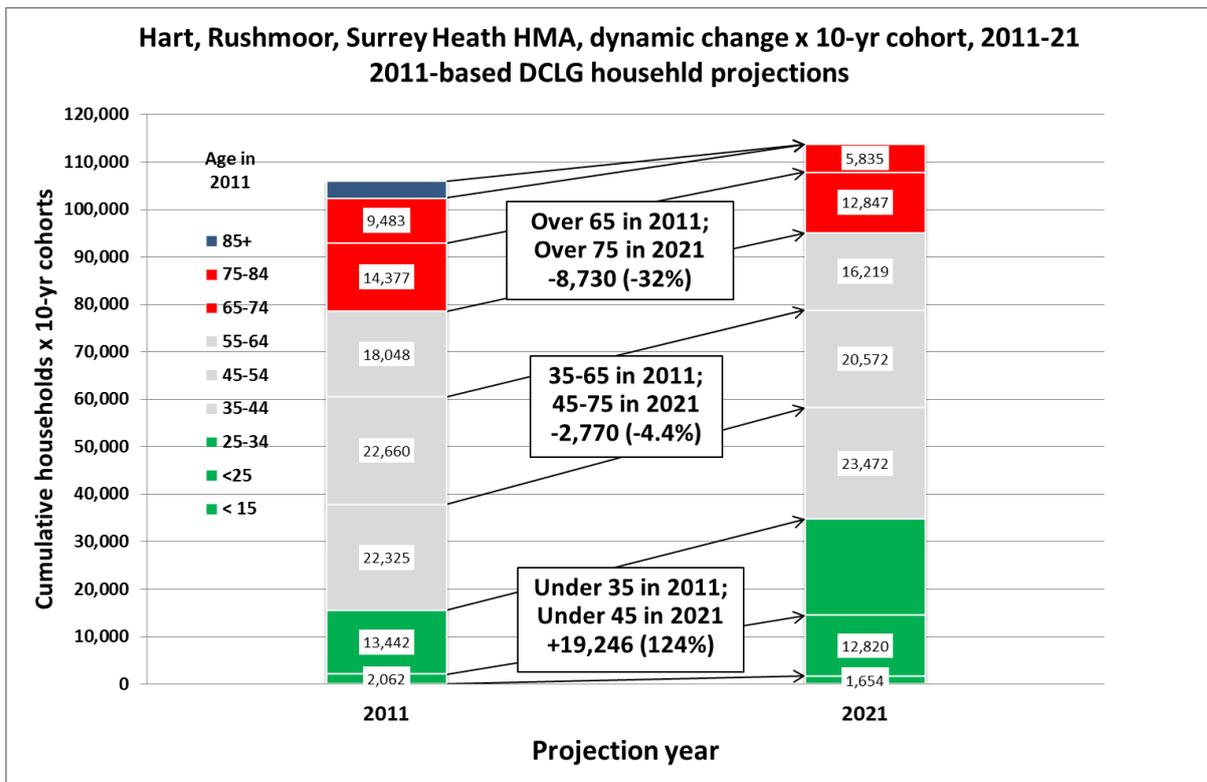
---

<sup>4</sup> Hickinbottom, J in Gallagher Homes vs Solihull MBC, [2014] EWHC 1283 (Admin)

- b) Housing is unlike most other products on the market, not only because 90% of the market is second-hand, but also because of the expectation that its value will increase.
- c) The SHMA process is about meeting newly-arising housing needs, but builders' practice (reasonably enough) is to sell to people with money to pay – overwhelmingly those already housed, with a house to sell, and not therefore in housing need.
- d) The attraction to builders of increasing allocations of land is the freedom this gives them to develop the most advantageous sites for these markets. More land has been accompanied by declining output of houses, while house prices have resumed their former rise.
- e) Making more finance available both directly (eg 'Help to Buy') and indirectly (eg Quantitative Easing) fuels further rises in prices and encourages sub-prime lending.
- f) The divergence between net growth in housing needs (as expressed by official projections based on past trends in household formation) and effective demand for new houses (demand backed by funds, including from public and private landlords) has exacerbated these tendencies.

4.2 The net change approach, outlined above, effectively compares 'snapshots' of need at start and end dates, and examines the net changes between them. This does not illuminate the dynamics of household formation, any more than snapshots of a river at two dates tells us anything about the flow of water. Figure 3 below examines the flow of age groups through household formation so as to display the dynamic processes.

**Figure 3: Household formation and aging – HMA 2011-21 (DCLG 2011-based series)**



4.3 This analysis uses the 2011-based series because an age-group breakdown has not been published for the 2012-based series. However, though the detailed figures might be slightly different, the pattern will be much the same:

- a) The major source of increased needs is amongst younger households – those under 35 in 2011 increase by over 120% (19,000) as they become the under-45s of 2021;
- b) The over 65s of 2011 decrease by nearly a third and nearly 9,000 as they become the over 75s of 2021;
- c) The numbers of the in-between group – 35-65 in 2011, 45-75 in 2021 are more stable.

4.4 Thus when speaking of ‘new households’ we need to be aware that this is overwhelmingly the youngest age group. This is the age group that has suffered most from shifts in the distribution of income over the last decade.

#### **Effects on the location of new houses and demands for services and infrastructure**

4.5 Brownfield land is a flow of sites arising from urban change processes which are not necessarily predictable in detail and in advance. It follows that a large increase in immediately identifiable land must mostly be greenfield, not brownfield sites. .

4.6 Unsurprisingly builders will choose the easiest and most profitable sites from those offered by the planning system – generally greenfield sites. The consequences include:

- a) A more dispersed pattern of new development, likely to lead to more personal travel and increased car-dependency; and
- b) Additional service and infrastructure costs once local capacity thresholds are exceeded.

4.7 While planning obligations may make contributions to some such costs, there are many other calls (not least affordable housing). Developers have been seeking (and getting) reductions on viability grounds, and can look forward to such levies being discontinued altogether. The further effects of this include diversion of limited public resources and attention from renewal of infrastructure and services within existing settlements.

4.8 This has crucial housing, social and economic impacts. As noted previously, 90% of the housing market is churn, so the continuing attractiveness of existing stock is the dominant factor in the quantity and quality of housing choice in the HMA as a whole. The environment, services and infrastructure of existing communities need renewal and reinvestment to maintain their attractions, or they will suffer selective out-migration, leading to further deterioration. This is particularly crucial for newly forming households who depend overwhelmingly on existing entry-level homes.

#### **Housing market segments served by excess provision of land**

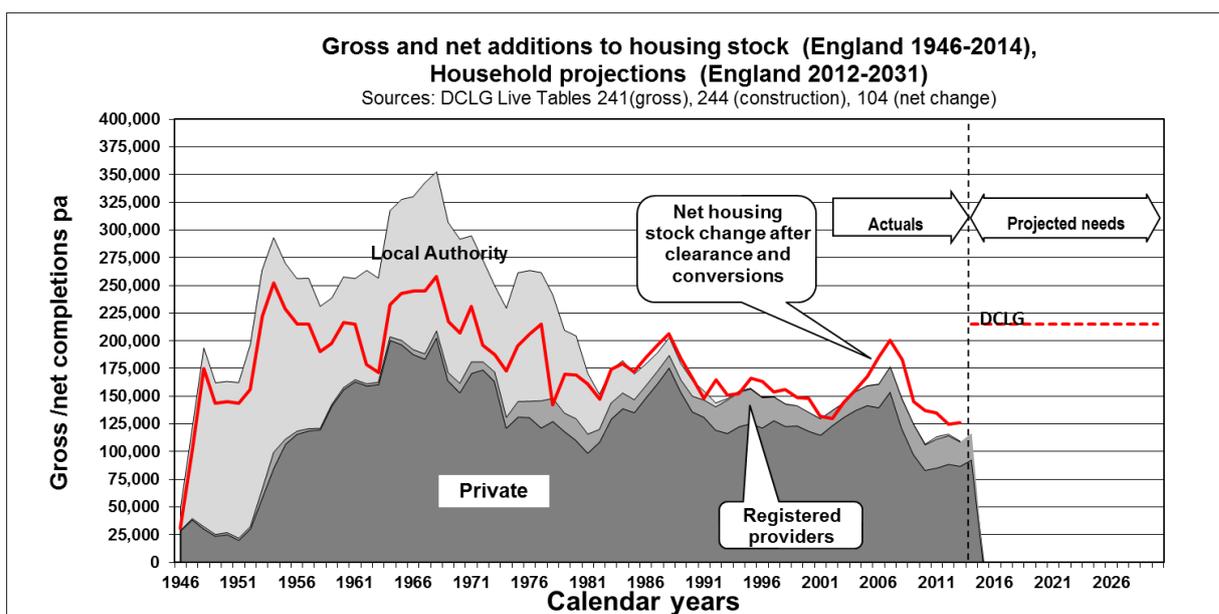
4.9 The limiting factor determining housing output is not land but finance. Rising prices limit access to owner-occupation, and ensure that new housing will tend to be bought by people who are already housed: such as those trading up; commuters to better-paid jobs elsewhere; and those retiring to the country from urban areas. Already nearly half HMA residents commute to other areas, mostly to London (WE 2.41). Only a small proportion of the groups most likely to buy new houses are relevant to meeting the labour needs of the local economy, and the more new housing moves up-market, the smaller this proportion will be.

4.10 Far from helping new households, setting OAN at a level that is not supported by effective demand is particularly destructive of the housing opportunities available to newer, younger and less well-off households. Meanwhile, the housing that does get built in such circumstances is least likely to be conducive to ‘sustainable development’ as defined in NPPF.

**Wider implications of the scale of the SHMA projections**

- 4.11 The DCLG 2012-based household projection gives a net increase in housing needs for England of 215,000 pa over the period 2011-31. Figure 4 puts this into the perspective of housebuilding since 1947. It can be seen that for 50 years (the late 1950s to 2008) private sector building has (apart from brief periods in the mid-60s and mid-80s) been in the range 125-150,000 pa. Since 2008 private completions have been around 90,000 pa. There are good reasons for believing that this is symptomatic of lower effective demand, as it has persisted in spite of low interest rates and measures to support mortgage lending.
- 4.12 The periods of highest overall housing output were between 1950 and 1980, and depended upon very active programmes of social housing, mainly by local authorities (far from ‘crowding out’ private housing these went hand-in-hand). Large scale clearance programmes took place until the 1980s, reducing the overall housing gain; but these came to a close and since 2000 there has been a net gain from conversions and subdivisions of up to 20,000 pa over remaining clearance.
- 4.13 It is clear a realistic response to OAN, at whatever level is estimated, will require substantial programmes of subsidised housing. Planning obligations are under pressure, very little direct public housing provision is proposed, and Housing Associations and local authorities are to be required to dispose of their best quality stock.

**Figure 4: Housing provision (England, 1947-2014 and projected needs 2011-31)**



- 4.14 I have reviewed many SHMAs since the current PPG came into force (March 2014), and nearly all have proposed substantial increases over the DCLG household projections current at the time of their preparation, and the increase of over 50% in the present case is typical. The Oxfordshire SHMA proposed a 270% increase and Inspectors have obliged District Local Plans at subsequent PLIs to make provision accordingly.
- 4.15 There is clearly something seriously amiss if housing provision in Local Plans add up to much more than a national projection described as ‘statistically robust and [are] based on nationally consistent assumptions’. As has been pointed out in this Section a significant over-supply is not a ‘bonus’: it will not necessarily increase housing numbers; it is incompatible with the central NPPF commitment to sustainable development; and there are serious financial, social, economic and environmental costs.

4.16 A Freedom of Information request to DCLG seeking the cumulative effect of these ‘adjustments’ has been refused on the ground that the DCLG does not collect the figures. Given the stress placed by PPG upon national projections, and the importance of this information to the local response this borders upon irresponsibility.

**How robust is projected OAN?**

4.17 We have seen how major changes in the OAN have arisen from changes in the projection base in a single year. Although the 2011 Census was a key factor in this case, it is not the only reason for variability. European and global economic prospects remain as volatile as ever, and will continue to influence effective demand for housing, whatever happens at national level.

4.18 Allocation of land for housing is essentially a one-way process; once included in a development plan, there is no going back – only under-provision can be corrected later, by making further allocations if the projection turned out to be too low. If there was over-provision, either because the projection was too high, or because land came forward more quickly than expected, no corrective action is possible. As well as being more difficult to correct, the risks associated with over-provision of housing land are very much more serious than for under-provision, as summarised in Figure 5 below.

**Figure 5: Summary of risks of over- and under-provision of housing land<sup>5</sup>**

Risks of over-allocation	Risks of under-allocation
<ul style="list-style-type: none"> <li>• increased vacancy, concentrated in most marginal existing stock</li> <li>• accelerating decay and dereliction in the poorest neighbourhoods</li> <li>• removing decent entry point housing in all tenures by concentrating deprivation and low demand</li> <li>• unnecessary greenfield development, leading to increased travel demands and loss of countryside</li> <li>• inability to take corrective action</li> </ul>	<ul style="list-style-type: none"> <li>• reduction of land banks and less certainty about long-term pattern of development</li> <li>• higher land prices and increased pressure on marginal sites</li> <li>• possibility of ‘town cramming’</li> <li>• upward pressure on the price of new housing, especially in areas of high demand and high restraint</li> <li>• corrective action is possible</li> </ul>

4.19 While the projections cover a 20 year period, their effect is immediate. The housing land delivery mechanism set out in NPPF requires a 5-year supply at the rate implied by meeting ‘full, objectively assessed needs’. Increasing the annual rate means that Districts may be in the position of not meeting this criterion, and therefore faced with the choice of either:

- a) Accelerating adoption of Local Plans which include such provision (the government’s aim); or
- b) Losing appeals against refusal of planning permissions for housing.

**Compliance with NPPF**

4.20 The overriding directive of NPPF is the promotion of sustainable development. As noted earlier (para **Error! Reference source not found.2**) the mutual dependence of economic, social and environmental gains requires that they are sought jointly and simultaneously through the planning system. In Section 3 of this report, the SHMA was shown not to be compliant with PPG. In this Section it has been shown that an unrealistic OAN, lacking a credible mechanism for delivery of its social housing component, means that the SHMA pre-empts the ability of Local Plans in the HMA to meet this central NPPF requirement as well.

<sup>5</sup> A Wenban-Smith (2002) ‘A better future for development plans: making ‘plan, monitor and manage’ work’, Planning Theory and Practice Volume 3 No1, pp 33-51