H4N Standard Method Impact

The Impact of the Standard Method on Local Housing Need

Homes for the North

July 2020

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1.0 Executive Summary

1.1 The Standard Method (SM) was first proposed in the Government's Planning for the Right Homes in the Right Places in September 2017 and was adopted into the revised NPPF in July 2018. The intention was that the method would simplify the process of identifying local housing requirements in a transparent way which would speed up the plan-making process and help to significantly boost the supply of housing across England.

1.2 Lichfields on behalf of Homes for the North have undertaken a review of local plans from Local Planning Authorities (LPAs) across the North to understand how the number of homes being planned for has changed since the SM was first proposed.

1.3 Based on this review, the number of homes being planned for across the North decreased by approximately 4,380 homes per annum between September 2017 and March 2020, a decrease of 7.7%. This equates to a decrease of 65,700 fewer homes over a typical Local Plan period of 15 years. Whilst some LPAs specifically referred to the SM as the reason for reducing their requirement, many did not. However, it is clear that in many cases, including where the SM was not used, that the use of the population projections as the basis for establishing a housing requirement (consistent with the approach of the SM) was a key factor in reducing the requirement.

1.4 This reduction contributes to the failure of the SM to achieve the Government's aim of delivering 300,000 homes each year and could result in approximately 844 fewer affordable dwellings being delivered every year.

1.5 The reduction of 4,380 homes per annum would have an adverse impact on the North's economy, including:

- £0.6 billion less spent in the construction industry;
- Over 10,000 fewer direct jobs in construction and a further 15,260 indirect and induced jobs;
- £1.5 billion lost to the economy each year from less construction activity; and
- £6.1 million per year lost to LPAs thought Council Tax; and
- £24.3 million lost over 4 years to LPAs through New Homes Bonus.

1.6 In light of the adverse impacts the current SM has had on the number of homes planned for across the North, Lichfields has identified a number of factors which should be considered in respect of the SM. These include:

- Thorough testing is crucial – any future amendments to the SM should be tested to ensure a national figure of 300,000 new homes per annum is reached but also to ensure there is no adverse impact to housing numbers across any region;
- Population or household projections are not an appropriate basis for planning for the future – these are based on past trends which bake-in suppressed rates of household formation experienced during the recession. Using these projections projects forward these trends, which disproportionately impacted the North, perpetuating past under delivery and exacerbating the current housing crisis;
- Identifying the number of homes required across England is not simplistic – whilst the SM is more transparent and simpler to understand, past approaches to calculating local housing need enabled corrections to be applied locally to address the adverse impact of using the household projections, resulting in more robust and appropriate housing figures being reached;

- Affordability is not the only factor influencing future housing need – focusing on affordability might direct more housing to areas of market pressure but also results in only a modest uplift in the North and fails to recognise other factors underpinning increased housing need, such as poor quality or choice of housing stock; and
- Uplift beyond the SM should not be optional – although Planning Practice Guidance states that there are circumstances where the housing need might be considered higher than the SM, there is no requirement to do this, particularly in the context of aligning housing need with economic aspirations which is crucial across the North. There is a risk that LPAs will not deliver sufficient housing to attract and retain working age people and will be unable to fulfil their economic potential, jeopardising the Government's aspiration to level up the country.

2.0 Introduction

2.1 Homes for the North (H4N) is an alliance of seventeen large housing associations who want to ensure enough homes are delivered across the North of England to support its sustainable growth in a rebalanced economy. H4N collectively provide around 450,000 homes for almost 1 million people in the North of England.

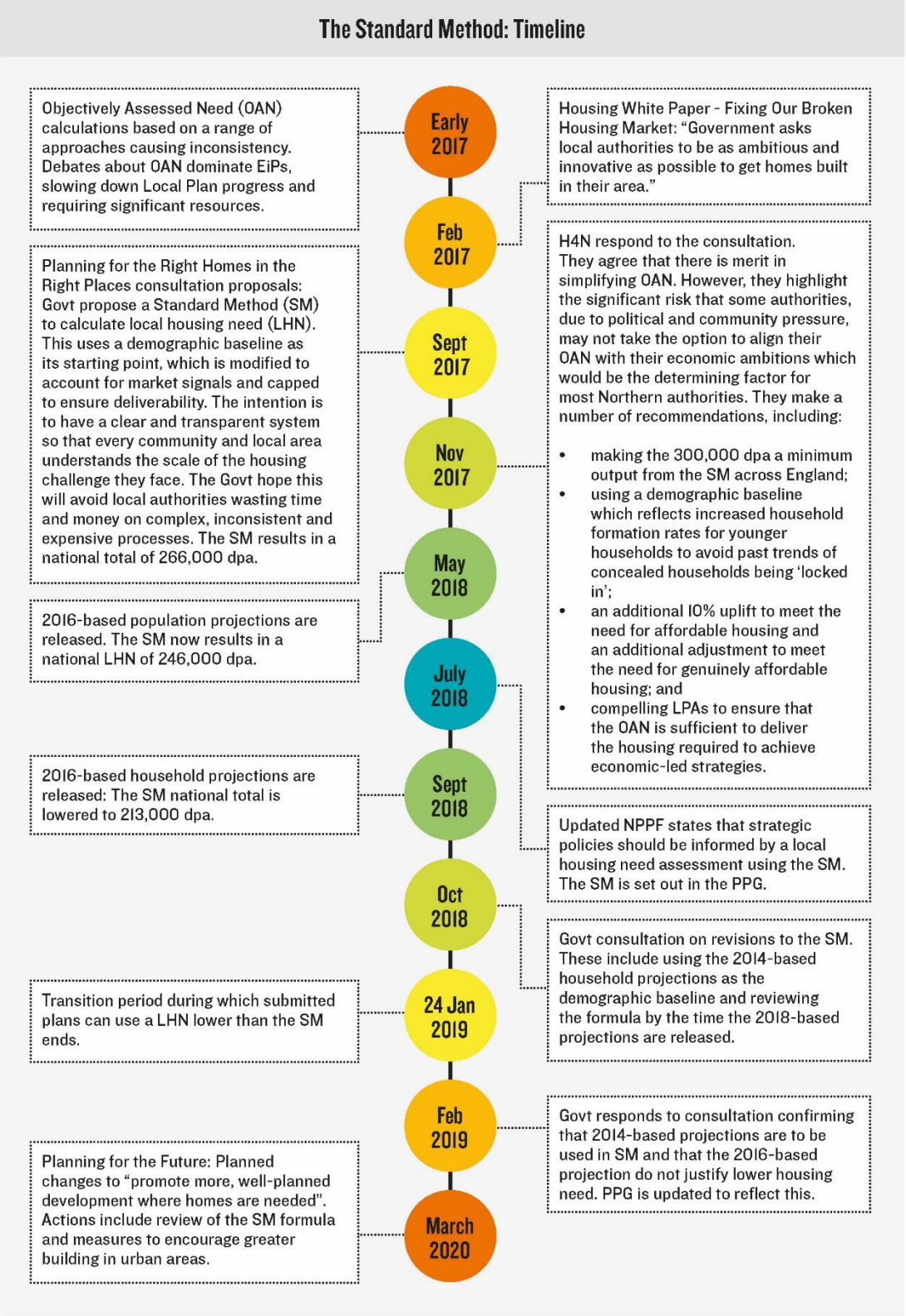
2.2 The aim of this study was to provide H4N with a broad understanding of how the number of houses Local Planning Authorities are planning for across the North has changed since the Standard Method (SM) was first proposed. The methodology was proposed in the Government's *Planning for the right homes in the right places: consultation proposals*[1] in September 2017, and subsequently incorporated into the revisions to the National Planning Policy Framework (NPPF) in February 2019. The study also examines the economic implications of Local Planning Authorities (LPA) using the approach when identifying how much housing to plan for.

2.3 Lastly, we identify lessons to be learned which should be considered at any future opportunity to revise the SM in order to ensure any amendments made to the method do not adversely impact future housing delivery in the North.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652888/Planning_for_Homes_Consultation_Document.pdf

3.0 Context

The Standard Method: Timeline



4.0 Policy Review

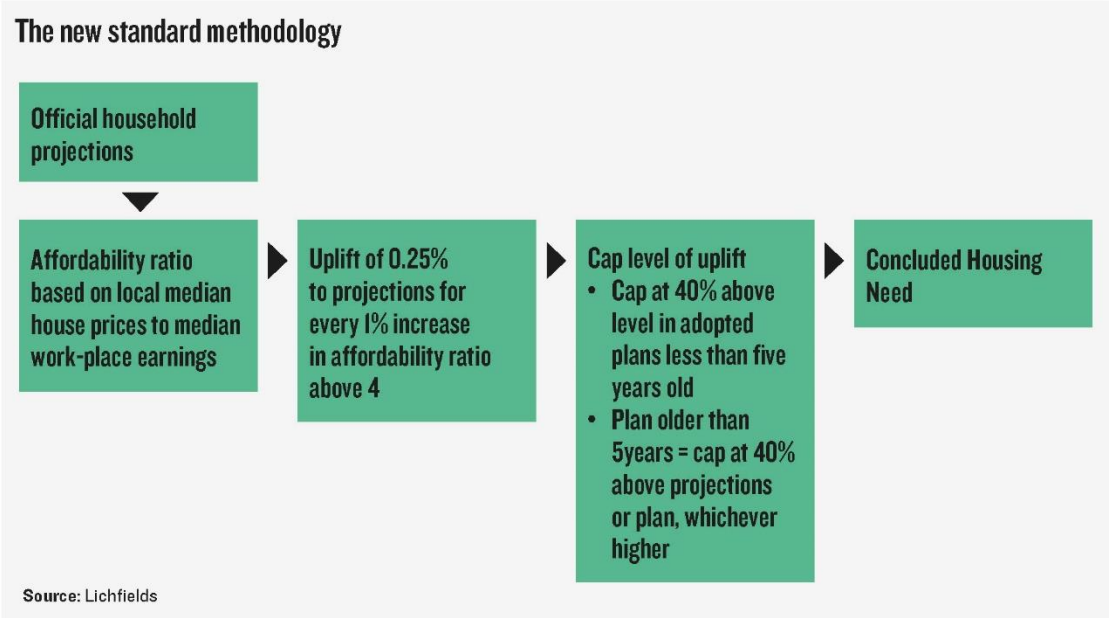
National Planning Policy Framework

4.1 The revised National Planning Policy Framework was published in February 2019. The Framework maintains the Government's objective of significantly boosting the supply of homes and ensuring that a sufficient amount and variety of land can come forward where it is needed (paragraph 59). At paragraph 60 it states that to determine the minimum number of homes needed, strategic policies should be informed by a local housing need assessment, conducted using the SM unless exceptional circumstances justify using an alternative approach which also reflects current and future demographic trends and market signals.

Planning Practice Guidance

4.2 The Planning Practice Guidance on housing needs was updated in February 2019. It sets out that the SM uses a formula to identify the minimum number of homes expected to be planned for, in a way which addresses projected household growth and historic under-supply[2]. It also highlights that there is an expectation that the SM will be used and that any other method will be used only in exceptional circumstances[3].

4.3 The PPG sets out how housing need is to be calculated using the SM, as shown below.



Planning for the Future

4.4 The Government published 'Planning for the Future' in March 2020. The document sets out the Government's plans for housing and planning following the announcements set out in the 2020 Budget. A number of potential reforms are outlined to encourage LPAs to take a more proactive approach to increasing home building across the country, in advance of the publication of a planning policy paper later in 2020[4].

[2] PPG: ID: 2a-002-20190220
[3] PPG: ID: 2a-003-20190220
[4] It is anticipated that this has been delayed due to the Covid-19 crisis

4.5 'Planning for the Future' highlights the Government's aim to promote more well-planned development where homes are needed. It is acknowledged that 241,000 homes were delivered last year which is more than at any point in the last 30 years and the proportion of young homeowners increased after declining for more than a decade. However, it is also noted that:

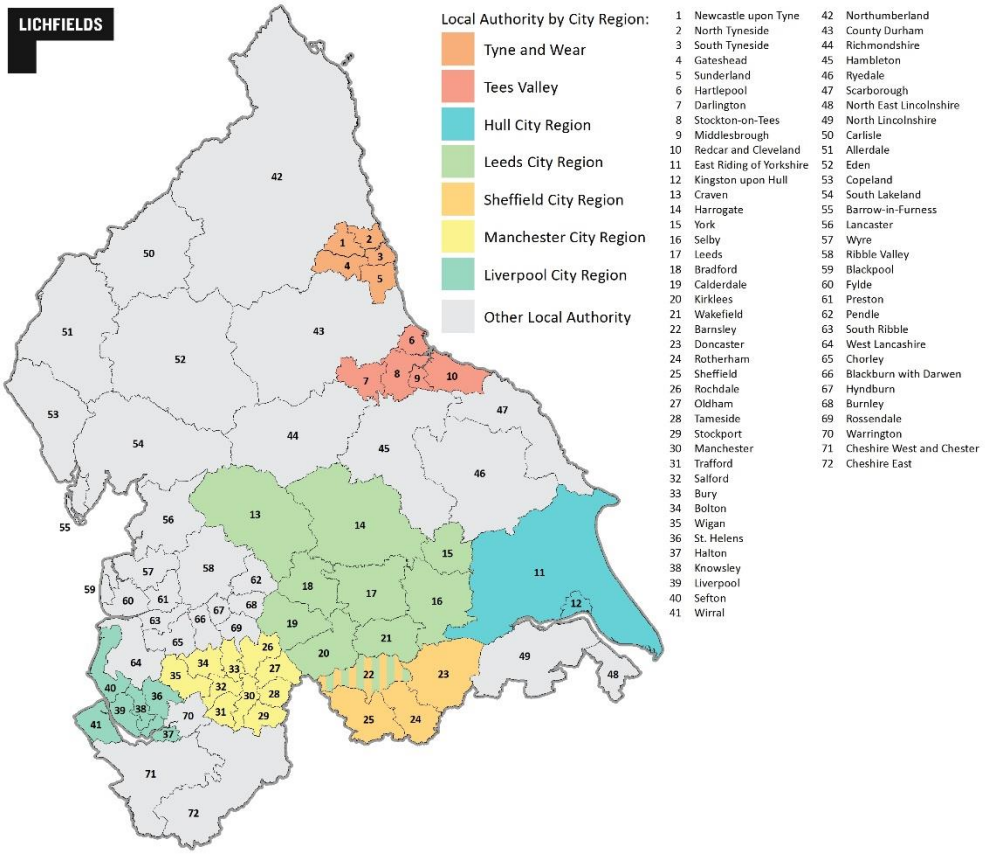
"*for many…. home ownership seems like a dream that is increasingly out of reach*" (paragraph 2).

4.6 At paragraph 10 the document states that this will involve reviewing the formula for calculating LHN and introducing a new approach which encourages greater building within and near to urban areas and makes sure the country is planning for the delivery of at least 300,000 new homes a year. The document also highlights at paragraph 23, the Government's commitment to ensuring affordable, safe, quality housing is available for all as part of its mission to level up, unite and unleash the potential of the country. 'Levelling up' and addressing the economic and social disparities between various parts of the United Kingdom is a key thread running through the Conservative Party's manifesto. The revisions to the planning system and in particular the Standard Method provide an obvious opportunity to achieve a more even approach and enable areas to 'catch up' with more prosperous parts of the country.

5.0 Research Methodology

5.1 The analysis contained in this study is focused on the 72 Local Planning Authorities (LPA) across the North of England. Defined for the purposes of this study as; the North East, North West and Yorkshire and Humber.

Figure 5.1 LPAs in the North East, North West and Yorkshire and Humber



Source: Lichfields

5.2 Lichfields was appointed by H4N to undertake the following distinct elements of work:

1 Identify the change in the number of homes LPAs are planning for across the North since the SM was first proposed;

2 Identify the impact that changing this number of homes has had on planned affordable housing provision;

3 Identify the economic impact resulting from the change to housing figures across the North, with regard to direct and indirect/induced employment, GVA and fiscal benefits to LPAs.

1. Identifying the change in Local Housing Needs across the North

5.3 In order to identify how the number of homes LPAs are planning for has changed since the SM was first proposed, Lichfields collected data from the most up to date Local Plans across all

Northern LPAs as of September 2017, when the SM was first proposed[5]. The data was obtained from Local Plan documents that were publicly available as of March 2020. Plans at various stages were used, reflecting the different points LPAs are at in the plan-making process at that time. These included:

- Adopted Development Plans;
- Emerging Development Plans at all stages (Issues and Options, Preferred Options, Publication (Regulation 18) and Submission Drafts (Regulation 19));
- Main Modification Documents[6]; and
- Inspector's Reports on Local Plan Examinations

5.4 Evidence base documents, such as Strategic Housing Market Assessments (SHMAs) and Housing Strategies have not been used. Although a valuable source of evidence in identifying future levels of housing need in an area, these documents often present a range of scenarios; from a minimum demographic baseline scenario to scenarios driven by achieving a particular level of future economic growth. These studies often conclude that the decision regarding future housing is for the Local Plan and rests with the LPA to identify through consideration of its alignment with other strategic policy drivers. As a consequence of this uncertainty, Lichfields has not included data from these studies within the data collected for this research.

5.5 For each LPA, Lichfields recorded an annualised housing requirement, either identified explicitly within a specific policy in the Local Plan or calculated from the overall net housing requirement and the length of plan period. In cases where the LPA has revised the number of homes it is planning to deliver each year during the plan period, as a result of delivery during the early part of the plan period, the new figure has been used. It was assumed that each LPA is planning to deliver the identified figure within their boundary and unmet need from neighbouring LPAs was not considered. Where plans present a range of possible housing requirements (typically plans at Issues and Options stage), the median value has been used in the calculations.

5.6 The data collection was then repeated using the most recently published version (as of March 2020) for each LPA. Any justification provided for how the number of homes the LPA is planning for has been calculated was recorded. This provides an overview of how the housing requirement has changed since the SM was proposed and what has underpinned the LPAs decision making process. Following data collection, the overall change in the requirements across the North between 2017 and 2020 was calculated.

5.7 The SM LHN was also calculated for each LPA, using the approach set out in PPG. This is based on the projected average annual household growth between 2020 and 2030 and using 2019 median workplace-based affordability ratios[7] to calculate the affordability adjustment.

5.8 It is important to note that the SM represents a stepped requirement and changes each year as the ten-year projection period shifts and affordability data is updated. As a result, there is likely to be a small degree of discrepancy between the SM figure presented here and that which is identified in some Local Plans, depending on exactly when the plan was prepared.

[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/652888/Planning_for_Homes_Consultation_Document.pdf

[6] Calderdale's figure is in their housing requirement update document created specifically because the Local Plan Inspector requested a review of their LHN to align it with their economic growth aspirations.

[7] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ratioofhousepricetoworkplacebasedearningslowerquartileandmedian

2. Identifying the impact of changing Local Housing Needs on affordable housing provision

5.9 Lichfields also sought to understand the impact that changing levels of housing provision across the North could have on levels of affordable housing delivery. To do this, the most up to date draft of each local plan was reviewed to identify the affordable housing policy requirement. Where the most recent draft plan did not include an affordable housing policy, (for example where plans were at Site Allocation stage), the affordable housing policy from the previous version of the plan was used.

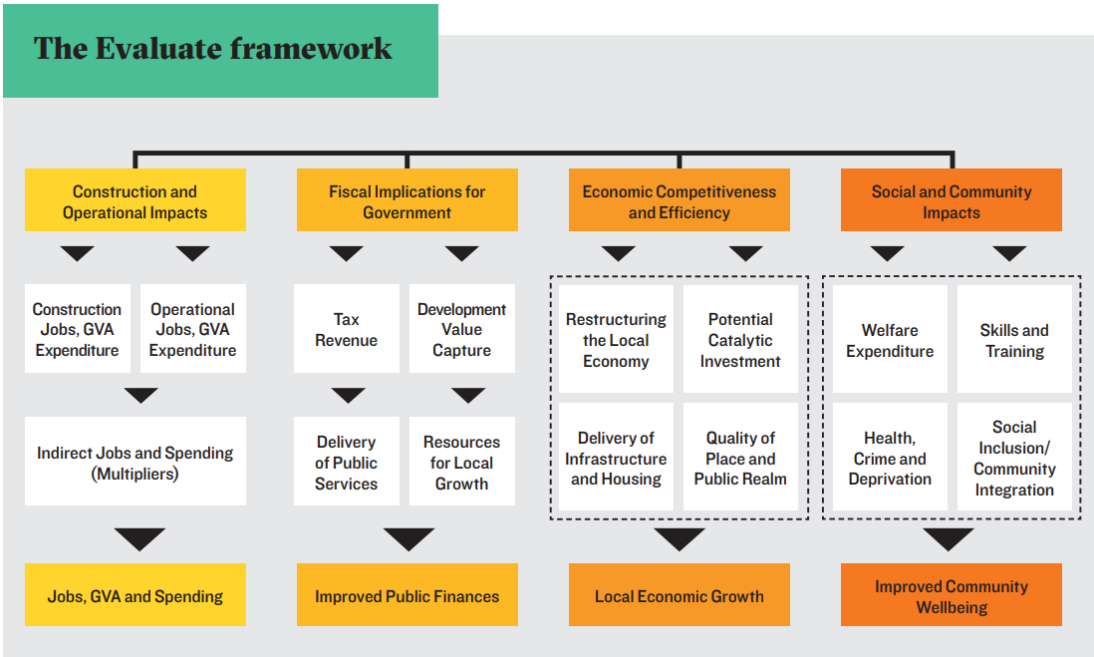
5.10 They way in which Local Plan policies express affordable housing requirements varies considerably; from a single percentage requirement across all major development sites to a range of requirements dependent on market strength or the use of various geographical sub-areas.

5.11 In order to estimate the impact the reduction in the amount of housing being planned for across the North could have on affordable housing provision, these different approaches have been reconciled. Where the percentage contribution of affordable housing is expressed as a range, Lichfields used the mid-point of this range in the calculations. In cases where an affordable housing requirement was not stated within the policy, a 10% contribution was assumed in broad alignment with the NPPF (Paragraph 64).

5.12 The Greater Manchester LPAs were excluded from this part of the analysis as their requirement for 50,000 affordable homes between 2018 and 2037 is not based on the overall housing requirement.

3. Identifying the economic impact resulting from the change to Local Housing Needs

5.13 In order to quantify the opportunity cost of delivering fewer homes across the North, Lichfields has utilised its economic impact ('Evaluate') framework. Evaluate provides an analytical framework for assessing the economic impacts associated with new development. In this context, the framework has been applied to determine the economic effects that would be missed as a result of the reduction in the levels of housing delivery being planned for. The Evaluate methodology is illustrated in the following graphic:



5.14 Reflecting the wide geography that this analysis covers, the economic opportunity costs have been calculated for each of the three northern regions separately before aggregating to provide an overall cost to the North. The scale and type of economic opportunity costs have been determined by the scale of:

- lost capital investment in the North which is estimated on the basis of BCIS data[8];
- lost direct construction industry employment – determined by the scale of capital investment foregone - in addition to indirect and induced employment effects in the supply chain and related services;
- lost construction industry economic output (as measured by Gross Value Added);
- lost resident expenditure in local shops and services as well as the employment supported by that spend; and
- lost revenue to local authorities in the form of Council Tax and New Homes Bonus payments.

5.15 The analysis focuses on the economic opportunity cost associated with the total annual housing delivery being planned for in 2020 compared with the equivalent 2017 figure. It therefore only takes account of the economic cost associated with one year of housing delivery and it is important to recognise that some of the ongoing economic costs/lost benefits (such as resident expenditure and Council Tax) will be compounded with each year of reduced housing delivery.

[8] Building Cost Information Service 2019, 36th Edition

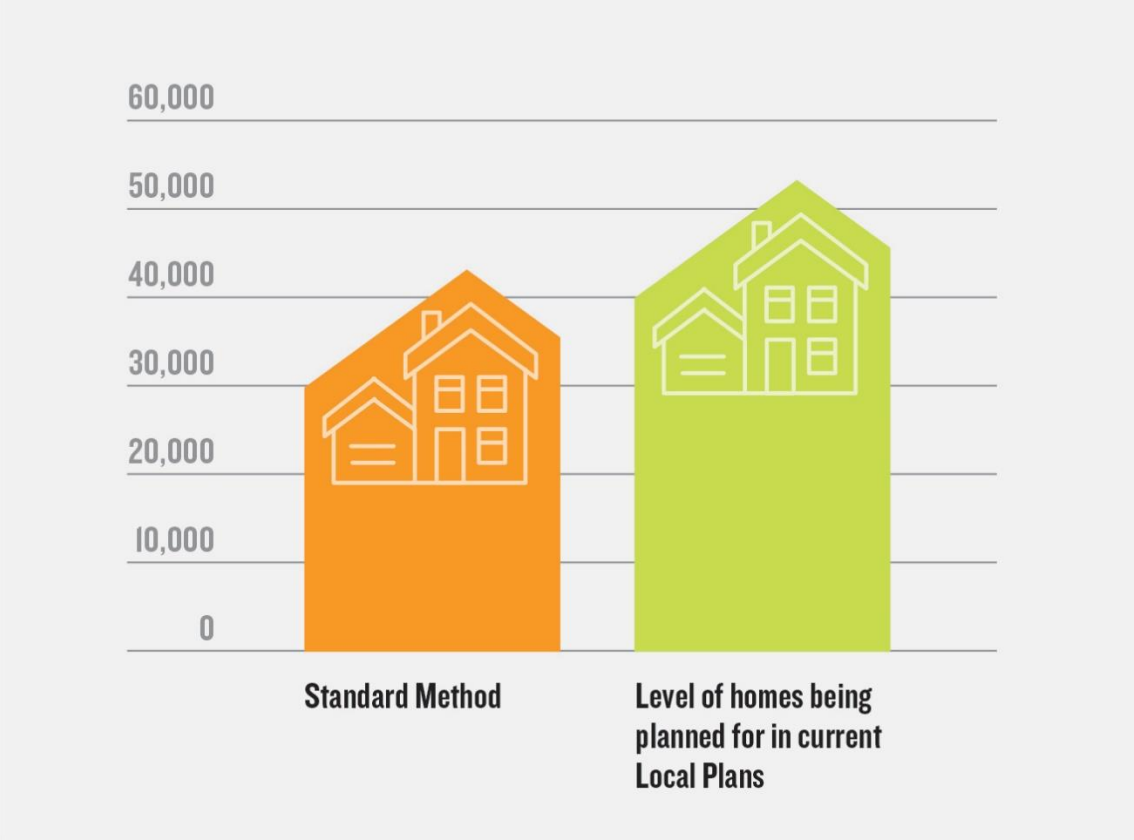
6.0 Changing Housing Requirements

Change in the amount of housing required in Local Plans

6.1 Based on the most recently published or adopted Local Plans across the 72 LPAs in the North, housing requirements seek to deliver at least c. 52,100 dwellings per annum (dpa). This is c. 4,380 lower – or a decrease of 7.7% - than in 2017.

6.2 Despite housing requirements in 2020 being lower than in 2017, the overall figure remains significantly higher than if the SM had been used throughout. Currently, the SM results in a housing need of c. 43,200 dwellings per annum across the North[9], c. 8,900 dpa below the figure identified in current and emerging plans.

Figure 6.1 Comparison of future level of homes being planned for across the North compared to the SM LHN requirement



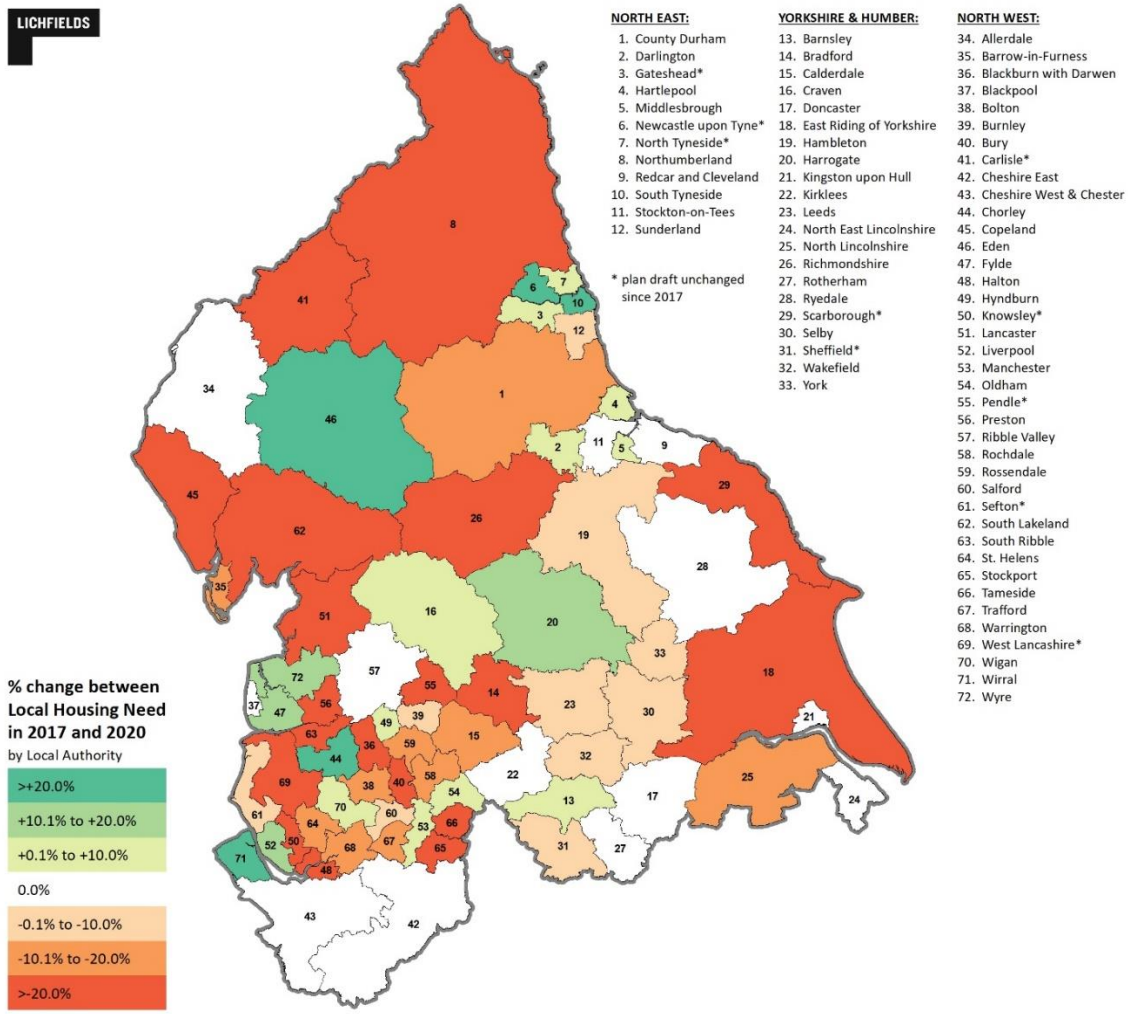
Source: Lichfields

6.3 Ten LPAs across the North have plans which have not progressed since 2017. If those plans, when progressed, identify housing requirements aligned with the SM, the overall level of housing being planned for in the North would decrease by a further 940 dpa.

6.4 Figure 6.2 shows that there is no clear spatial pattern in how the number of homes being planned for has changed between 2017 and 2020. LPAs where identified housing requirements have decreased since 2017 are shown in red; those where requirements have increased are shown in green. Where a plan has progressed but the requirement has not changed, the LPA is shown in white. Where local plans have not progressed since 2017, it is assumed that the 2020 plan will use the SM.

[9] Based on 2014-based SNHP over the period 2020 to 2030 and using median workplace-based affordability ratios from 2019.

Figure 6.2 Comparison of number of homes planned for from 2017 to 2020



Source: Lichfields analysis

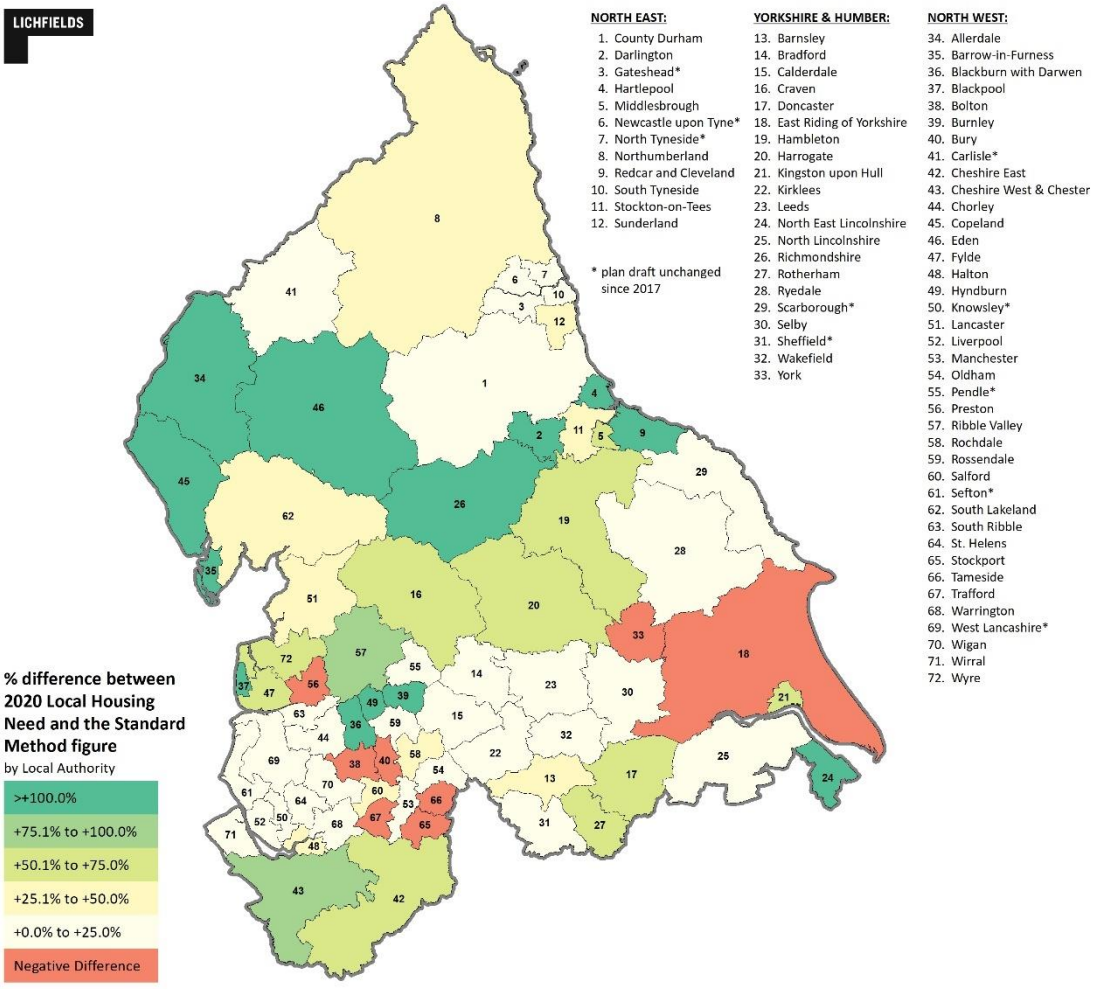
6.5 Figure 6.3 shows that the majority of LPAs have housing requirements which exceed their SM figure. It is assumed that where a local plan has not progressed since 2017 (such as Gateshead and Newcastle where the Core Strategy was adopted in 2015) future local plans will use the SM. In some LPAs, the number of homes planned for in emerging plans is less than the SM figure. These include:

- York – Local Plan submitted in May 2018, prior to the January 2019 deadline after which plans were required to use the SM as a minimum LHN. The Main Modifications (published in June 2019) identify a minimum annual provision of 790 new dwellings compared to the current SM figure of 1,026 dpa;
- Bolton, Bury, Stockport, Tameside and Trafford – The Greater Manchester Spatial Framework uses the SM to calculate the housing requirement across all 10 Greater Manchester LPAs (identified as 10,580 dpa in the 2019 draft plan). However, the proportion assigned to each LPA has been adjusted to support higher levels of new housing in the Northern districts of the GMSF to achieve balanced growth and support local economies; and

- East Riding of Yorkshire – the Local Plan Review Options document identifies a range of housing requirements, which include continuing the current local plan approach of considering the requirement across the Hull Housing Market Area and supporting the development of Hull by allocating more of the HMA's requirement to the city. The range of options results in a median value of 706 dpa, compared to a current SM figure of 908 dpa.

6.6 Although Preston also appears to have a requirement below the SM in Figure 6.3, this reflects the fact that the Central Lancashire Local Plan Issues and Options was published in 2019, when the SM for Preston was lower (at 241 dpa) than is now the case (251 dpa).

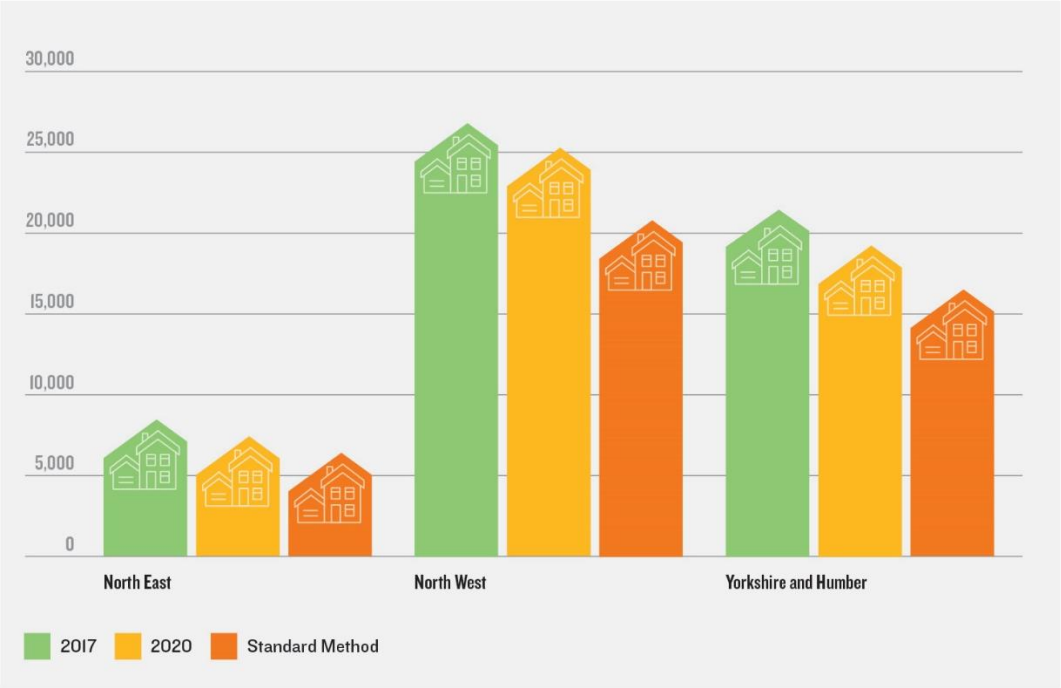
Figure 6.3 Comparison of number of homes planned for in 2020 and Standard Method



Source: Lichfields analysis

6.7 As shown by Figure 6.4 each region has seen a decline in the level of housing being planned for since 2017. As set out in Table 6.1, Yorkshire and the Humber has seen the greatest decrease (-10%), whilst the North West has seen a comparatively small decrease proportionally (-6.1%) but a large decrease in absolute numbers (-1,640). Previous housing delivery levels (based on the annual average set out in the 2019 Housing Delivery Test measurement) in the North East and North West are both significantly higher than both the number of houses planned for in 2020 and the SM figure. In Yorkshire and Humber, past delivery levels are broadly comparable to the current number of homes planned but remain significantly higher than the SM.

Figure 6.4 Comparison of housing requirements from 2017 to 2020



Source: Lichfields analysis

Table 6.1 Comparison of 2017 and 2020 housing requirements by region

	2017 Requirement (dpa)	2020 Requirement (dpa)	Difference	% Difference
North East	8,090	7,520	-570	-7.0%
North West	26,780	25,140	-1,640	-6.1%
Yorkshire and the Humber	21,600	19,430	-2,170	-10.0%
Total	56,470	52,090	-4,380	-7.7%

Source: Lichfields analysis - figures may not sum due to rounding

6.8 As shown in Table 6.2, of the plans that have progressed;

- Over half (52%) have reduced the number of homes planned for;
- 21% have maintained the level of housing being planned for; and
- 27% have increased the number of homes they plan to deliver.

6.9 The magnitude of change between 2017 and 2020 varies significantly between LPAs. The change can sometimes be a consequence of minor changes in recalculating the overall level of future housing as the length or timing of the plan period changes. In three of the 17 cases where the number of homes planned has increased since 2017, and in one of the 32 cases where the housing figure has decreased, this is by less than 10 dpa.

Table 6.2 Local Plan housing requirement change by region

	North East	North West	Yorkshire and Humber	Total
Total LPAs	12	39	21	72
Plans not progressed	3	5	2	10
Of plans progressed:				
Decreased	3 (33%)	19 (56%)	10 (53%)	32 (52%)
Unchanged	2 (22%)	5 (15%)	6 (32%)	13 (21%)
Increased	4 (44%)	10 (29%)	3 (16%)	17 (27%)

Source: Lichfields analysis - figures may not sum due to rounding

6.10 However, it is important to note that the number of homes planned for by LPAs is influenced by a number of factors. The introduction of the SM may not be the only factor which has driven the reduction in the housing requirement between 2017 and 2020. These factors may include:

- The publication of revised population and household projections used to calculate future housing need (where the SM has not been used);
- Changing economic growth aspirations and trends (for instance the impact of Brexit) and therefore the alignment between future economic and housing needs, if this is an important factor for the LPA; and
- Past housing delivery rates -where the housing requirement has not been met during the first part of the plan period and therefore has been adjusted for the remainder of the plan period.

The Impact of the Standard Method

6.11 Even where the SM has been used, because the methodology uses a 10 year annual average figure for household growth to calculate the baseline at the time of calculation, the figure produced varies year on year. This is compounded by the affordability uplift, which uses data that is also updated annually. As such, the SM figure is dependent on the exact timing at which it is calculated and may change as drafts of the plan progress if plan-making progress is slow.

6.12 To gain a better understanding of how many LPAs are choosing to use the SM to underpin housing requirements, Lichfields analysed the LPAs that have submitted a plan for examination or have published a draft plan since the SM became part of planning policy in the NPPF in July 2018.

6.13 Table 6.3 identifies the reasons set out in the plans submitted or published under the new NPPF (2018) used to justify housing requirements. The SM has been used to identify the number of homes planned for in 18 LPAs (including 10 LPAs covered by the GMSF, which uses the SM for its overall housing figure and three in Central Lancashire which only present the SM figure in their Issues and Options document).

6.14 From this analysis, it is clear that the SM has become a significant factor for LPAs when identifying future housing requirements. It is likely that, as more plans reach their 5-year review

date, more LPAs will use the SM to establish their housing requirement, in alignment with the NPPF and PPG. This is likely to reduce the overall figure for the North still further.

Table 6.3 Identified reasons underpinning housing requirements in plans submitted/published drafts since July 2018

	North East	North West	Yorkshire and Humber	Total
LPAs with progressed plans	4	27	11	41
Standard Method used	1	15*	2	18*
Standard Method plus uplift for past delivery	1	0	0	1
Based on economic growth scenario	2	6	5	13
Range including Standard Method to economic growth scenarios	0	2	3	5
Carried over from Local Plan Part 1	0	3	1	4

Source: Lichfields analysis

*including the 10 GMSF LPAs which total to the SM across the plan area

6.15 County Durham state that they have used the SM, with a moderate uplift to reflect past housing delivery rates. 13 LPAs state that the housing requirement reflects the level of housing needed to support their economic growth aspirations. Five LPAs present a range of figures for the number of homes planned, of which the SM represents the lower end of the range, with economic growth scenarios used to identify the upper figure.

Affordable Housing Decrease

6.16 It is possible to estimate the impact the reduction in housing requirements is having on affordable housing provision. The reduction in housing requirements could result in a decrease of 844 affordable homes per annum across the North. This figure does not include any change to affordable housing within Greater Manchester as the GMSF requirement of 50,000 affordable homes between 2018 and 2037 is not based on the identified housing requirement.

6.17 Since this calculation is based on the change in housing requirements for each LPA, it is unsurprising that the largest decreases in affordable housing provision are found in the LPAs that have reduced their housing requirements most significantly.

Economic Impacts

6.18 The following points summarise the opportunity cost derived from the reduced construction activity associated with the delivery of 4,380 fewer homes each year:

- Capital investment (construction value) of close to £0.6 billion;
- 10,110 direct FTE construction jobs per annum and a further 15,260 indirect and induced FTE jobs in the supply chain and related services per annum; and
- Economic output (as measured by Gross Value Added) of approximately £1.5 billion per annum.

6.19 Additionally, the opportunity cost associated with reduced resident expenditure and local authority revenue is summarised below:

- First occupation expenditure of £24.1 million;
- Ongoing net additional resident expenditure of £62.6 million per annum;
- 980 FTE jobs supported in local shops and services as a result of resident expenditure; and
- Council Tax receipts of £6.1 million per annum and New Homes Bonus payments of £24.3 million over a 4 year period (contingent on local authorities delivering housing growth above the 0.4% threshold).

6.20 Since ongoing resident expenditure and Council Tax payments will accrue on an annual basis, it is important to recognise that these economic costs/lost benefits will be compounded with each year of reduced housing delivery.

7.0 Conclusions

7.1 The SM was introduced to simplify the approach to identifying the amount of housing needed in each LPA and to reduce the time spent during Local Plan Examinations debating the minutia of inputs into demographic modelling – often termed 'black boxes'. In this respect, it has clearly been a success in simplifying the process as it clearly establishes a baseline figure for each LPA and in most cases EIP sessions regarding housing needs have been far less technical than they would have been.

7.2 However, even when it was initially proposed, it was quickly pointed out that the national total for LHN calculated using the SM fell significantly short of the Government's target of delivering 300,000 new homes per year by the mid-2020s. It was also noted that its reliance on population projections and an affordability multiplier with an uplift to meet economic aspirations only an option meant that for many northern authorities the SM would result in a reduction in the housing requirement in Local Plans, below the figure previously identified by the LPA.

7.3 This report has assessed the extent to which this has occurred in the time since the introduction of the SM and the impact it has had in relation to the economy and affordable housing provision. The total reduction in the housing requirement set by LPAs across the North is 4,380 per annum. Over a typical Local Plan period of 15 years this equates to 65,700 homes. This excludes ten authorities which have not progressed their Plans. If they were to use the base SM figure it would take the overall reduction to 5,320 or 79,800 over 15 years. As more Plans progress under the SM it is likely the reduction will continue to increase. Whilst some LPAs specifically referred to the SM as the reason for reducing their requirement, many did not. However, it is clear that in those cases the use of the population projections as the basis for establishing a housing requirement (consistent with the approach of the SM) was the key factor in reducing the requirement.

7.4 The reduction identified in this research has had crucial consequences:

- The significant reduction in housing requirements in the North has contributed to the failure to achieve the national target of 300,000 homes per year.
- Affordable housing delivery will reduce by 844 homes per year (excluding the Greater Manchester LPAs) or 12,660 homes over 15 years. Failure to deliver these affordable homes will have significant social impacts as local people are unable to find suitable accommodation resulting in forced migration, living in overcrowded or poor-quality accommodation or unsecure accommodation in the private rented sector.
- The Northern economy will suffer in a variety of ways. There will be £0.6 billion less spent in the construction industry, over 10,000 fewer direct jobs in construction and a further 15,260 indirect and induced jobs, £1.5 billion lost to the economy each year and £6.1 million per year and £24.3 million over 4 years lost to LPAs through Council Tax and New Homes Bonus respectively. Given the well-established existing economic problems, the North can ill afford to miss out on these job creation opportunities and the expenditure.

7.5 It is clear that far from levelling up the country, the SM is making a significant contribution to doing the exact opposite – it is exacerbating existing social and economic problems in the North. Moreover, this research has identified the emerging trends resulting from the introduction of the SM. As it becomes more widely adopted in more Local Plans the situation will continue and worsen. It is clear that urgent action is required to address the fundamental problems with the SM.

7.6 The Government has recognised the problems and issues associated with the SM. 'Planning for the Future 'published following the Budget in March 2020, set out the Government's aim to review the SM formula to ensure the method upon which future housing need is identified:

1 Encourages greater building within and near to urban areas; and

2 Supports the delivery of 300,000 new homes per year.

7.7 In light of this, Lichfields has identified the elements of the current SM that are most likely to have led to the problems we have analysed.

7.8 The SM needs to be transformed from being part of the problem to become a major part of the solution. However, the challenge is to address the apparent inherent conflict between a method that is standardised yet addresses the huge variety of economic and social landscapes in England. The first step is to identify those aspects of the current SM that have led to the problems in the North that are uncovered in this report. The following sections identify the lessons that can be learned and should be considered at the next opportunity to revise the formula, as the Government indicated is likely to be the case when the planning policy paper is published later this year.

8.0 Limitations of the SM and Lessons Learned

8.1 Both this analysis and previous work undertaken by Lichfields has enabled the identification of specific problems with the way in which the SM was created and operates.

Thorough Testing is Crucial

8.2 Whilst the problems with the SM were predicted they were clearly not intended. In hindsight it is evident that the SM was not adequately tested. A robust programme of testing and comparisons with pre-SM LPA housing requirements would have identified the significant negative impact it has had in the North. It is crucial that when revising the SM the alternative approaches are thoroughly tested to avoid any further negative impacts for the North. Simple sense-checks could be used such as ensuring that the total results in at least 300,000 homes per annum and that the overall figure for the North increases.

Don't Use Population or Household Projections to Establish a Baseline

8.3 The SM uses the 2014-based household projections to set the baseline for the calculation. The projections are used to calculate the projected average annual household growth over a ten-year period.

8.4 Demographic projections project forwards historic trends which are heavily influenced by historic trends in household formation which themselves are influenced by delivery rates. It is well known that housebuilding fell to its lowest level following the recession in 2007 and this, together with access to mortgage finance, slowed household formation rates amongst young adults. By projecting forward past trends in this way, there is a risk of 'baking in' trends which are not reflective of future 'need' but simply an illustration of what the number would be based on these (now unfavourable) past trends. Household projections do not attempt to predict the impact of future government or local authority policies, changing economic circumstances or other factors that may influence demographic behaviour. As such, they do not accurately reflect actual housing need in areas where household formation has been supressed. Such areas include much of the North, where the recession had a particularly significant impact.

8.5 Reliance on household projections based on historic trends to set the baseline upon which any uplift is added, disproportionately impacts the North by perpetuating unfavourable past trends and preventing the North from recovering and reaching its economic potential. It is critical that a different baseline is used to enable the North to close the economic and social gaps with other parts of the country, in line with the Government's levelling up agenda.

Don't Over Simplify

8.6 The SM was introduced for good reason. Previous approaches to calculating housing needs had become extremely complicated as various factors were taken into account and adjusted to varying degrees. This was necessary to correct the unhelpful historic trends set by the household projections referred to above and to reflect local circumstances.

8.7 However, it was widely acknowledged that this had led to a very complicated and cumbersome process that was difficult for non-experts to understand, time consuming to prepare and debate through the Local Plan preparation process and expensive to employ the necessary experts to calculate and debate the need figure.

8.8 The SM focused on achieving an extremely simple calculation with very few variables and total transparency to ensure it was understandable and that the inputs were clear. However, in doing

so, the basic inadequacy of using the household projections as a base was exposed and exacerbated without correction and the crucial subtleties that apply at a local level were lost. The previous approach had become complicated for very good reasons and whilst this brought problems it resulted in more robust and appropriate outputs than the SM in most cases. There could be scope to return to the previous approach but establish more fixed positions on the inputs, whilst still allowing debate about local adjustments through the Local Plan preparation process.

Don't Focus Solely on an Uplift for Affordability

8.9 In its current form, the SM applies an adjustment to take account of affordability, using median workplace-based affordability ratios. Each 1% increase in the ratio of house prices to earnings above 4 results in a quarter of a per cent increase in the need above projected household growth. No adjustment is applied where the ratio is 4 or less, albeit this only applies to 3 of the 72 Northern LPAs (Barrow-in-Furness, Copeland and Hyndburn).

8.10 An uplift for affordability is incorporated into the SM in order to reflect the areas of greatest market pressure. Whilst this contributes to raising the identified local housing need in areas with particularly high affordability issues at a national level, this adjustment fails to recognise that there can be many other reasons behind the need for increased housing delivery at a local level. In the North these include the need to increase the choice of homes across some areas, particularly to ensure the supply of new homes supports economic aspirations. The reliance solely on an uplift for affordability results in a modest and ultimately inadequate increase to the housing need identified by the SM in the North, where affordability ratios are typically lower at the LPA level than in the South.

8.11 Additionally, applying an uplift based on affordability ratios at an LPA level across the North masks more localised affordability issues and does not account for areas where, although a higher proportion of dwellings may be affordable, these may be the wrong type or size, in the wrong location or of poor quality.

Important Uplifts Shouldn't be Optional

8.12 Planning Practice Guidance (PPG) states that the SM provides a minimum starting point for LPAs to consider future housing need but there will be circumstances where it is appropriate to consider whether actual housing need is higher than the SM indicates. Circumstances where this ***'may'*** be appropriate include situations where increases in housing need are likely to exceed past trends as a result of:

- Growth strategies for the area that are likely to be deliverable, for example where funding is in place to promote and facilitate additional growth (e.g. Housing Deals);
- Strategic infrastructure improvements that are likely to drive an increase in the homes needed locally; or
- An authority agreeing to take on unmet need from neighbouring authorities.

8.13 PPG also identifies there ***'may'*** be circumstances where previous levels of housing delivery in an area, or where previous assessments of need are significantly greater than the outcome from the SM. In these cases LPAs will need to take this into account when considering whether it is appropriate to plan for a higher level of need than the SM suggests.

8.14 PPG states that:

"Where a strategic policy-making authority can show that an alternative approach identifies a need higher than using the standard method, and that it adequately reflects current and future demographic trends and market signals, the approach can be considered sound as it will have exceeded the minimum starting point."

8.15 However, the PPG does not ***require*** LPAs to adjust their LHN identified through the SM to align with wider aspirations such as future economic growth as described above.

8.16 Attracting and retaining workers is crucial in achieving economic growth aspirations and quality of place, including an appropriate housing stock, plays a key role within this. If LPAs choose not to uplift their housing requirement beyond the level identified through the Government's standardised approach, they will fail to provide the housing needed to support their own economic growth ambitions and in some cases will lead to economic decline. For example, in Calderdale the Local Plan Inspector required the Council to align their requirement with their own economic growth aspirations.

8.17 Economic growth aspirations are a far more significant factor in establishing housing requirements across the North than affordability issues and therefore, the absence of a ***requirement*** to align housing requirements and economic growth in Local Plans is having, and will continue to have, a more profound impact in the North of England than in the South. Without this, there is a risk that the North fails to attract and retain the skilled workforce needed to support jobs growth, particularly in areas with ageing populations. This is another example of the way in which the SM could exacerbate economic and social imbalances rather than levelling up the country.

8.18 Unfortunately, by making alignment with economic growth an option, it is clear that most LPAs are choosing to use the lower figure generated by the SM. Further research would be required to explore the motivations for this but one consideration could be that the opposition that often comes from local residents (who are also responsible for electing local councillors) to allocations for housing development would be minimised by choosing the lowest housing growth option offered by the SM. To evidence this, a confidential survey of councillors and officers (at all levels) could be undertaken to ascertain attitudes to housing growth at a national and local level.

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