

## Response to 'Changes to the Planning System': Standard Method

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### 1.0 Introduction

- 1.1 Homes for the North (H4N) is an alliance of seventeen of the North's largest developing housing associations who are working together to ensure that enough homes are planned for and delivered to support the economic growth required in the North of England to begin to close the gap with the rest of the country. We have responded to the various rounds of consultation which have been undertaken by the Government since the plan to introduce a Standard Method of assessing local housing need was introduced in 2018. Our focus remains on ensuring that the level and quality of housing provided in the North addresses the economic ambition of the three regions, and we believe that the Standard Method should have a critical role to play in achieving this.
- 1.2 H4N members provide around 500,000 homes for almost 1 million people across the North of England.
- 1.3 We support the Government's aim of ensuring the supply of land in England enables housing delivery at a level which meets the Government's aspiration to deliver 300,000 new homes per annum nationally by the mid-2020s. We welcome the opportunity to respond to this consultation on the proposed revisions to the Standard Method as a means of achieving this.
- 1.4 In preparing this response we have been supported by analysis and advice from Lichfields, one of the country's leading planning consultancies.

### 2.0 Why the Standard Method is being revised

- 2.1 The current Government consultation 'Changes to the current planning system' is focused on a number of short-term proposals, including alterations to the Standard Method.
- 2.2 The Standard Method was introduced in 2018 through the revised National Planning Policy Framework (NPPF) with the aim of simplifying the method underpinning the assessment of the minimum number of homes needed in an area. H4N responded to the initial consultation, identifying the following issues:
- Overall the Standard Method generating a number which was too low in terms of overall future housing delivery. For the North it resulted in a requirement which was around 13,000 homes per annum lower than had been provided for in local plans at the time;
  - Reliance on the population projections which project forward past trends;
  - The need to incorporate the alignment with identified economic ambitions; and
  - The need for an uplift beyond the Standard Method to be a requirement rather than an option.
- 2.3 Following the technical consultation, some further short-term changes were made in February 2019, with a commitment made by Government to further review the formula. It is this commitment which is borne out in the current consultation.
- 2.4 One of the key criticisms of the Standard Method since its introduction, has been its failure even as a minimum to support the aim of delivering 300,000 homes per annum, the identified

Government aspiration. This aim is reiterated in this consultation and ‘Planning for the Future’. The consultation document recognises that adopted local plans provide for just 187,000 new homes annually across England, just over half of the Government’s target but also significantly lower than the number of homes delivered in 2019 (241,000).

- 2.5 The Government is clear that the overall level of need identified by the Standard Method needs to be sufficient to ensure that land supply does not become a limitation in achieving its national supply aspirations. The proposed changes to the Standard Method reiterate that the Standard Method remains the starting point for assessing local housing need and it is not the final housing requirement. Whilst this is supported in principle and should be retained, Lichfield’s analysis for H4N of local authority reactions to the Standard Method demonstrate that most Councils have used the Standard Method to reduce their housing requirement rather than increase it<sup>1</sup>, with reductions in adopted or emerging local plans in the North of England of around 5,000 homes per annum since 2017. It is therefore imperative that the revised Standard Method is set at an appropriate level for each authority at the outset rather than relying upon Councils to apply an uplift.
- 2.6 This consultation also sets out a number of other issues which should become a litmus test for how the proposed changes are judged. In addition to the method needing to be both agile and stable, it acknowledges that the Standard Method should support the Government’s levelling up objectives observing that it should “achieve a better distribution of homes where homes are identified in more high-demand areas **and** in emerging demand areas across the country (such as the Northern Powerhouse)”. In describing the outcomes of the proposed Standard Method it also emphasises the need to focus development primarily on urban areas to “make the most of our transport hubs, support the objectives of brownfield-first and gently densifying urban areas...”.

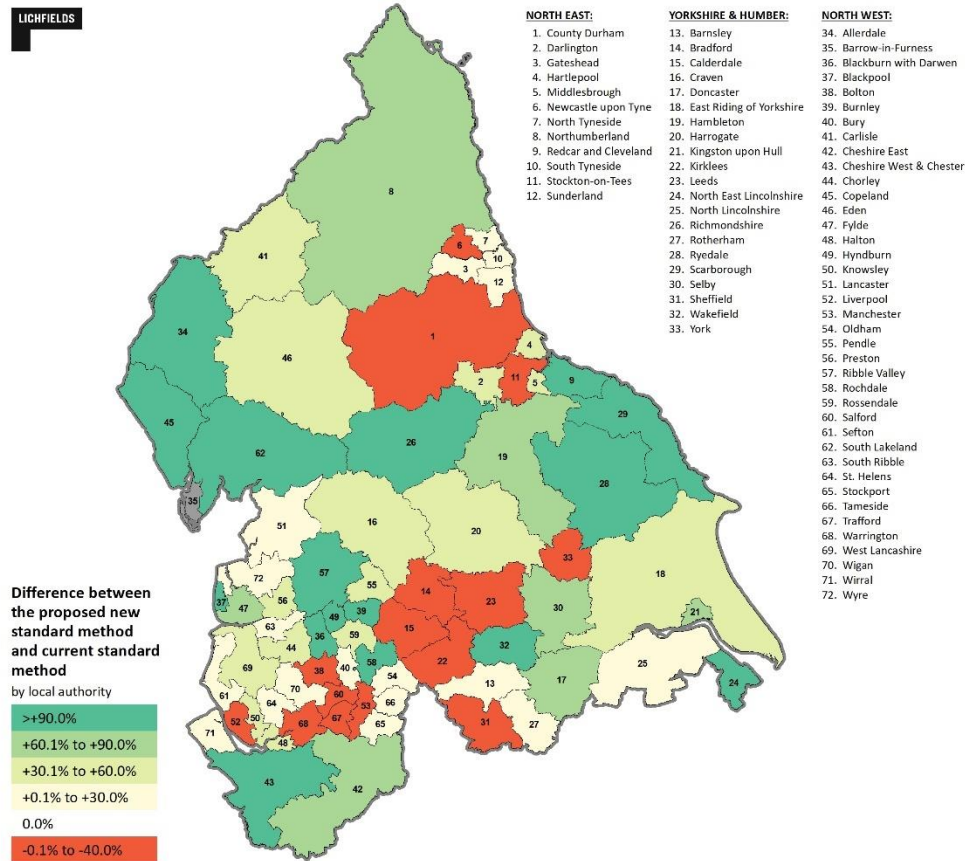
### 3.0 Problems with the proposed Standard Method

- 3.1 The proposed method seems, at first glance, an improvement on the existing method, raising the national figure generated from 250,600 to 337,300 homes per year, a rise of 35%. This results in a figure which exceeds the Government’s national target. However a number of significant problems inherent in the existing method remain. In the North<sup>2</sup>, the proposed revisions to the Standard Method result in the overall figure increasing from 43,300 homes per annum to 49,800, an increase of 15%. This rate of increase is minimal, compared to the increase of 35% nationally and, particularly when compared to the 67% increase for London.
- 3.2 Furthermore, the proposed method would result in a decrease in the actual contribution that the North makes to the national housing requirement, from 17% under the current method to 15% under the proposed method. This is despite the North accounting for around 25% of the average annual homes delivered over the last 3 years. By comparison, the new method would see London deliver 28% of the national housing total (up from 22% under the current method), despite only actually delivering 16% of additional homes.
- 3.3 Figure 1 shows the impact of the proposed Standard Method compared to the existing method at a local authority level. The proposed method results in a housing requirement that exceeds the current method’s figure in the majority of local authorities – there are only 15 of 72 where the proposed number is lower, although crucially these include all of the North’s Core Cities.

<sup>1</sup> ‘Above Standard? Plans for housing under the new NPPF’ Lichfields (July 2019)

<sup>2</sup> Comprising the North East, North West and Yorkshire and the Humber regions

Figure 1 Difference between current and proposed Standard Method housing requirements

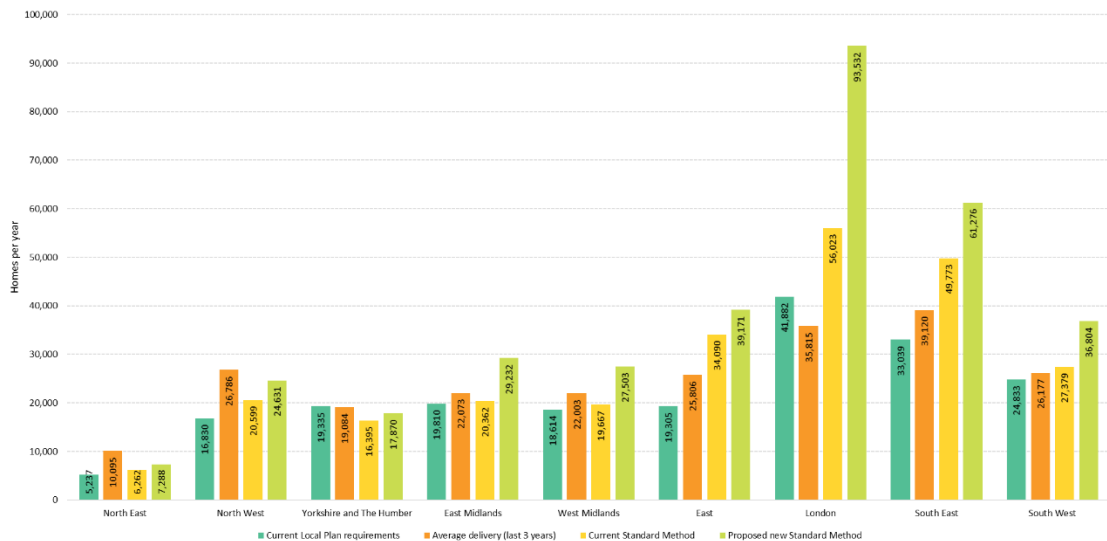


Source: Lichfields

3.4

However, Figure 2 shows how, like the current Standard Method, the proposed method produces housing requirement figures which often fall well short of the level of housing actually delivered in recent years across the North. There is a clear spatial disparity between this position and that in the central and southern regions, where the proposed method sets a need figure that is often far in excess of that which the market has been able to achieve.

Figure 2 Comparison of existing and proposed Standard Method requirements with local plan requirements and average delivery



Source: Lichfields

- 3.5 Across the North, the proposed method results in a figure which is 6,180 dwellings per annum lower than the actual average level of housing delivery over the last three years, or 11%. Across the 72 Northern LPAs, only 31 have a housing requirement that is higher under the proposed method than their past delivery.
- 3.6 In relative terms the proposed method generates an outcome for the North (against the current Standard Method position) which would constrain future housing development compared to the rest of the country. It generates a requirement which not only falls significantly short of the actual numbers currently being delivered in the North, but which is 23% lower than the number of homes that recent evidence suggests will be required for the North to begin to close the economic gap with the rest of the country. Research undertaken for H4N by CEBR/Quod<sup>3</sup> in 2019 highlighted that in order to achieve the ‘transformational’ growth scenario set out in the Northern Powerhouse Independent Economic Review, an average of 65,000 new homes per annum are required between 2020 and 2050. So far from ‘levelling up’ the country, we believe the proposed Standard Method would exacerbate existing disparities.

### Unintended consequences

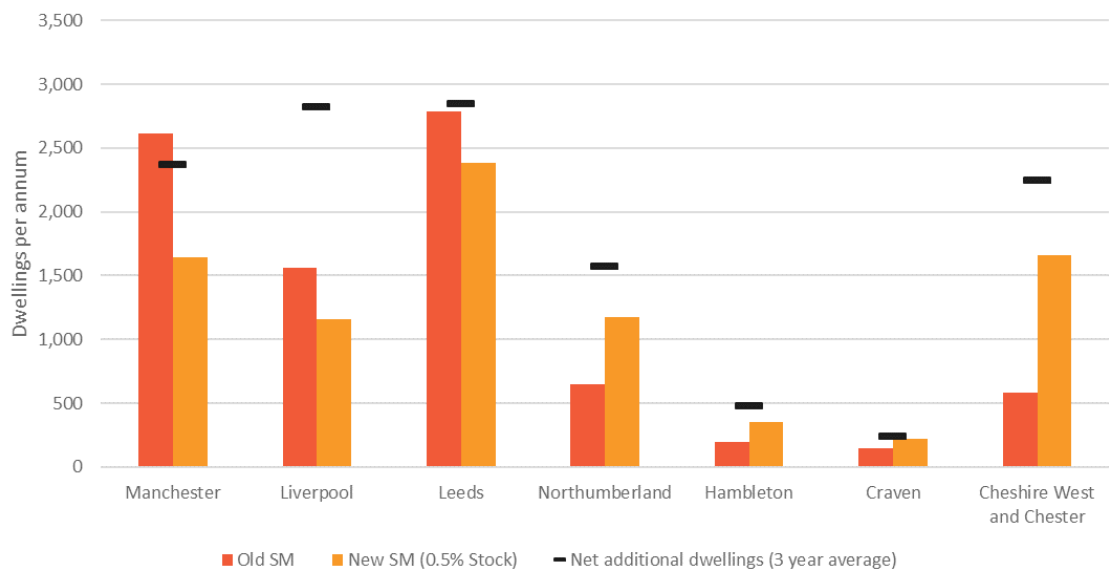
- 3.7 An unintended consequence of the revised method is that it directs development away from urban areas and towards more rural local authorities. For a number of cities, the proposed method sees the housing requirement decrease when compared to the current method. This is contrary to the consultation which states that utilising the stock based approach will help to direct housing to existing urban areas which has benefits in ensuring new homes can maximise existing infrastructure, schools and shops<sup>4</sup>. This includes major Northern cities, such as Manchester, Liverpool and Leeds, which would experience falls of 37%, 26% and 14% respectively (as shown by Figure 3 and Table 1). Recent housing delivery in these cities already

<sup>3</sup> ‘The Role of Housing in the Northern Powerhouse – An analysis of the housing required to unlock the benefits of transport investment in the North of England’ (July 2019) CEBR/Quod

<sup>4</sup> ‘Changes to the Planning System’ Paragraph 25, Page 13

exceeds the current Standard Method figure and would be significantly higher than the proposed figures, indicating that a significant amount of housing demand would go unmet under the proposed method. Economic growth in these cities is integral to the success of the Northern Powerhouse and inadequate provision of housing is very likely to act as a barrier to attracting workers and investment and could actually lead to more migration and investment moving from the North to the South.

Figure 3 Comparison of existing and proposed Standard Method housing requirements and past delivery



Source: Lichfields

Table 1 Comparison of existing and proposed Standard Method housing requirements

#	Existing Standard Method Housing Requirement	Proposed Standard Method Housing Requirement	Difference	% Difference
Manchester	2,613	1,645	-968	-37.0%
Liverpool	1,558	1,154	-404	-25.9%
Leeds	2,787	2,387	-400	-14.4%
Northumberland	651	1,172	521	80.0%
Hambleton	196	349	153	78.1%
Craven	150	224	74	49.3%
Cheshire West and Chester	584	1,659	1,075	184.1%

Source: Lichfields

3.8

Conversely, the proposed method actually increases the housing requirement in many rural authorities as a result of the stock-base being too low and the affordability adjustment driving more housing towards high value areas. For example, Northumberland sees an 80% increase in its housing requirement under the new method, whilst in Cheshire West and Chester, the figure is 184% higher, although in both cases, this largely results from the 2018-based projections being much higher than the 2014-based projections.

- 3.9 Directing more development to rural authorities undermines the Government’s aim to “make as much use as possible of previously developed or brownfield land” (NPPF, Paragraph 117). Furthermore, rural authorities are more likely to feature planning designations that constrain development (such as Areas of Outstanding Natural Beauty, National Parks or Green Belt). Given that the White Paper indicates that local authorities will be able to reduce their housing requirement in light of such constraints, directing more housing towards these authorities jeopardise the likelihood of the national housing requirement ever being met.

## 4.0 Consultation questions

### **Q1 Do you agree that the planning practice guidance should be amended to specify that the appropriate baseline for the Standard Method is whichever is the higher of the level of 0.5% of housing stock in each local authority area or the latest household projections averaged over a 10-year period?**

- 4.1 H4N supports the Government’s proposal to incorporate a housing stock metric into Step 1 of the proposed changes to the Standard Method calculation. However, we would go further to suggest that Step 1 should disregard the household projections as part of the calculation altogether and focus solely on the stock uplift, increasing the stock uplift beyond the 0.5% identified under the proposed changes (see Q2). This is underpinned by the following reasons:
- 1 Population and household projections are published on a biennial cycle which means that every time a new set of projections is published, the starting point for the Standard Method changes. Given how long the plan-making process takes, it is rare for local authorities to reach Regulation 20 stage (submission to the Secretary of State) without having to deal with at least one new set of projections thereby impacting upon identified housing need and causing delays and confusion during the plan-making process.
  - 2 Population and household projections are produced by the Office of National Statistics (ONS), an independent body which produces the projections solely on an objective basis using trend-based assessments. In the case of the household projections, past trends of suppressed household formation rates in many Northern authorities are ‘locked-in’ which then drive lower projections and lower projected growth, contrary to the transformative local social and economic agendas that seek to overcome these historic problems.  
  
Low household formation rates have been a characteristic of many Northern housing markets and are influenced by the slow recovery of the North following the financial crisis of 2007/8, the very trajectory which Northern Powerhouse and levelling-up strategies are designed to address.
  - 3 The inappropriateness of the projections as the basis of assessing local housing needs was no more acutely demonstrated than when the 2016-based household projections were published and projected significantly lower levels of projected household growth, undermining the Government’s own aspiration to ‘boost significantly’ the supply of homes. As a consequence of this the Government had to step-away from the projections and revert back to the 2014-based projections as the basis for the Standard Method.  
  
This issue was partly linked to point 2 above in respect of who produces the projections and the fact that the 2016-based household projections were the first to be published by the ONS under a revised methodology which considered household formation rates over a shorter term (10 year period between 2001 and 2011) rather than the longer period

considered in previous projections. Each time new projections are published the base period is rolled forward, with more recent data being included and older data no longer being included. Therefore, more recent trends then continue to drive and suppress projections going forward.

- 4 A stock-based approach provides a much more stable approach to identifying a baseline position as it is based on the number of homes in an area which does not experience the significant fluctuations observed through the projections and does not perpetuate historic problems. The approach to utilising stock is also relative to the current size of the market and therefore the rate of change is proportionate and more likely to be related to the scale of demand activity.

- 4.2 These issues underpin our view that the household projections do not adequately reflect aspirations across the North and ‘lock-in’ past trends of suppressed household formation rates which are not trends which should be perpetuated in the future. A stock-based approach more closely reflects the current size of the housing market in an area and therefore the rate of change more likely related to the scale of demand activity.

**Q2. In the stock element of the baseline do you agree that 0.5% of existing stock for the Standard Method is appropriate? If not, please explain why.**

- 4.3 Whilst we support the inclusion of the stock element of the baseline, the ‘whichever is highest’ approach proposed in Step 1 between the projections and the 0.5% stock increase results in two-thirds of authorities across England retaining the projections as their demographic starting point, resulting in a Step 1 increase of only 50,000 and a revised baseline position of 174,000 new homes per annum. It is upon this baseline position in Step 1 to which the Step 2 adjustment is made. So, where the baseline number identified is low, the affordability adjustment is unable to rectify this.
- 4.4 This is a particular issue for local authorities in the North of England, and whilst the inclusion of a stock-based approach at Step 1 brings the baseline figure above that for the most recent projections in 46 local authorities in the North, it does not do this to a sufficient extent to drive the increased numbers required. The household projections are still relied upon for 26 Northern authorities.
- 4.5 H4N considers that a greater uplift in stock to 1% should be used as the starting point for assessing local housing need. This greater level of stock uplift can be justified on the basis that:
- Many areas in England have seen growth at or in excess of 1% per annum in recent years
  - Since the 1950s England’s housing stock has grown by 1.1% per annum; and
  - Even during the recession in the 2000s, the average annual stock growth rate was only marginally lower than 1%.
- 4.6 Indeed the consultation offers no logical justification for identifying 0.5% as the uplift. Paragraph 26 of the consultation document recognises that in 2018 to 2019 the number of net additional dwellings delivered represents an increase of approximately 1% on previous dwelling stock, yet goes on to identify 0.5% as the uplift without evidence. An increase on existing stock of 0.5% appears to have been selected arbitrarily to generate the desired outcomes from the method, rather than the 1% which is justified by Government evidence.

**Q3. Do you agree that using the workplace-based median house price to median earnings ratio from the most recent year for which data is available to adjust the Standard Method's baseline is appropriate? If not, please explain why.**

- 4.7 H4N agrees that the use of the workplace-based median house price to median earnings ratio from the most recent year for which data is available to adjust the Standard Method is appropriate.

**Q4 Do you agree that incorporating an adjustment for the change of affordability over 10 years is a positive way to look at whether affordability has improved? If not, please explain why.**

- 4.8 H4N does not agree with the incorporation of an extra adjustment for affordability, based on the 10 year change.
- 4.9 The current and proposed methods' focus on affordability has a minimal uplift effect in the North compared to the South, where affordability ratios used as the basis of the uplift are significantly higher. High affordability ratios now have a double effect, as the formula considers both current affordability along with the change over a 10-year period, and this is partly what is driving the unrealistically high requirements in many areas of London and the South generated by the proposed method.
- 4.10 To illustrate the minimal impact of the proposed approach to the affordability uplift in the North, there are only six Northern local authorities where the baseline figure is lower under the proposed method compared to the existing method but where the overall number still increases. In most of these cases, the percentage change between the existing and new Standard Method figures is 10% or less, with the exception of Tameside (17%) and Bury (12%) where affordability has worsened notably over the past 10 years. Conversely, despite affordability worsening in Trafford (from 6.35 in 2009 to 9.58 in 2019), the proposed Standard Method results in a 10% decrease to the housing requirement compared to the current method because the baseline figure is lower and has a far greater influence overall.
- 4.11 Affordability is not the principle driver of housing need in the North. However, solely focusing on affordability for an uplift within the Standard Method overly-simplifies the drivers of housing markets and results in a level of housing which is insufficient to meet critical jobs growth aspirations for the North.
- 4.12 H4N recommends that the second affordability adjustment incorporated into the proposed Standard Method should be deleted. This would dampen the affordability adjustment which fails to reflect the issues in the North, and is driving unsustainably higher numbers in the south. Furthermore this would permit the inclusion of a higher stock baseline as set out in our answer to Q2 without resulting in unrealistically high numbers nationally.

**Q5. Do you agree that affordability is given an appropriate weighting within the Standard Method? If not, please explain why.**

- 4.13 H4N considers that affordability is given an appropriate weighting but, as set out in our response to Q4 above, our view is that the Standard Method must only adjust for affordability based on the current rate, rather than the current rate and change over time.

## 5.0 Our Proposals for Change

5.1 H4N has identified a number of changes to the Standard Method which would improve the formula and the outcomes for all parts of the country. These include:

- 1% stock uplift, in place of a household projection component to the baseline; and
- An affordability adjustment based on a single affordability ratio, as now.

5.2 Taken together these recommended changes would help meet the Government's stated objectives in three ways:

- **It would achieve a redistribution of housing requirements in line with the Government's levelling-up objectives**, generating a requirement for the North of 78,000, which is likely to drop-off to closer to the 65,000 we believe is required for levelling-up once land constraints are taken into account. The North's share of the national requirement would be around 24%, very close to the Northern proportion of national delivery over the past three years, and a little below its national share of households of 28%. Given the importance of levelling-up, this should be the central objective of any changes to the Standard Method.
- **It would result in a national requirement of 321,000 homes per annum**, still significantly higher than Government's stated ambition of facilitating the delivery of 300,000 homes pa by the mid-2020s
- **It would result in growth focused on urban areas**. Annual requirements for the five Core Cities in the North would increase by 29% to 13,033 (in comparison to the current Standard Method), very close to average delivery over the past three years. This is in contrast to a decrease of 24% under the Government's new proposal.

5.3 Furthermore by redistributing housing requirements, it would generate far more realistic requirements for London and the South, reducing the need to adjust numbers downwards to reflect constraints, as envisaged in the White Paper proposals.

## 6.0 Closing Remarks

6.1 It is important to note that the recommendations made in this submission are based on the Government's intention to retain a formula-based Standard Method. Whilst we believe our proposed changes would improve outcomes for the whole country and help the Government meet its stated objectives, this exercise has demonstrated to us that there are fundamental flaws with any approach that attempts to simplify and nationalise the process of calculating local housing needs into a 'standard' formula or algorithm. Whilst the adoption of a formula-based approach gives the semblance of being 'scientific', in truth the combination of the components of the formula and the weightings applied is based on trial and error to achieve particular policy outcomes. This may work to a certain extent at a national or even regional level, however the danger of arbitrary and thus contestable outcomes becomes more pronounced the more local the analysis is undertaken. In many ways we stand guilty of falling into the same trap.

6.2 The evidence is clear: it is not possible to capture the huge variations and subtle local nuances that exist throughout the country when properly establishing local housing needs in a single, national formula. By looking at a limited number of drivers of housing need, and for instance completely ignoring the type of economic growth and ambition required to rebalance the economy, we are ignoring what a proactive and forward looking planning system is for. And by continuously adjusting the formula with more complicated stages and arbitrary inputs we risk

creating a 'Frankenstein's Monster' that has lost sight of its original purpose, generates inappropriate outputs across vast areas of the country and requires constant monitoring and adjustment.

- 6.3 H4N believes that there is a need to fundamentally re-consider the formula-based approach to assessing local housing need as part of the long-term changes to the planning system proposed in the White Paper, whilst still aiming for a process which is consistent, relatively simple and can happen at pace. We will set out further thinking on how this can be achieved in our response to 'Planning for the Future'.