

**Advice to Waverley CPRE on the
proposal that the housing requirement
should be increased to 590 homes a year**

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NMSS

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Executive Summary

Aim

- i. The Inspector examining the Waverley Local Plan has recommended that the housing requirement should be increased from 519 homes a year (2013-32) to 590 homes a year. This short report offers a critique of that proposal.

Key findings

- ii. It was agreed during the examination hearings that the demographically based objectively assessed need for housing in Waverley over the period 2013-32 was 396 homes a year. The two main additions to that figure proposed by the Inspector are a 25% uplift (99 homes a year) to improve affordability and the addition of 83 homes a year to help meet the estimated unmet needs in Woking.
- iii. A 25% uplift for affordability is at the top end of the range of market signals adjustments currently being made. Whilst some adjustment may be appropriate, a proper consideration of the evidence shows that an adjustment on that scale is not justified. Assessed on the basis of the ratio of lower quartile house prices to the earnings of those who live in the district, Waverley ranks only 20th out of 67 districts in the South East region. Even that may exaggerate the problem as Waverley has a high proportion of detached properties which tend to be more expensive than other types of housing. That means that any comparison based on the median or lower quartile prices of all housing will not be like for like and will tend to portray Waverley in an unfavourable light. An evidence-based approach to assessing the appropriate uplift is suggested and this indicates that a 13% adjustment would be justifiable.
- iv. The assessment of the number of additional homes which should be provided in Waverley to help meet needs in Woking is based on an estimate of Woking's unmet needs put forward in representations on behalf of a developer. The calculation of the proposed additional housing requirement is based on a series of assumptions each of which is highly uncertain.
 - a. The estimate of the objectively assessed needs of Woking comes from a 2015 SHMA that is untested in a local plan examination and includes a large and potentially contentious uplift for homes to support job growth;
 - b. the plan housing requirement is based on the long defunct South East Plan;
 - c. it is assumed that those two numbers will hold good until 2027; and,
 - d. it is assumed that half of the estimated shortfall ought to be met in Waverley despite it being a very different district from Woking.
- v. It is highly likely that a more rigorous assessment would conclude that the shortfall was much smaller (or will be when the Woking Plan is revised – which is

now due) and that much less than half of any shortfall should be allocated to Waverley. This would imply that there ought not to be any substantial increase in the Waverley's housing requirement for this purpose.

- vi. The PPG encourages authorities within an HMA to align the timing of their future plan reviews. In view of that and the highly doubtful calculation of the contribution which Waverley should make to meeting Woking's housing needs, the appropriate course of action is to remove the proposed allocation from the housing requirement in the current draft Plan and remit the matter to an early review of the three plans in HMA.
- vii. The proposed housing requirement would imply a much faster population increase than the ONS's trend-based projections suggest i.e. it would imply a significant change in past behaviours. It would also necessitate more than doubling the average rate of net additions to Waverley's housing stock over the last 15 years and require consistent build out at rates that are 30% higher than the highest figure achieved in any year since the turn of the century. It is questionable whether such large increases would be achievable without unacceptable adverse consequences.
- viii. In this context it might be noted that DCLG's proposal for simplifying the calculation of housing needs seeks to avoid unrealistic increases in any authority's housing requirement by capping the number of homes needed at 40% above the average household growth rate projected by DCLG. On the same basis the increase proposed is 56% above the DCLG projections.

Conclusion

- ix. **If the possibility that Waverley should contribute to Woking's housing needs is remitted to an early review of the HMA's plans and the affordability uplift is scaled back to 13% or 50 homes a year, the housing requirement would be 458 homes a year. That would still require that the housing stock is increased at a rate which is more than 70% higher than that achieved over the last 15 years. On any reckoning that would be more than a significant boost in the supply of housing.**

Advice to Waverley CPRE on the proposal that the housing requirement should be increased to 590 homes a year

1. Introduction

- 1.1. The Inspector examining the Waverley Local Plan has recommended that the housing requirement should be increased from 519 homes a year (2013-32) to 590 homes a year. This short report offers a critique of that proposal.

2. Background

- 2.1. During the examination hearings key parties agreed as a matter of common ground that the demographically-based objectively assessed need for housing (OAN) was 396 homes a year. The Inspector has proposed that following adjustments should be made to that figure:

	Homes a year 2013-32
Common ground demographic projection	396
25% uplift for affordability	99
Allowance for London migration	<u>12</u>
Proposed Waverley OAN	507
Addition for half of Woking's shortfall	83
Proposed housing requirement	<u>590</u>

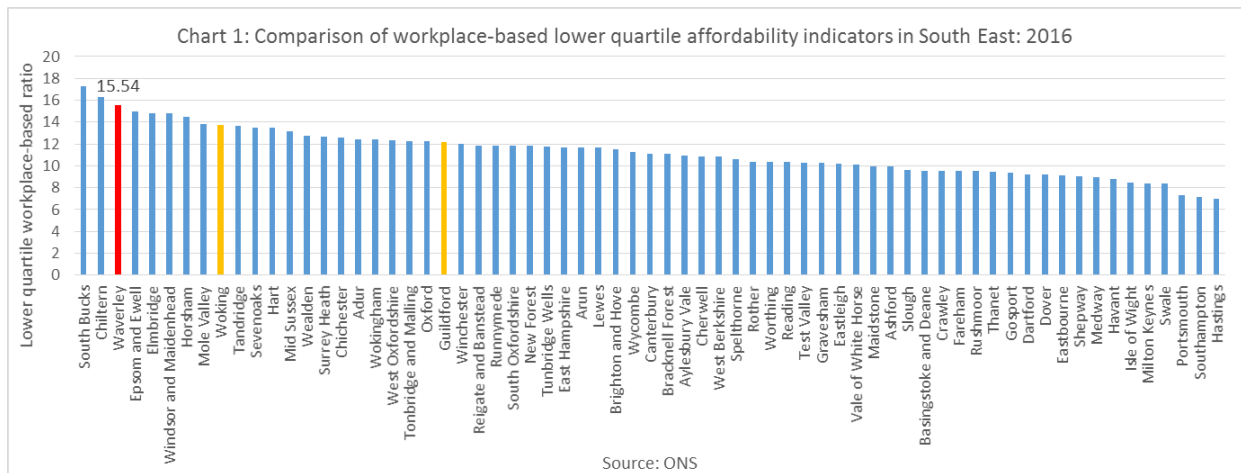
- 2.2. The next two sections discuss the proposed adjustments for affordability and Woking's shortfall. A further section then makes some general comments on the plausibility of the total figure.

3. The proposed 25% uplift for affordability

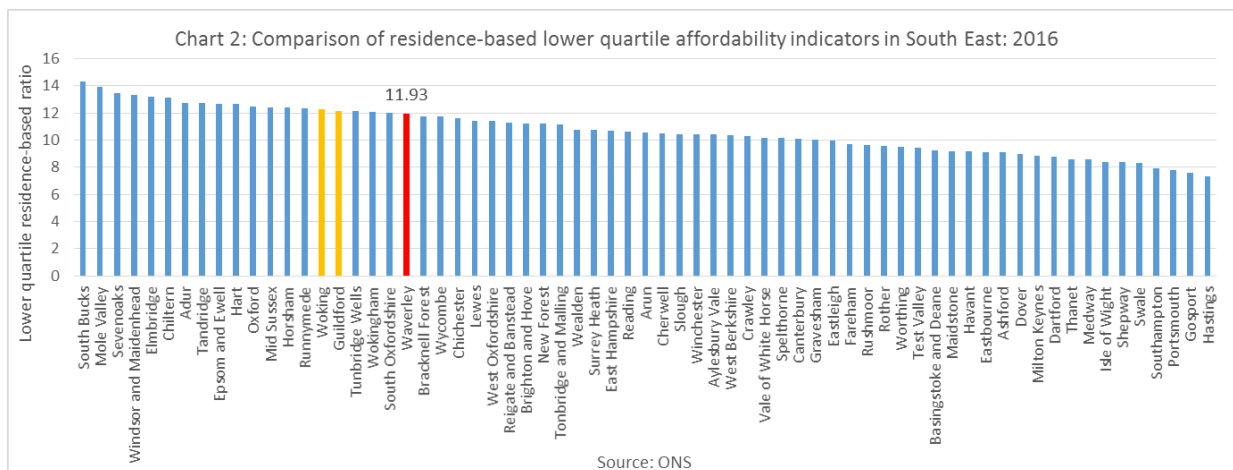
- 3.1. The current regime on market signals and adjustments for affordability and other factors is unsatisfactory. The PPG is clear that, "The housing need number suggested by household projections ... should be adjusted to reflect appropriate market signals, as well as other market indicators of the balance between the demand for and supply of dwellings." But the regime offers no useful guidance about the threshold above which an adjustment should be made or how large that

adjustment should be. The PPG simply says the adjustment, “....should increase planned supply by an amount that, on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability.” The result is that a great deal is left to the individual judgement of the decision taker and that judgment is inevitably fairly arbitrary.

- 3.2. The proposed 25% adjustment for affordability is at the top end of the range of market signals adjustments currently being made. Whilst some adjustment may be appropriate, a proper consideration of the evidence shows that an adjustment on that scale is not justified.
- 3.3. It is understandable that a top of the range adjustment should have been proposed if the primary indicator used is the affordability indicator that compares lower quartile earnings in an area with lower quartile house prices. Chart 1 shows this indicator for all South East authorities and on this indicator Waverley scored 15.54 in 2016, the third highest figure in the South East.



- 3.4. However, that indicator ignores the practical reality that commuting is a fact of life in London and the South East and that many living in Waverley commute to work outside the district to jobs that are typically higher paid than those available in the district. To take this into account we need to compare the earnings on those who live in the district (‘residence-based earnings’) with house prices. When this is done a very different picture emerges (see Chart 2):



- 3.5. On this measure, which reflects how affordable housing is in Waverley to those who actually live there, Waverley is 20th out of 67 authorities in the region, i.e. almost a third of the way down the ranking. Note also that it is more affordable than both Woking and Guildford, in marked contrast to the impression given by the workplace-based indicator shown in Chart 1.
- 3.6. Some may argue that people should be able to live close to where they work and that therefore the workplace-based indicator is more appropriate. However, that does not reflect the reality of life in London and the South East. A very high proportion of those who work in central London commute substantial distances: planning for housing on the basis that they should be able to live in the same borough as they work in is just not feasible.
- 3.7. Even the residence-based affordability indicator is not perfect as it does not take account of the differences in housing mix from authority to authority. If you compare median or lower quartile prices for all homes, as the affordability indicators do, you ignore that fact that Waverley has a higher proportion of detached homes and a lower proportion of flats and maisonettes than, say, Guildford and Woking. As detached homes tend to be more expensive than semis, terraced houses and flats, and Waverley has a higher proportion of them, 'all homes' indicators produce less favourable figures for the District and not a true 'like for like' comparison.
- 3.8. This leads to the conclusion that, although affordability is a serious issue in Waverley, its severity is not sufficient to justify a 25% uplift.
- 3.9. As already noted, there is no clear guidance on how large an affordability uplift should be provided for a given size of problem. One potential evidence-based approach is to calculate how many additional homes would be needed to remove the adverse impact which increasing house prices have had and are likely to have on household formation patterns, causing household formation rates to fall from some groups, particularly younger couples. This can be done by adjusting the DCLG projection so that where the household formation rate of a group is either currently below the level it was at in 2001 or is projected to fall below that level, the projections are adjusted so that it is at the 2001 level at the end of the plan period. This can be described as applying a '2001 floor' to the projected household formation rates producing a situation in which no group is worse off than it was in 2001. Table 1 shows the impact this has:

Table 1	Homes a year 2013-32
DCLG 2014-based household projections	392
DCLG 2014 + 2011 household formation rate floor	442

- 3.10. As can be seen, the impact is to increase number of homes needed a year by 50 or 13%. It is suggested that this should be taken as an evidence-based estimate of an appropriate affordability adjustment.
- 3.11. Affordability adjustments such as this under the current regime should not be compared with those proposed in the DCLG's current consultation on a simplified method for estimating housing need. Not only is that proposal simply a proposal which may change as a result of the consultation, but it is also a proposal in which the affordability adjustment acts as 'catch all' adjustment. Unlike in the current

regime, no other adjustments to the DCLG household projection are envisaged. The proposed affordability adjustment therefore takes the place of adjustments to correct for cyclical factors and other weaknesses in the population projections; estimates of the number of additional homes needed to support job growth; and the provision which needs to be made for empty and second homes. It is therefore to be expected that the proposed adjustment factors are much larger than those in the existing regime.

4. The proposed addition for Woking's shortfall

4.1. The proposed addition for Woking is based on an estimate of Woking's shortfall set out Lichfield's Matter 1 representations on behalf of the Waverley Housing Forum (see paragraph 6.2 in Appendix 1). That sets out an estimate of the shortfall using from different dates and without any proper scrutiny of the source data. The calculation is as follows:

	Homes a year
Woking OAN (West Surrey SHMA 2015)	517
Woking Local Plan housing requirement	<u>292</u>
Shortfall	<u>225</u>
Shortfall over period from start of Waverley Plan period to end of Woking Plan period i.e. 2013-27 (225 x 14)	3150
Half of the above	1575
Spread over 19 years of Waverley Plan period to give annual uplift	<u>83</u>

4.2. As the above calculation shows, the estimate of Woking's shortfall depends on four figures:

- The estimate that the Woking OAN is 517 homes a year.
- The Local Plan housing requirement of 292 homes a year.
- The expectation that the current housing requirement will remain in place until 2027 i.e. 14 years after the start of the Waverley Plan period.
- The assumption that half of any shortfall should be met by Waverley.

4.3. **A key point to note is that if any of these four numbers changes, then estimate of the shortfall changes.** What follows looks at each of these numbers in turn.

(a) Estimate of Woking's OAN

4.4. The estimate of Woking's OAN comes from the West Surrey SHMA of September 2015. The calculation is as follows:

	Homes a year 2013-33
DCLG 2012-based housing need	341
Additional homes to support job growth	130
Affordability uplift	<u>46</u>
Proposed Woking OAN	<u>517</u>

4.5. It should be noted that:

- This calculation is based on the DCG's 2012-based household projections, not the latest projections, the 2014-based set.
- There is a large uplift to ensure that there are sufficient homes to support job growth – well over a third of the unadjusted DCLG figure. Estimates of job growth are notoriously volatile and considerable care is needed in estimating the housing implications of a forecast. Weight should not be put on any such estimate without very careful scrutiny. It is probably for these reasons that DCLG have removed this element from the housing need calculation in their proposals for simplifying the method.
- The 2015 West Surrey SHMA was not, of course, available when the Woking Plan was examined in 2012 and its findings for Woking have not been subject to scrutiny in a local plan examination.
- The current DCLG proposals for simplifying the OAN calculation (which are, admittedly, only proposals out to consultation and may change substantially) imply a housing need for Woking of 409 homes a year

4.6. In view of these points it is highly likely that an up to date estimate of Woking OAN would produce a significantly different figure from that suggested by the 2015 SHMA. The new method for calculating an OAN, when finally settled by DCLG, may produce yet another very different number.

4.7. Purely as an illustration of the impact which a change to the OAN estimate would have, if the estimate were changed to 409 homes a year (the figure suggested by the DCLG proposals) the half share of Woking's unmet need would fall from 83 homes a year to 43.

(b) The Woking Local Plan housing requirement

4.8. The current Woking Local Plan was prepared before the current regime as set out in the NPPF and PPG were promulgated and, even though the NPPF had been finalised before the Plan was signed off by an Inspector, it is highly likely that, if been prepared and examined the last two years, it would have had a significantly different housing requirement.

4.9. Key points to note include:

- The draft NPPF was published for consultation on 25 July 2011 and the Woking Plan was submitted for examination less than 5 months later on 16 December 2011. The examination hearings were held between 20 March and 4 April 2012, with the final NPPF being published during the hearings on 27 March. The Inspector then published his report on 26 July 2012.
- The key piece of evidence on housing needs was the West Surrey SHMA of February 2009, i.e. before the Coalition Government came to power let alone before the current NPPF/PPG regime was established.
- The Woking Plan adopted the housing requirement (292 homes a year) from South East Regional Spatial Strategy (the “South East Plan - SEP”). That was prepared under a very different regime.
- It would appear that the Inspector did not have before him anything that would be recognised today as a PPG-compliant estimate of the OAN and he makes no ruling on what the OAN was. It is, however, clear from the decision letter that he had enough analysis to know that the figure of 292 homes a year was below the objectively assessed needs.
- The Inspector’s decision letter notes that “the NPPF indicates that the aspiration to meet housing need is dependent upon consistency with other parts of the framework” – with environmental impacts clearly being in mind. There is a reference to a sustainability appraisal report but this appears to have only considered options delivering 292, 499 and 594 homes a year. There is also reference to the South East Plan recognising “the need to balance a high demand for housing with environmental constraints”.
- The Inspector’s decision letter includes the comment, “A review of the [Green Belt] would have usefully informed the [Core Strategy] and the reasonable capacity of the Borough to provide appropriate levels of housing over the plan period...” This strongly suggests that the Inspector recognised that he did not have the evidence before him that he needed to balance the benefits of greater housing provision and the adverse consequences of the environmental impacts this would have.
- The overall impression is that reliance was placed on the weighing of housing benefits and environmental impacts that had been carried out during the production of the South East Plan even though that had been prepared in a very different policy framework. Indeed, it would be an amazing coincidence if a bottom-up, NPPF-compliant analysis weighing these factors had reached exactly the same figure as the South East Plan!

4.10. Those who might be inclined to doubt that the housing requirement in the Woking Plan is not an up to date NPPF/PPG-compliant assessment might reflect on probability that, had the Waverley Plan been presented and examined on the same basis at the same time, it is likely that a housing requirement of 250 homes a year would have emerged as that was the South East Plan figure for Waverley. The probability has to be that an up to date figure for Woking would be significantly higher than 292 homes a year.

(c) The expectation that the current housing requirement will remain in place until 2027.

- 4.11. As the Woking Plan is based on the South East Plan housing figure and is now 5 years old it is fully due for revision. This would need to be on the basis of whatever approach to estimating housing need emerges from the current DCLG consultation and a much more rigorous assessment of the how the environmental dis-benefits of development compare with the benefits of meeting housing need. That is likely to result in a substantial narrowing of the gap between the housing requirement and the objectively assessed needs and could well eliminate that gap altogether.
- 4.12. Until a fresh plan has been produced based on up to date analysis it will not be possible to quantify the size of the gap. However, the one point that is reasonably certain is that the current plan will not survive until 2027. Indeed, it ought to be replaced in the next 2-3 years.

(d) The assumption that half of any shortfall in Woking should be met by Waverley

- 4.13. It is consistent with the NPPF that the first place to look to in seeking to meet the unmet needs of any authority is the other authorities in the same housing market area. However, it does not follow either that any unmet need should be shared equally between the other authorities in the HMA or that all of the unmet need should be met within the HMA. Paragraph 182 of the NPPF is clear that a plan:
- “... should be prepared based on a strategy which seeks to meet objectively assessed development and infrastructure requirements, including unmet requirements from neighbouring authorities where it is reasonable to do so and consistent with achieving sustainable development”.
- 4.14. Note the reference to neighbouring authorities: these need not necessarily be in the same HMA. Note also that the requirement to meet unmet needs is subject to the caveat, “where it is reasonable to do so and consistent with achieving sustainable development”.
- 4.15. It right that the search for locations in which unmet needs should be addressed should not be limited to the rest of the HMA as in most parts of the country and particularly in the south east quadrant HMA boundaries are far from clear cut. Functional housing market areas overlap and within any HMA there are many sub-markets. Any division of the country into HMAs is inevitably a series of compromises. The idea that within an HMA any location would be an equally attractive alternative to any other is clearly not realistic in the real world. This is definitely the case within the Woking/Guildford/Waverley HMA.
- 4.16. The Woking/Guildford/Waverley HMA is a radial slice of the authorities which surround London. Woking is very different from Waverley, Waverley being much more rural in character and much further from London. Woking is, for example, an extremely attractive commuter location, having 13 trains to Waterloo between 7am and 8am on a weekday, the fast trains taking 28-30 mins. In contrast, the best commuter locations in Waverley have many fewer services which take much longer: in the same time slot Farnham has 5 services, the fast trains taking 52-60 min; Godalming has 4 services taking 45-49 mins. Moreover, large parts of Waverley are a significant distance from a railway line. It is therefore clear that

Waverley is nothing like as attractive a commuter location as Woking: those who move to Waverley do so for different reasons. Guildford's offer on the other hand is much closer to Woking's (but not the same). It follows that it would be inappropriate to expect Waverley to share equally with Guildford in picking up any unmet need there might be in Woking. In fact, much of that need might be better satisfied by other districts outside the HMA on major railway routes a similar distance from London.

Conclusion on the proposed addition for Woking's shortfall

- 4.17. In summary, all four of the key numbers used to calculate the proposed additional housing requirement to meet Woking's shortfall are subject to significant uncertainty. Woking's objectively assessed housing need may well be less than assumed; an up to date view of its housing requirement that is fully compliant with the NPPF may well be significantly higher than 292 homes a year; it is highly likely that the current plan and housing requirement will be replaced well before 2027; and it is inappropriate to expect Waverley to pick up as much as half of any shortfall. In all four areas the uncertainty is such that a more likely scenario would reduce the estimate of the additional homes that Waverley should plan. There is a distinct possibility that the shortfall would be much reduced if not completely eliminated. That taken together with assessment that it would not be appropriate to expect Waverley to meet as much as half of any shortfall leads to the conclusion that the justifiable addition to Waverley's objectively assessed needs is both small and uncertain.
- 4.18. It would appear that the Waverley Inspector did not appreciate the highly uncertain nature of the estimate of Woking's unmet housing needs that he was offered. In particular, it is inconceivable that he would have recommended a housing requirement for Waverley based on an untested estimate of Waverley's OAN, yet he is (doubtless unwittingly) proposing a substantial addition to the Waverley OAN which depends crucially on an untested estimate of the Woking OAN.
- 4.19. Given this situation the only appropriate course of action is not to make any addition but to remit the matter to be considered in an early review of the plans across the HMA. The PPG encourages local authorities to co-ordinate future housing reviews so that they take place at the same time (PPG, paragraph: 007 Reference ID: 2a-007-20150320). This would allow housing needs to be assessed on the same basis and for similar standards to be applied in balancing housing needs against any adverse environmental impacts. This is the only way to produce a fair and rigorous assessment of whether Waverley should be seeking to provide additional homes to meet Woking's needs.

5. Other issues

- 5.1. It is very tempting in any analysis of housing needs to identify a range of reasons for adding to the number of homes suggested by the DCLG household projections, estimating an appropriate figure in each case and then adding those figures to the DCLG figure – without stepping back and considering whether the number arrived at is reasonable. Such an approach can produce numbers which might be

theoretically plausible but in practical terms are infeasibly high or could only be delivered with unacceptable consequences.

- 5.2. In this case the Inspector's proposal starts with a DCLG projection that an average of 378 extra households will form in each year of the plan period – which would give rise to a need for 396 homes a year once an allowance is made for second and empty homes. The various additions increase this figure to 590 homes a year – an increase of 56% over the starting figure for household increases. That implies:
- **A much faster increase in population** than the ONS's trend-based population projections suggest.
 - **A much faster rate of house building than has been seen in the recent past.** DCLG's Live Table 122 suggests that over the period 2001-2 to 2015-16 the average annual net addition to the housing stock has been 268 homes a year with the highest figure in any one year being 450 homes. 590 homes a year would be more than twice the historic annual average. The 590 homes a year is, of course, an average to be achieved over the 19 years of the plan period yet it is 30% higher than the highest figure achieved in any one year
- 5.3. This is much more than 'boosting significantly the supply of housing': it raises big questions about the practical deliverability and well as environmental impacts of the proposals, issues on which there was little discussion at the examination hearings.
- 5.4. 590 homes a year is also 71 homes (14%) above the Council's proposal for 519 homes year. It is questionable whether sufficient consideration has been given to the sustainability implications of these additional homes in the limited time since the Inspector made this proposal.
- 5.5. It is relevant to note that the current DCLG proposals for simplifying the approach to estimating housing numbers apply a cap of 40% above the DCLG household growth figure. That is a pragmatic recognition that, notwithstanding what theoretical considerations might suggest, there are practical limits to what is deliverable without unacceptable adverse consequences.

6. Conclusions

- 6.1. If the possibility that Waverley should contribute to Woking's housing needs is remitted to an early review of the HMA's plans and the affordability uplift is scaled back to 13% or 50 homes a year, the housing requirement would be 458 homes a year. That would still require that the housing stock is increased at a rate which is more than 70% higher than that achieved over the last 15 years. On any reckoning that would be more than a significant boost in the supply of housing.

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