Turley written response to the CMA Housebuilding Market Study:
Planning Working Paper

Introduction

Turley welcomes the CMA's investigation into the operation of the UK housebuilding market and in particular its recognition that weaknesses in the current planning system inhibit the operation of the market and deter investment and new entrants into the market. This response to the CMA's interim findings is offered in the following context:

- Turley is an independent planning consultancy which works with local planning authorities, land promoters and home-builders to assess housing needs and help ensure that they are delivered sustainably;

- We have extensive experience of promoting sustainable housing development across the country and have grown increasingly concerned at the severe social and economic consequences of long-term under-supply of new homes;

- The longstanding failure to deliver enough homes across the UK is having severe social and economic consequences and is holding back policy efforts to increase economic growth and spread prosperity more evenly within the UK;

- These concerns have been compounded by the Government's approach to planning reforms and in particular the proposed changes to the National Planning Policy Framework on which the Government consulted in December 2022. In summary the proposed changes would suppress housing delivery in parts of the country (particularly the South East) without a commensurate boost elsewhere;

- Turley submitted representations to that consultation which illustrated the harmful effects of these proposed changes on the Government's objectives of delivering 300,000 new homes per year and on the objectives of levelling-up the UK;

- Our representations proposed alternative policy measures which we consider would address some of the concerns which appear to have led to the Government's proposed changes while avoiding the significant adverse consequences of the proposed changes; and

- One such measure is a proposed alternative approach to assessing housing needs for England which takes as its starting point the occupied housing stock of an area. This is summarised below (and in an Appendix) and would be an alternative to the Government's proposals (in particular but not limited to proposed changes to existing NPPF paragraphs 11, 60 and 140 of NPPF).

We consider that, with appropriate updated guidance as to its use, a revised standard method for England could support the progression of local plans that would help to boost housing supply in line with the Government's ambition to deliver at least 300,000 new homes per year. Importantly, it could be introduced very swiftly – essentially by not implementing elements of the proposed changes that were consulted upon in December 2022 and updating relevant sections of Planning Practice Guidance. This would not require further consultation and could be put in place within the Government's current timetable.

In preparing this response we have worked alongside the Land Planning and Development Federation (LPDF). Rather than repeat the responses the LPDF provides we cross refer to endorse their insights and comments. This response focuses on an answer to Question 5.1 of your consultation.

Question 5.1

Question 5.1.1: Should the UK, Scottish and Welsh governments be considering changes to their various existing methods of assessing housing requirements? If so, should providing certainty, stability and consistency to the housebuilding market feature?

Yes. We are strongly of the view that each of the governments should make changes to the methods of assessing housing requirements to improve certainty, stability and consistency in the housebuilding market. To achieve this objective, changes must ensure that:

a) National targets are sufficient to address the full range of housing needs in the country, including to address longstanding under-supply and chronic affordability challenges;

b) Sub-national mechanisms are in place to ensure that the national target is translated into local targets which cumulatively add up to the national target; and

c) The policy landscape within which these targets sit is sufficiently clear and positive towards new housing so that these targets can be achieved.

Within the current systems national targets are not demonstrated to be sufficient to fully meet housing needs; there is no certainty that local targets will actually add up the stated national target; and other policies often mitigate against the timely delivery of homes on the ground. These factors act as barriers to entry of new businesses into the market and disincentives for current businesses to invest and grow.

The role of housing targets in the determination of planning applications for new housing make them integral to attracting and maintaining a diverse range of businesses and investment into the sector, which is itself essential in boosting delivery of new homes to the levels sought by relevant governments. Across all three countries, levels of housing provision have continued to fall short of market demand (and the respective targets), manifesting in worsening affordability, constrained labour mobility, and significant numbers of households whose housing needs are not being met.

Taking England as an example, the introduction of a standard method for calculating local housing need (in 2018) is widely accepted as representing a progressive step. This is because the system it replaced, in which each local planning authority was required to assess its own housing need, resulted in inconsistencies of approach and, without a national target, no ability to benchmark the extent to which proposed local targets were proportionate. It also resulted in a significant expenditure of time and resource, serving to delay the plan-making process.

However, from its inception many commentators identified fundamental weaknesses in the standard method that have prevented it from achieving the objective of boosting supply in line with the national target. Identified structural weaknesses in the method include:

a) Its reliance on official household projections which are backward rather than forward looking; quickly become out of date; and have a disproportionate impact on the modelling outputs. This was clearly illustrated in the decision taken to retain the 2014-based projections in the method rather than to update to use the subsequent 2016- or 2018-based datasets. As a result, the

method continues to come under significant challenge (from those within and outside the industry) for the use of out-of-date data;

b)   Its use of an affordability ratio which has created some very challenging increases in housing targets at an authority level, especially in London and the South East; while projecting needs well below the actual number of homes being delivered in many parts of the North and Midlands; and

c)   The reliance on household projections and affordability ratios that fluctuate, creating avoidable uncertainty and unpredictability for those investing in the sector and communities where housing is needed.

As a result of these flaws and the uncertainty they generate, the plan-led system has not provided the certainty investors need. This has constrained the number and variety of housebuilders and increased the already high barriers of entry for potential new entrants. All of this contributes to actual housing delivery in England falling well short of required levels.

In the five years since 2018 completions in England have averaged approximately 236,500[1]. This level of delivery, over the five-year period, is over 315,000 homes (over 21%) short of the Government's target for England – of 300,000 homes per annum – despite the latter broadly aligning with the outcome of the standard method.

Challenges associated with the standard method have been compounded by the uncertainty caused by recent Government proposals to change the National Planning Policy Framework to make calculated housing targets advisory[2]. The Home Builders Federation have noted that the impact of the uncertainty created by the Government's proposals, along with other factors – including a failure to address issues of nutrient neutrality – are apparent in a range of datasets which confirm that rather than increasing towards a national target housing completions are set to suffer a notable reduction[3]. For example:

•   In the 12 months to September 2023, the number of EPCs lodged for new build dwellings decreased by 4% on the previous year. This follows a 10.7% fall during the first half of the year as compared to the same period in 2022. EPC numbers largely mirror the net additions numbers but are published more regularly, so are more up to date; and

•   The HBF's Housing Pipeline report[4], an indicator of future supply levels, shows that the number of units granted planning permission in England during the first half of 2023 fell by 17% as compared to the first six months of 2022.

This serves to illustrate the need for reform of the method of calculating housing need in England, with the evidence assembled by the CMA reinforcing that this applies in Scotland and Wales as well. It also clearly demonstrates the importance of the method, and its application in policy, providing certainty, stability and consistency to enable the investment necessary to ensure policy targets are delivered on the ground.

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[1] DLUHC (November 2023) Table 118: annual net additional dwellings and components, England and the regions
[2] DLUHC (December 2022) National Planning Policy Framework: draft text for consultation
[3] HBF Briefing (29 November 2023) Housing delivery levels in England stagnate in 2022-23
[4] HBF (September 2023) Housing pipeline report – Q2 2023 report

Question 5.1.2: Are the features we set out in paragraph 5.19 appropriate for determining an improved methodology for target setting?

Yes, we broadly consider that the features listed at paragraph 5.19 are appropriate for determining an improved methodology for target setting. We set out our thoughts on specific aspects below.

Ease of understanding / using reliable evidence

It is correct to diagnose that the existing methods have drawn most direct challenge due to the underlying data not being readily understood, or being perceived as unreliable or subject to interpretation. In England, the government's introduction of a fourth stage within the method, referenced as the 'urban uplift', has attracted significant criticism where insufficient justification or clarity was provided to explain its inclusion. To date none of the plan-making authorities subjected to this uplift have progressed a Local Plan to adoption or even examination.

Household projections – which are used to some extent in all of the methods across England, Wales and Scotland – are also subject to criticism. This is rooted in a lack of confidence around their robustness, and concerns about whether they are reflective of future needs. This is at least partially due to the complexity of their underlying methodology, and their reliance on a series of assumptions.

The use of data which is readily understandable, publicly available and has a direct relationship to the concept of housing need will be critical in gaining support outside of the technical evidence base.

Regular assessment

It is agreed that a careful balance needs to be struck to ensure that the calculation of need is viewed as sufficiently up-to-date without creating volatility. As noted above for England, the standard method's reliance on household projections was challenged shortly after its introduction when updated data was integrated and brought a statistically significant change, which served to undermine the long-term nature of plan-making.

In this context, it is important that the method is sufficiently stable in its design to reduce the potential for significant variance arising from updates from individual components. In this regard, it would not be considered appropriate, by way of example, to relate an update to national household projections where these are traditionally produced every 2-3 years and are subject to significant methodological variances.

It would be preferable to have a method that can withstand the annual updating of informing assumptions/datasets, with limited risk of fundamental changes to housing need. This reflects the reality of the market where the need for housing does not significantly vary year-on-year and where there is a recognised need to address a long-standing historic shortfall.

In having such a method, it is also important that the plan-making process is sufficiently flexible to accommodate modest updates to the method outcome. It is noted that in Scotland, the HNDA has been criticised for becoming outdated very quickly, where updates to data inputs are available and present an important consideration in impacting housing needs, with this including economic factors that have been highly volatile in recent years. This presents a challenge where there is a lag between a HNDA being run and its outputs being translated into an LDP.

Unadjusted outputs

It is agreed to be important that a method continues to clearly separate itself out from supply-side factors so that it can be viewed objectively as relating solely to the need side of the planning process.

There must though be room for local adjustments to respond to factors that will affect future needs within a locality and could suggest a departure from historic trends. This could include, for example, significant confirmed investment which will serve (or require the attraction of) new labour to an area to sustainably support growth. Examples of significant investment would include Freeports, nationally significant development projects, regeneration-led investment projects and the planned provision of significant amounts of employment land.

Similarly, moderating adjustments could be justifiable where an area has accommodated unusual levels of historic growth aligned, for example, to historic investment which is not anticipated to be sustained.

Where it is proposed that a methodology allows for exceptions in the application of adjustments, it is agreed that as a rule significant adjustments should be kept to a minimum.

Local alignment with national target

It is agreed to be critical that the application of a national target, and derived local targets, should be stated as being mandatory for authorities to use as a minimum starting point. The mandatory designation of local targets which can only be adjusted where there is robust and justifiable evidence is critical in ensuring that a new generation of Local Plans adds up to and indeed exceeds the national housing target.

The potential to redefine local, to refer to functional groupings of authorities, should be given consideration where the designation of a target to a larger functioning geography (city region/ conurbation/combined authority/county) will enable individual authorities to accommodate needs more strategically. It is of note that in this regard that Scottish HNDAs are prepared across housing market areas, for example the HNDA prepared for South-East Scotland consists of Edinburgh, West Lothian, East Lothian, Midlothian, Fife and Scottish Borders.

Question 5.1.3: What is the most appropriate method of forecasting housing need – nationally and locally?

We agree that each of the national governments of England, Scotland and Wales are best placed to determine their own appropriate methodology in the setting of a national target for each. There are significant differences between countries in the nature of housing needs, geographic scale, settlement hierarchy and market demand, making it unlikely that a "one size fits all" method would be optimal. Indeed, it is considered important to gain buy-in from a local level that methods are responsive to specific local housing market issues (noting that optimally this would be at a larger than individual authority level).

Turley has contributed views with regards variations to the current standard method formula in England as part of several consultations on the topic. Details of an alternative approach are included at Appendix 1. This approach would offer longer term transparency and stability of housing targets and in doing so address some of the aspects of the current standard method which have disincentivised investment and blocked new entrants to the market.

In developing an alternative approach it is considered that for England at least the current national target of 300,000 homes must be accepted as a minimum level from which a national target is derived. This recognises that there continues to be evidence of a strong need/demand for housing, including:

- A housing market which even in the context of a rapid rise in mortgage rates has not, despite cooling, seen a more fundamental correction to address the consequences of affordability challenges; and

- A growing shortfall in the total number of homes, manifesting in persistent overcrowding and a significant and sustained need for affordable housing across the country.

The method proposed for disaggregating a national target to the local level takes as its starting point the existing occupied housing stock of an area and applies a rate by which it should be increased. The rate of increase would be identified to broadly align with an agreed national housing target. The advantage of this method is that it uses a stable and readily understandable metric – occupied housing stock – as the basic input which ensures fair and proportionate growth that will support the national ambition. It is not therefore subject to annual volatility, noting that the occupied stock of an area – whilst growing to different degrees – is comparatively stable. It is also not exposed to methodological changes in the derivation of the dataset, a current weakness of household projections as noted above.

As with the current approach in England, though, the outcome of this revised standard method would be used as a starting point for local planning authorities or groupings of authorities to prepare Local Plans. Guidance to accompany the method would need to explain how appropriate adjustments should be applied to enable the method to be responsive to relevant local circumstances.

Circumstances that may indicate an uplift above the starting point would include:

- A particularly sizeable need for affordable homes;

- Confirmed investment in infrastructure or a significant regeneration-led investment;

- Deficits in specific types of housing; and

- Higher levels of deprivation where the provision of new housing would stimulate regeneration and attract investment.

December 2023

Assessing housing need
Taking stock

Benefits of a standard method for assessing housing need

When it was introduced in 2018 the "standard method" for calculating local housing need replaced an approach where each local planning authority was required to assess its own housing needs. There was little consistency of approach; no link with any national target for increasing the number of homes; and significant time and resources were spent, before and during local plan examinations, debating the merits of different approaches. This was a significant factor in delays in local plan preparation.

The introduction of a standard method, which provides a clear starting point for consideration of need, has reduced the time and resources taken in planning for new homes[1]. Until recent interventions, which have introduced uncertainty and delay in local plan making, the standard method had been a significant factor in boosting housing completions to the highest level for 30 years[2].

Limitations of the current standard method

Over time, the current standard method has struggled to gain the confidence of local communities. There are a number of reasons for this but two aspects of the current approach are cited consistently:

- It relies on ONS household projections which are backward rather than forward looking and quickly become out of date, reflecting a period of economic decline rather than the growth now required[3]; and

- Its use of an affordability ratio[4] has created some very challenging increases in housing targets, especially in London[5] and the South East; while projecting needs well below the actual number of homes being delivered in many parts of the North and Midlands.

The Government has proposed changes to the National Planning Policy Framework (NPPF) which seek to reduce the number of homes built in significant parts of the country without increasing the number anywhere else. These are widely expected to result in a significant reduction in housing delivery nationally. Coupled with the delays caused by requirements around nutrient neutrality, estimates suggest homebuilding could fall to the lowest levels since the Second World War[6].

There is an alternative, which can be introduced swiftly, and which would address current concerns while boosting the overall amount of new homes and economic growth. This alternative is to introduce a revised standard method.

An alternative approach

A new method must retain the positive aspects of a standardised approach while addressing the existing shortcomings. We propose an alternative which takes as its starting point the existing occupied housing stock of an area[7] and applies a rate by which it should be increased. The rate of increase would be in line with the national housing target of at least 300,000 new homes per year.

The occupied housing stock of an area is a good proxy for the population of an existing community. It reflects housing provision, need and demand over the long-term. It is not subject to the fluctuations that household projections are subject to. The Government has previously identified that housing stock offers 'the stability and predictability which has been absent when solely relying on household projections'[8].

An agreed minimum rate by which the existing stock should grow each year would establish a starting point for every authority to work from in deriving their need and target. It would ensure that all areas grow by a proportionate amount.

Urban areas would see higher levels of need, helping to deliver national policy objectives of sustainable development and encouraging an urban focus. All parts of the country would play their part in meeting needs and none would be seen as being asked to contribute more than a "fair share".

The baseline would need to be set at an appropriate level to ensure that momentum in housing delivery is sustained. Testing of different annual growth rates, summarised at Table 1, suggests that 1.0% would establish local baselines that collectively amount to circa 250,000 homes per annum. This is close to recent delivery rates and high enough to continue the progress of recent years. To achieve a national ambition for 300,000 new homes per annum the annual growth rate would need to be 1.2%.

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Turley

Table 1: Testing stock growth rates

	0.8%	1.0%	1.2%
National total	198,975	248,719	298,463
Authorities with higher figures than current method[9]	107/309	150/309	197/309
Authorities with figures higher than peak delivery[10]	16/309	51/309	104/309

Figure 1 shows how an annual growth rate of 1.0% would result in lower housing targets in large parts of the South East with increased provision in the North and Midlands. This is consistent with objectives of levelling up and closer to the levels of housing delivery being achieved in those areas[11].

As with the current approach, the outcome of this revised standard method would be used as a starting point for local planning authorities to prepare local plans. Guidance to accompany the method would need to explain how locally appropriate adjustments should be applied. It would provide a set of parameters and could recommend proportionate uplifts to respond to local circumstances.

Circumstances that may indicate an uplift above the starting point would include:

- Availability of high levels of previously developed land - typically within larger urban areas

- A particularly sizeable need for affordable homes

- Local labour market pressures – where the number of jobs is higher than the number of working age residents[12]

- Confirmed investment in infrastructure or investment that will create new jobs

- Deficits in specific types of housing (for example older persons, family homes, or student housing)

- Higher levels of deprivation where the provision of new housing would stimulate regeneration and attract investment

Circumstances that may justify a level of new housing below the starting point would include significant areas of protected land (such as AONB and SSSIs); high concentrations of holiday or second homes; or where historic drivers of demand such as university expansion are unlikely to be replicated in future.

Summary

A stock-led starting point for the standard method removes reliance on now discredited household projections. This would help to address concerns about the shortcomings of the current standard method which are repeatedly raised by communities and councillors.

It would also distribute new housing more evenly and equitably across the country, with places growing by a proportionate amount. By doing so it can be a positive agent for levelling up.

By focussing new housing towards larger urban centres it would align with the Government's aim of delivering sustainable development and optimising the re-use of brownfield sites.

Accompanying guidance on use of the stock-based approach would set out clear parameters for adjustments to reflect local opportunities for growth and constraints on capacity to accommodate it.

Figure 1: 1.0% of stock compared to outcome of existing standard method

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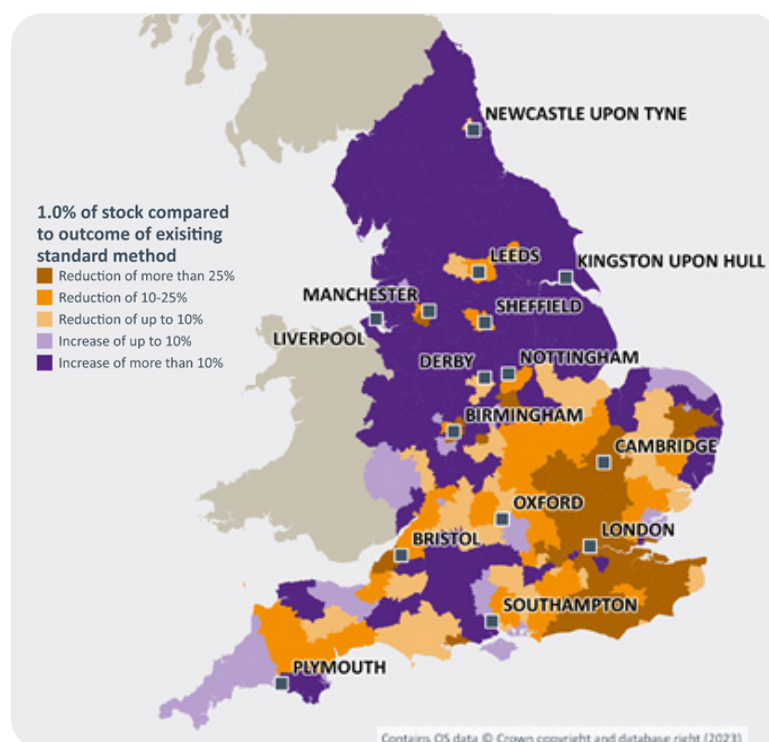
Endnotes

1. As of March 2023, monitoring by the Planning Inspectorate indicated that the twenty sound plans submitted since the standard method was formally introduced on 24 January 2019 took an average of 20 months to be found sound, compared to an average of 23 months for the plans submitted in the preceding year

2. C. 243,000 new homes completed in 2019/20 – DLUHC Live Table 118

3. The current standard method relies on the 2014-based household projections

4. Which compares the average house price to average earnings in an area

5. The standard method currently indicates a need for c.97,700 homes per annum in London but it has delivered no more than 40,870 homes in any year this century

6. https://www.hbf.co.uk/news/government-planning-reforms-could-see-housing-supply-fall-record-low-and-cost-400000-jobs/

7. Occupied stock is not currently reported by DLUHC and Live Table 125, which measures all stock, is therefore used for illustration in this note

8. MHCLG (August 2020) Changes to the current planning system: consultation on changes to planning policy and regulations, paragraph 20

9. As of March 2023

10. Since 2001

11. 104 of 137 authorities in the North and Midlands have, since 2001, delivered the number of homes implied by a growth rate of 1.0%

12. The "jobs density" metric reported by the ONS